

# Pricing Londoners in, not out

Paul Hunter, Head of Research, The Smith Institute

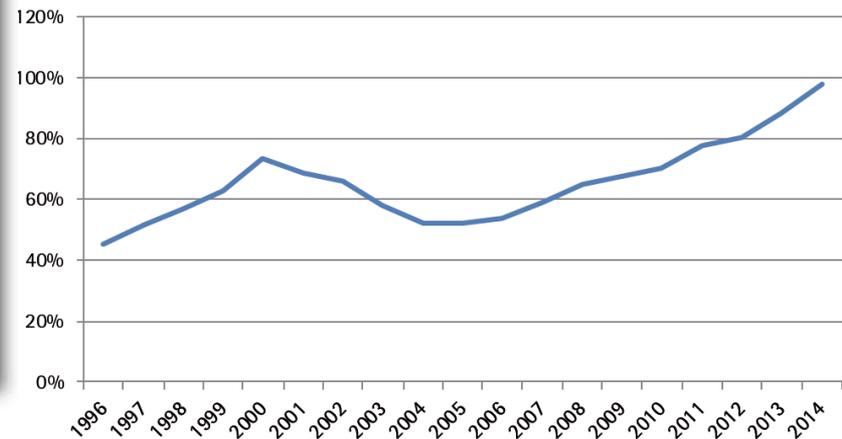
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# London is a leader in many things... including unaffordable housing



Figure 2: The percentage that London house prices exceed national averages



Source: author's calculations using DCLG/Land Registry data via GLA datastore: Average House Prices - <http://data.london.gov.uk/dataset/average-house-prices-borough/resource/347f5ac3-919b-480f-bfd9-346349ab3da2#>

# Pricing Londoners in

- The report looks at how unaffordable London is, for whom and where...
- But also sets itself the daunting challenge of examining how best to price Londoners in
- Not least by examining which places could offer the best chance of delivering for Londoners

# Growing price divide within London

The extent to which inner London houses are more expensive than outer London homes

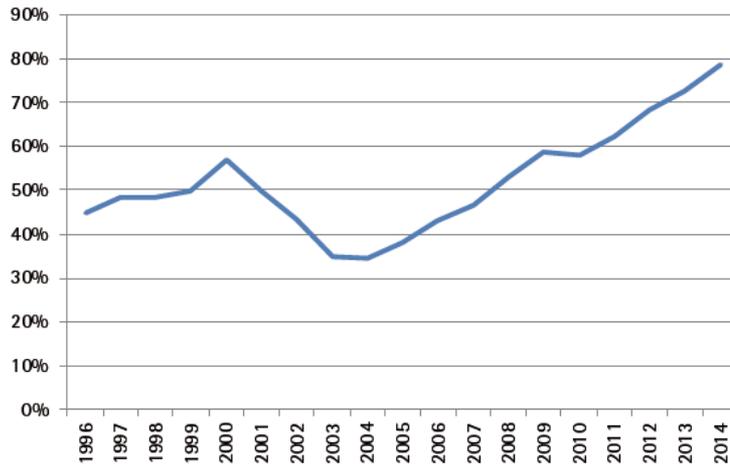
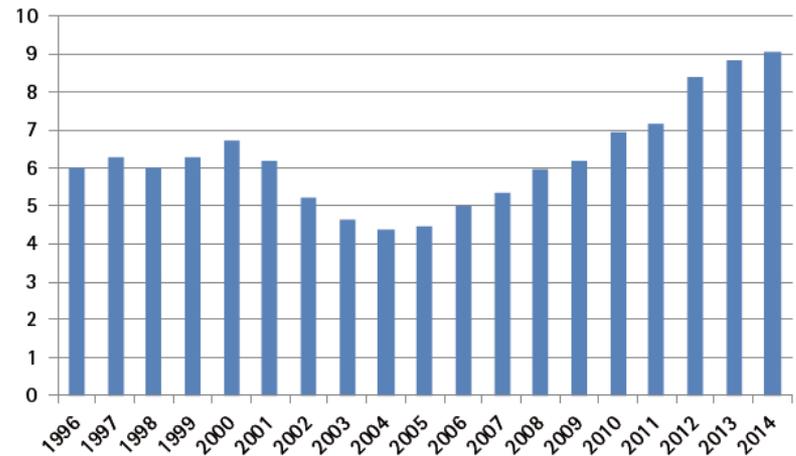


Figure 4: House price multiple between highest and lowest priced boroughs



# Distribution of house prices

- Averages can mask significant differences
- It's therefore important to look at the whole market: mean, median and entry level properties
- And prices by different places

Figure 12: Differences in prices for types of housing

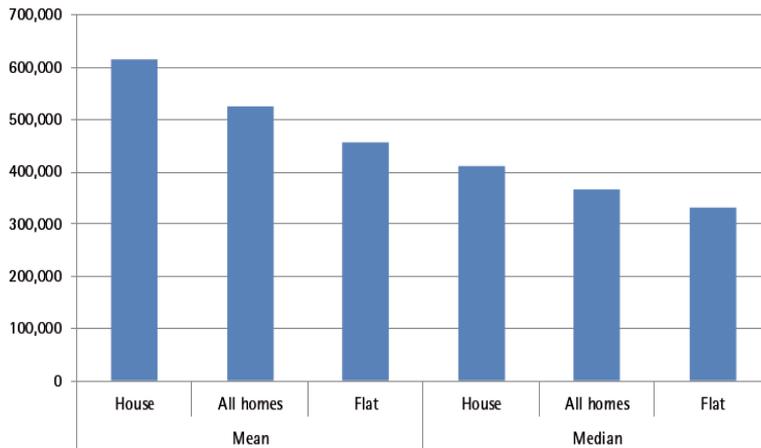
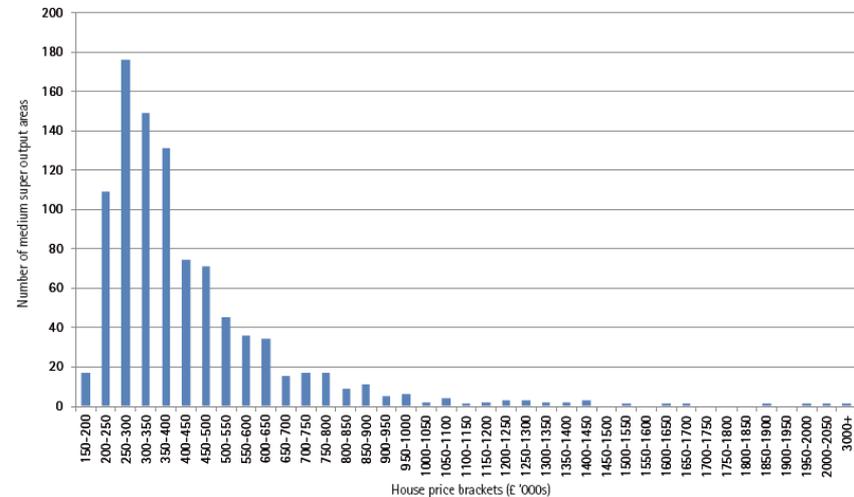


Figure 10: Distribution of median house prices by small areas



Source: author's calculations based on ONS, House Price Statistics for Small Areas, 1995 to 2014

# Affordability in London: 35% threshold

- Taking the often used 35% threshold shows how difficult it is to buy central areas

Table 1: Income brackets required to be below 35% threshold for a mortgage on an average priced home in London's boroughs

Affordability bracket (£ 000s)	Number of boroughs	% of boroughs
0-20	0	0%
20-30	0	0%
30-40	0	0%
40-50	3	9%
50-60	2	6%
60-70	6	18%
70-80	4	12%
80-90	1	3%
90-100	6	18%
100+	11	33%

# But the devil is in the detail

- Some parts of London look more affordable if you take the median price and by smaller areas/markets

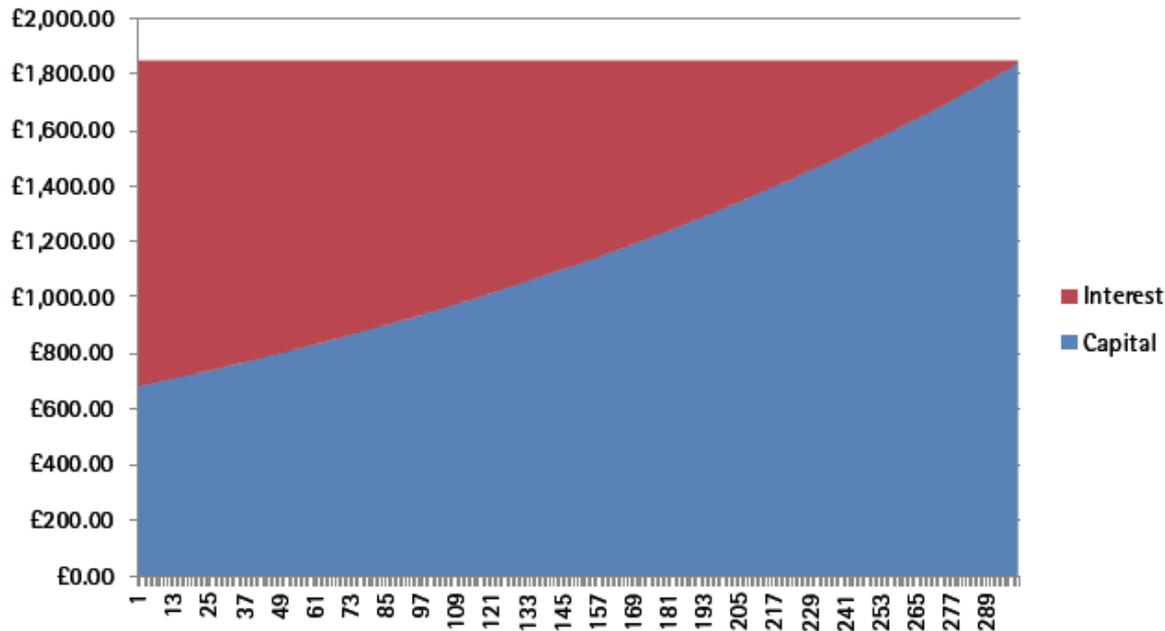
Table 4: Affordability brackets for mortgages on median price houses and median price flats in medium super output areas

Affordability bracket (£ 000s)	Median prices		Median price flats	
	Number of MSOAs	%	Number of MSOAs	%
0-20	0	0%	7	1%
20-30	13	1%	194	21%
30-40	164	17%	254	27%
40-50	203	21%	144	15%
50-60	177	19%	99	11%
60-70	112	12%	79	8%
70-80	77	8%	60	6%
80-90	50	5%	24	3%
90-100	43	5%	19	2%
100+	112	12%	59	6%

# Similar in the PRS but...

- A similar pattern for rents (more in the report)
- But difference between what we might class as a housing 'cost'

Figure 14: Monthly costs and savings over a mortgage repayment term (£350k loan)



# Why do the differences in affordability matter?

- We're not trying argue that London house prices are easily affordable
- But it is a way of planning where is best to develop homes which are more affordable (pricing people in)

# Affordability for different households

- Affordability difficult concept: HB form runs to 31 pages
- In terms of buying, it is about what a lender will let you borrow
- Using Nationwide's affordability calculator, we can see how much different households can borrow

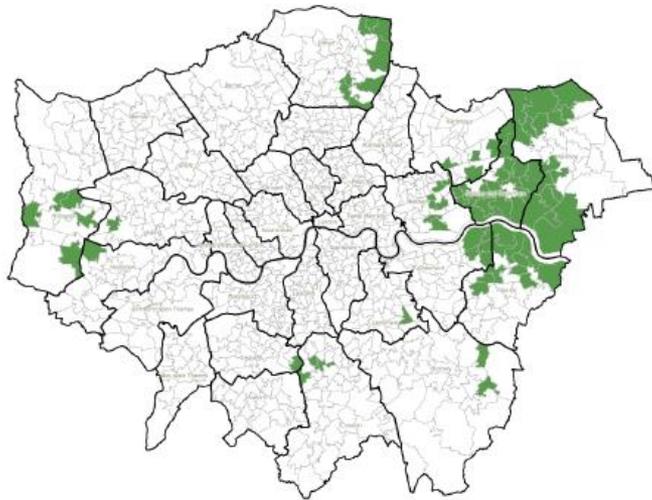
Table 9: Maximum amount different households can borrow

	Earnings					
	£30,000	£40,000	£50,000	£60,000	£70,000	£80,000
	Upper borrowing limit					
Single	£108,500	£179,200	£218,000	-	-	-
Couple	£81,100	£144,800	£206,900	£225,800	£286,700	£347,700
Single with one child	0	0	£57,500	-	-	-
Couple with one child	0	0	0	£42,200	£114,600	£165,000

Assumptions: eligible tax credits and child benefit, maximum student loan repayment based on income, childcare costs based on Family and Childcare Trust figures, child maintenance at rate applicable for former partner on same wage, credit card payment at 0.36% assumed in shared ownership affordability calculations, average Band D London council tax bill and building insurance at £100. In couple households both are working and earning the same amount - including for the couple with children.

# Priced in and out: geography and household type

Map 5: Medium output areas where a couple earning £80,000 with a child could buy a median priced flat



Map 7: Medium output areas where a couple (without children) with combined earnings of £80,000 could buy a median priced flat

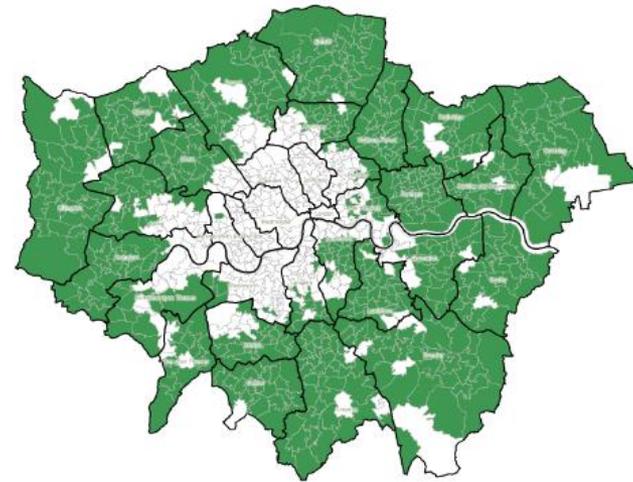


Table 10: Earning percentiles

	All	Full-time
£20,000	~30	~20
£30,000	~50	~40
£40,000	~70	~65
£50,000	~80	~80
£60,000	~90	~85
£70,000	90+	~90
£80,000	90+	90+
£90,000	90+	90+
£100,000	90+	90+

# Who can buy?

- The **importance of being a couple**: having two incomes substantially increases the chances of being able to buy and increases the number of areas where it is possible
- There is though a **cut-off point** at which conventional homeownership is an achievable ambition. Drop much below the **£40k** earnings threshold for households without children and homeownership starts to become unrealistic
- There is a homeownership penalty or more accurately a **first-time buyer penalty for households with children and childcare costs**. Indeed, table 9 highlights the significant difficulties it poses for policy makers wanting to extend homeownership in the capital to those with children, who haven't accessed homeownership up to now
- If homeownership is unrealistic, it also poses questions about **what kind of PRS deal** we want for the growing number of families not in homeownership or social housing
- It furthermore indicates once again, that without substantial levels of subsidy, much of **inner London is beyond the means of all but high earning households**, including those on £80,000 a year

# Affordability gap

- As analysis shows, unsurprisingly some areas are more affordable than others
- The report examines the gap between cost of housing and what someone can afford for different households:
  - Couples buying a flat with joint earnings of £50,000 per year
  - Intermediate rent at 35% threshold for household income of £30,000 per year
  - Social rents compared with market rents

# Making subsidy go further

- Chasm between places in the subsidy needed to fill the affordability gap

Table 16: Level of subsidy to fill the gap between market prices and affordable housing, 25 year period

	Westminster	Camden	Hackney	Merton	Redbridge	Barking and Dagenham
Buying	£277,700	£239,046	£102,700	0	0	0
Renting	£257,401	£198,901	£127,501	£82,501	0	0
Social renting	£353,540	£289,346	£233,689	£197,607	£86,534	£74,862
Total	£888,641	£727,293	£463,890	£280,108	£86,534	£74,862

Table 17: Number of homes that a £50m fund to meet the gap between market and affordable housing could deliver

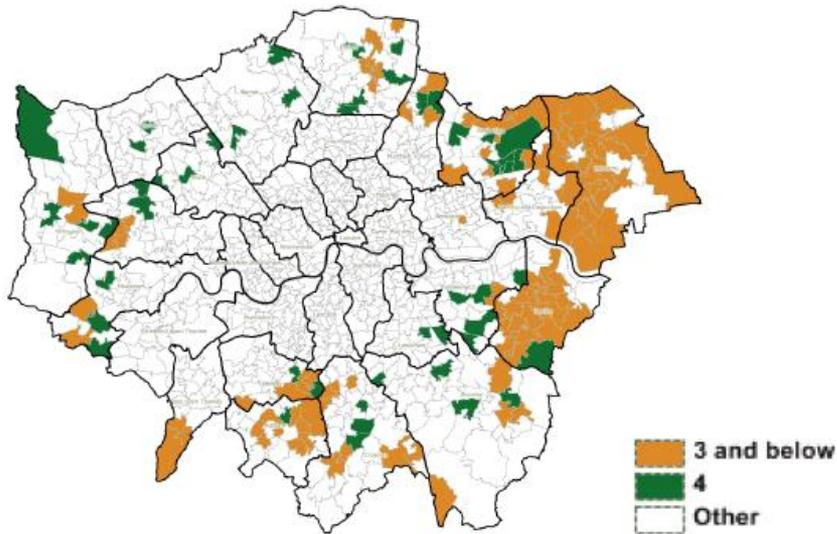
	Westminster	Camden	Hackney	Merton	Redbridge	Barking & Dagenham
Number of affordable homes with £50m subsidy to fund difference between market and sub-market costs	169	206	323	536	1,733	2,004
Ratio (Westminster= 1)	1	1	2	3	10	12

# What about mixed communities?

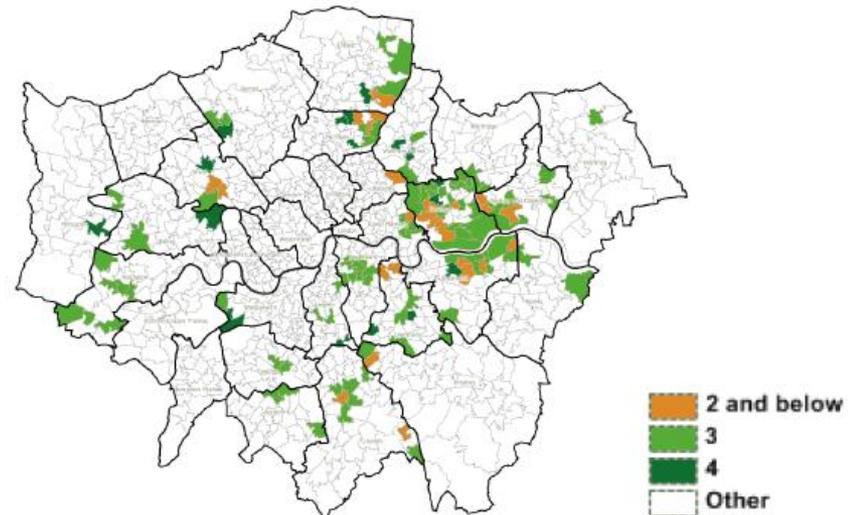
- Concentrating on low-cost areas could lead to residualisation?
- However, there are areas where prices are relatively low and homeownership or social housing levels are relatively high
- And other places where prices are low and tenure is fairly mixed

# Double dividend of affordable housing and mixed a communities

Map 15: Lowest house prices and highest levels of homeownership



Map 17: Low homeownership and low prices



# Conclusion

- The report aims not to look simply at how unaffordable London is – but how to deliver for ordinary Londoners
- Are there more places which could price Londoners in?
- Places which could also help create a better tenure mix?
- Scale of the challenge is stark – need to look at all places, not least because price reflects land availability
- Such an approach would also demand a London-wide approach, burden sharing and support for places to flourish and grow
- Such places could offer the biggest bang for our buck
- And most importantly maximise the number of affordable homes for Londoners