

Housing Select Committee			
<b>Title</b>	Affordability Across All Housing Tenures Review: Scoping Paper	<b>Item No</b>	7
<b>Contributors</b>	Scrutiny Manager		
<b>Class</b>	Part 1	<b>Date</b>	16 September 2015

## 1. Purpose of paper

- 1.1 At its meeting on 15 April 2015, the Committee decided as part of its work programme to undertake an in-depth review into affordability across all housing tenures.
- 1.2 This paper sets out the rationale for the review, provides some background information on the current situation in Lewisham and sets out proposed terms of reference for the review.
- 1.3 The in-depth review process is outlined at Appendix A.

## 2. Recommendations

- 2.1 The Select Committee is asked to:
  - note the content of the report
  - consider and agree the proposed terms of reference for the review, outlined in section 7, and the timetable, outlined in section 8.

## 3. Background

- 3.1 At the meeting of the Housing Select Committee on 15 April 2015, the Committee discussed undertaking an in-depth review to look at the issue of the affordability of all housing tenures in Lewisham.
- 3.2 During the meeting, the Committee noted that a study on Affordable Rents was being carried by Affinity Sutton with the Cambridge Centre for Housing & Planning Research. Given that other registered Housing Providers were also looking at this, Members felt it would be timely for the Committee to review this area of policy.
- 3.3 With a new Government elected on 7 May 2015, and an upcoming London Mayoral election in 2016 where the affordability of housing in London will be a key issue, it was further felt that it would be important for Lewisham to play a role in shaping some of the policy debate regarding how to make housing more affordable and accessible in London.

## **4. Policy context**

- 4.1 Lewisham's Sustainable Communities Strategy sets out six key priorities for the borough as a whole, including 'Clean, green and liveable – where people live in high quality housing and can care for and enjoy their environment'. The strategy also outlines a long-term ambition to see an extra 11,000 new homes in Lewisham by 2020. The Strategy states that it sees progress in as an increase in the number of homes and affordable homes in the borough.
- 4.2 Lewisham's Core Strategy has the objective to make provision for the completion of an additional 18,165 net new dwellings from all sources between 2009/10 and 2025/26, to meet local housing need and accommodate the borough's share of London's housing needs. This aims to exceed the London Plan target for the borough. The Core Strategy also has the objective to make provision to meet the housing needs of Lewisham's new and existing population, which will include;
- provision of affordable housing
  - a mix of dwelling sizes and types, including family housing
  - lifetime homes, and specific accommodation to meet the needs of an ageing population and those with special housing needs
  - bringing vacant dwellings back into use
- 4.3 The current administration has also made a specific commitment to build 500 new homes by 2018.
- 4.4 The issue of affordability across all housing tenures is a vexed one across the country, but particularly in London and the South-East. This Scoping Paper outlines some of the key factors that are causing problems with affordability in all housing tenures. This paper covers four areas:
- a) Social Housing
  - b) Private Rented Sector
  - c) Owner Occupation
  - d) Shared Ownership
- 4.5 The Scoping Paper will not examine every single issue relating to affordability but will look at some key points and issues that highlight some of the problems that Lewisham and other London boroughs have been facing in recent years, in the four housing tenures outlined above.

### **Examples of affordability issues across all housing tenures**

#### **a) Social and Affordable Housing**

- 4.6 The legal definition of social housing, from a regulatory perspective, is contained in the Housing and Regeneration Act 2008 (s68-70)<sup>1</sup> and it includes low cost rental accommodation and low cost home ownership. However,

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<sup>1</sup> See: <http://www.legislation.gov.uk/ukpga/2008/17/contents>

social housing is commonly defined as housing which is let at low rents on a secure basis to those who are most in need or struggling with their housing costs<sup>2</sup> and does not cover low cost home ownership. A key function of social housing is to provide accommodation that is 'affordable' to people on low incomes. Limits to rent increases set by law mean that rents are kept affordable.

- 4.7 The table below shows typical rents charged to people who live in Lewisham. Affinity Sutton has recently adopted a new rent model as detailed in section 4.13 below. The Living Rent (shown in italics) is a proposed rent model in a recently published report which has not yet been adopted by any housing provider. Further details of this are provided in section 4.14 below.

Average weekly gross rent for 2-bedroom properties in Lewisham					
Mean Market Rent	Affordable Rent (80% market)	Affordable Rent (65% market)	Affinity Sutton new rent model	Social Rent	<i>Living Rent (NHF/Savills)</i>
277.11 <sup>3</sup>	221.69	180.12	167 <sup>4</sup>	114.71 <sup>5</sup>	110.84 <sup>6</sup>

- 4.8 It could be said that there is a need for each authority to define what is "affordable" in the context of its housing needs and market and the relationship between house prices (and rents) and household incomes. However, it is commonly accepted that social rent is typically between 40% and 60% of market rent.
- 4.9 The Coalition Government, as part of its housing policy reforms, announced in July 2011 its affordable homes programme. Part of this programme was to introduce Affordable Rent. Unlike the traditional Social Rent, Affordable Rent is linked to market rent levels, with housing providers able to charge up to 80% of market rent. Therefore, affordable rent is in effect a direct replacement for social rent, with increased revenue streams countering significantly lower grant rates.<sup>7</sup> The Coalition Government also introduced the 'Affordable Housing Guarantee scheme' to support the building of new additional affordable homes. The scheme was meant to offer housing associations and other private registered affordable housing providers a government guarantee on debt they raise to deliver additional newly-built affordable homes. This was meant to help reduce their borrowing costs, increasing the number of new homes they can afford to provide (the guarantee scheme is complemented in England by grant funding, although the guarantees themselves are UK wide)<sup>8</sup>.
- 4.10 In addition to social rent (between 40 and 60 % of market rent) and affordable rent (80% of market rent) there is also intermediate rent which is set at a level

<sup>2</sup> Shelter website, What is social housing?

[http://england.shelter.org.uk/campaigns/why\\_we\\_campaign/Improving\\_social\\_housing/what\\_is\\_social\\_housing](http://england.shelter.org.uk/campaigns/why_we_campaign/Improving_social_housing/what_is_social_housing)

<sup>3</sup> Cambridge University, 'Housing Costs, Affordability and Rent Setting', June 2014

<sup>4</sup> Affinity Sutton, 'Affordability: A Step Forward', May 2015

<sup>5</sup> Cambridge University, 'Housing Costs, Affordability and Rent Setting', June 2014

<sup>6</sup> Savills, 'Living Rents by Local Authority', June 2015

<sup>7</sup> Lewisham Council, 'Affordable Rent Study Market Research & Affordability Analysis', February 2014

<https://www.lewisham.gov.uk/myservices/planning/policy/LDF/development-policies/Documents/LewishamCouncilPODAffordabilityStudyFinal.pdf>

<sup>8</sup> Gov.UK, 'Definitions of general housing terms', November 2012, <https://www.gov.uk/definitions-of-general-housing-terms>

above social rent, but below market levels and which does not include 'affordable' rent.

- 4.11 The result of the affordable rent policy has meant that affordability in social housing has become an issue. It has been calculated that in the highest priced areas of London, average 'affordable rents' have reached £269 a week. This equates to nearly two-thirds of the average Londoner's take-home pay. Private sector developers are required to build a certain amount of affordable housing as part of their planning permission. The amount they must build is calculated by councils with reference to each project's finances. However, it has been found that just 20% of the 23,000 homes being built on 61 sites that have started since March 2014 are affordable, according to the figures this equates to fewer than 4,700 homes<sup>9</sup>.
- 4.12 Other research has found that London's poorest households have been hit by a £50m rent rise as housing associations switch thousands of tenancies to higher affordable rents to make up a shortfall in government funding. The research shows that about 11,000 homes in the capital have been converted from "social" housing to 'affordable' since 2012, according to latest figures from the GLA. Annual rents have risen by £29m, but the total cost to tenants over the three years to date has been £49.7m<sup>10</sup>. Research undertaken by Inside Housing shows that rent rises have meant households need an average income of £40,000 a year to pay housing costs in these homes, rising to more than £80,000 in the most expensive boroughs. The analysis, carried out for Inside Housing by property consultancy Hometrack, showed the average affordable rent on a two-bedroom property let at 66% of market rates in London had risen from £964 a month in 2013 to £1,007 in 2014. This ranged from £627 in Bexley to £1,988 in Kensington and Chelsea – meaning an income of £80,591 would be needed to meet the costs in the west London borough. The figures assume 40% of income is spent on housing<sup>11</sup>.
- 4.13 As part of its 'Homes for forgotten families towards a mainstream shared ownership market' report, Shelter found that the Affordable Rent Programme is also changing the nature of the social housing offer. It is leading to higher rents and shorter contracts, making the tenure less distinct from private renting<sup>12</sup>.
- 4.14 Concerns around the affordability of housing association rents are shared by a number of Registered Providers. Affinity Sutton has recently decided to introduce rents linked to the Living Wage<sup>13</sup> after research it undertook with the Cambridge Centre for Housing and Planning Research. L&Q also links rents to local wages<sup>14</sup>.

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<sup>9</sup> Financial Times, 'London struggles to build affordable homes', March 2015 <http://www.ft.com/cms/s/0/4ea96f5e-bde6-11e4-9d09-00144feab7de.html#axzz3blGBC4Om>

<sup>10</sup> The Guardian, 'Tenants hit by £50m rent rise as social housing converted to 'affordable' homes' March 2015 <http://www.theguardian.com/society/2015/mar/29/tenants-face-70m-rent-rise-as-social-housing-converted-to-affordable-homes>

<sup>11</sup> Inside Housing, 'Affordable rent' in London hits £1,000 per month on new builds', February 2015 <http://www.insidehousing.co.uk/affordable-rent-in-london-hits-1000-per-month-on-new-builds/7008453.article>

<sup>12</sup> Shelter, 'Homes for forgotten families: Towards a mainstream shared ownership market', August 2013 [http://england.shelter.org.uk/professional\\_resources/policy\\_and\\_research/policy\\_library/policy\\_library\\_folder/homes\\_for\\_forgotten\\_families\\_towards\\_a\\_mainstream\\_shared\\_ownership\\_market](http://england.shelter.org.uk/professional_resources/policy_and_research/policy_library/policy_library_folder/homes_for_forgotten_families_towards_a_mainstream_shared_ownership_market)

<sup>13</sup> <http://www.insidehousing.co.uk/affinity-sutton-links-rents-to-living-wage/7010383.article>

<sup>14</sup> <http://www.insidehousing.co.uk/a-new-era-for-affordable-rents/7009008.article>

- 4.15 The Joseph Rowntree Foundation and the National Housing Federation commissioned a recently published report by Savills on affordability<sup>15</sup>. This report proposed a 'Living Rent', which would be set at a borough-level with the intention that the average low income household would not have to spend more than a third of its income on rent payments.
- 4.16 A report was also recently published by the campaign group SHOUT (Social Housing Under Threat), the National Federation of ALMOs and research consultants Capital Economics<sup>16</sup> which argues for a return to social rents for new build properties, highlighting the potential savings in housing benefit this could provide.
- 4.17 The influential think-tank Policy Exchange published a report in November 2014 calling for greater rent flexibility for Housing Associations<sup>17</sup>. This proposed allowing Housing Associations to become more independent with the power to set their own rents, in return for paying back historical grant they have received from the government. If the government introduces some of the principles of this policy in the coming years, it would allow Housing Associations the freedom to adapt some of the alternative models for rent setting outlined above, however the sector would be much less regulated than it is currently. It has been reported that some Housing Associations have sought advice on deregistering as a registered provider of social housing following the July 2015 budget<sup>18</sup>, though there are currently a number of barriers to deregistering so it is unlikely that Housing Associations will pursue this without further policy changes.

#### **b) Private Rented Sector**

- 4.18 The issues of a shift in demographics; the increasingly limited access to social housing, and more recently difficulties in buying and selling in the owner-occupied market has led to major pressures in obtaining affordable rented private sector accommodation in London over the past 10-15 years.
- 4.19 In 2011, it was estimated that over a million households who would otherwise have become owner-occupiers have not been able to do so — and most are therefore now renting. Many who aspire to home ownership may have to live for a longer period — or even permanently — in private rented housing. On the other end of the spectrum, renting in the private sector is playing an increasing role in accommodating those who might otherwise be housed in the social rented sector as an answer to ever-growing waiting lists and problems of accommodating homeless households. More recently, the sector has increased its role as a provider of housing for young people and low-income households. Accessing the sector remains problematic however, and concern has focused particularly on difficulties with housing benefit (which is being further restricted), and on those who are unable to pay the deposit

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<sup>15</sup> <http://www.savills.co.uk/blog/article/189220/residential-property/a-living-rent-could-solve-the-housing-crisis.aspx>

<sup>16</sup> <http://4socialhousing.co.uk/research>

<sup>17</sup> Policy Exchange, 'Freeing Housing Associations', November 2014

<sup>18</sup> <http://www.policyexchange.org.uk/images/publications/freeing%20housing%20associations.pdf>

<sup>18</sup> <http://www.insidehousing.co.uk/landlords-seek-advice-on-deregistration-after-cuts/7011043.article>

usually required. Landlords involved in this part of the market are often very different from those letting to better-off employed households<sup>19</sup>.

- 4.20 The size of the private rented sector in London was considerably larger than other regions in 2001 (14.3%) and the difference increased further in the following decade. By 2011 almost one-quarter of households in London (23.7%) were renting from a private landlord or letting agent<sup>20</sup>.
- 4.21 Furthermore, Londoners are paying more than £13.1 billion in rents to private sector landlords annually. In 2012, London median rents increased by around 9 per cent to £1,196 per month. This level of rent compares with gross monthly incomes (based on a 40 hour working week) of £990 at the national minimum wage, and £1,368 on the London Living Wage. London rents are therefore more than twice the level the England average rent and follow an estimated 12% rise in rents the previous year. Evidence suggests these average rises mask much higher local increases, for example in Newham (39 %) Redbridge (28 %) and Tower Hamlets (19 %) in 2012<sup>21</sup>.
- 4.22 A recent survey suggests that 47% of private renters in London have £100 or less disposable income after paying for essentials such as rent, fuel bills, food, and council tax each month. There are impacts too in relation to key workers, as unaffordable local rents make it more difficult to obtain jobs because they would have to travel further and incur greater child care costs<sup>22</sup>
- 4.23 Alongside all these issues of affordability, there has also been the impact of the Coalition Government's 'Welfare Reforms', which included a Housing Benefit cap of £500 a week for couples and single parent households and £350 a week for single adult households without children. Due to the levels of rent in London, over half of the households affected by the benefit cap live in London, with a total of £130m to be cut from household incomes each year<sup>23</sup>. Research carried out by Generation Rent suggests that as many as 39% of tenants have had to cut back on heating to make sure that they can pay the rent and a further 33% have had to reduce their food bills. However, it should be noted that this problem is not confined to the private rented sector and is symptomatic of a wider problem with the cost of housing across all tenures<sup>24</sup>.
- 4.24 All of these factors mean that the private rented sector is no longer affordable for many of the households who need it, in London and across England. This is also not taking into account the other practical issues such as the specific up-front costs associated with obtaining a private rented sector tenancy,

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<sup>19</sup> London School of Economics, 'Towards a Sustainable Private Rented Sector', 2011  
[https://www.lse.ac.uk/geographyAndEnvironment/research/london/events/HEIF/HEIF4b\\_10-11%20-newlondonenv/prslaunch/Book.pdf](https://www.lse.ac.uk/geographyAndEnvironment/research/london/events/HEIF/HEIF4b_10-11%20-newlondonenv/prslaunch/Book.pdf)

<sup>20</sup> London School of Economics, 'The rapid growth in London's private rented sector and what it means for our housing system', January 2014 <http://blogs.lse.ac.uk/politicsandpolicy/all-eyes-are-on-londons-private-rented-sector/>

<sup>21</sup> GLA Housing and Regeneration Committee, 'Making London's private rented sector fit for purpose', June 2013  
<http://www.london.gov.uk/sites/default/files/Rent%20Reforms%20-%20Making%20the%20Private%20Rented%20Sector%20Fit%20for%20Purpose%20Final.pdf> )

<sup>22</sup> LB Haringey, 'Experiences and effects of the benefit cap in Haringey' October 2013  
<http://www.cih.org/resources/PDF/Policy%20free%20download%20pdfs/Experiences%20and%20effects%20of%20the%20benefit%20cap%20in%20Haringey%20-%20October%202013.pdf>

<sup>23</sup> .LB Haringey, 'Experiences and effects of the benefit cap in Haringey' October 2013  
<http://www.cih.org/resources/PDF/Policy%20free%20download%20pdfs/Experiences%20and%20effects%20of%20the%20benefit%20cap%20in%20Haringey%20-%20October%202013.pdf>

<sup>24</sup> Generation Rent, 'Heating, Eating, Or Paying Rent?' August 2014  
[http://www.generationrent.org/heating\\_eating\\_or\\_paying\\_rent](http://www.generationrent.org/heating_eating_or_paying_rent)

which often involves paying for a credit check, letting agent fees and putting down a security deposit, as well as paying the first month's rent in advance.

**c) Owner-occupation:**

- 4.25 It is recognised that the ability of people to be able to afford to buy their own home in London and the South-East is becoming increasingly difficult. It has been estimated that only Londoners earning over £100,000 – approximately three times the average London salary - can now afford a typical mortgage in the capital. The Housing Federation Association's research estimates that the income needed to afford a typical 80% mortgage on an average London home was £108,500 – way above the average yearly wage of just £33,000<sup>25</sup>. The report further warns that the average house price in the capital has rocketed to over 14 times the average wage, driven by a lack of new homes being built and rising demand. The average home in London costs £458,000, and London house prices have experienced the greatest increase in average property value over the last 12 months with a movement of 12%<sup>26</sup>. It is therefore becoming increasingly difficult for first-time buyers to get on the 'housing ladder'.
- 4.26 There are a number of other factors that have made it more difficult for potential homebuyers to obtain a mortgage since the global financial crash of 2008. Some examples of this have been tougher loan-to-value (LTV) ratios, greater use of credit scoring and the crackdown on self-certification of earnings of the self-employed. Pre-financial crash, LTV ratios of over 100% (borrowing more than your home's value) were possible and competitive rates were available at 95% LTV. Now the situation has changed, and to get a good deal on a mortgage, homebuyers now need to borrow less than 75% of their potential home's worth or 90% to get any deal at all. Credit history checking by mortgage lenders is playing a much bigger part of mortgage acceptability than in the past. What once used to be seen as relatively minor problems such as missed payments, are now seen as barriers to getting a mortgage by some mainstream lenders. Another issue since the financial crash that has affected the availability of mortgages is the crackdown on self-certification of 'self-employed' applications<sup>27</sup> following concerns that some borrowers were being actively encouraged to inflate their income to obtain more generous mortgages.
- 4.27 In 2014, new mortgage rules were introduced by the City regulator, the Financial Conduct Authority (FCA), known as the Mortgage Market Review, to ensure that borrowers were issued with mortgages they could afford both now and in the future. The FCA was concerned that lenders were making it too easy to obtain a mortgage, meaning that many households borrowed too much money and found they were unable to keep up their repayments when the financial crisis struck. Lenders must now do more checks on borrowers' ability to repay loans.

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<sup>25</sup> Housing Federation Association, 'London: Broken Market, Broken Dreams', October 2014

<http://www.housing.org.uk/media/home-truths/>

<sup>26</sup> Land Registry's Market Trend Data for England and Wales, February 2015 <https://www.gov.uk/government/news/april-2015-market-trend-data>

<sup>27</sup> MoneySavingExpert website 'The UK's mortgage ticking time bomb', March 2012 [www.moneysavingexpert.com](http://www.moneysavingexpert.com)

- 4.28 In light of the problems in affording mortgages, the Coalition Government of 2010-15 introduced the 'Help To Buy' scheme, open to both first-time buyers and home movers for new-build and older homes in the UK with a purchase price up to £600,000. First time buyers were provided with an equity loan, with the Government lending up to 20% of the cost of a home, so buyers only needed a 5% cash deposit and a 75% mortgage to make up the rest. Anyone who obtained a 'Help To Buy' Loan wasn't charged loan fees on the 20% loan for the first five years of home ownership<sup>28</sup>. This scheme is being continued by the new Government.
- 4.29 As well as first time buyers, there is also the issue of those who struggle to pay their mortgages once they have bought their property, or would like to move into a bigger property once on the 'housing ladder'. The Government also had a Mortgage Rescue Scheme that was available for certain categories of vulnerable homeowners who were at risk of having their home repossessed. However the Scheme is no longer available<sup>29</sup>.
- 4.30 Research, such as a recent Lloyds TSB study, has shown that homeowners are finding it difficult to move up the property ladder<sup>30</sup>. This is down to a number of factors such as higher deposit requirements from mortgage lenders and a lack of demand from first time buyers. The report found that 61% of 'second steppers' - former first time buyers who now want to become first time sellers – felt they were unable to make the next move up the property ladder. The report also found that:
- One in five now believe it is harder to move up the ladder than get on it in the first place
  - Home affordability, negative equity, higher deposits, lack of buyers and cost of moving are just some of the challenges this group of home movers face
  - Almost three quarters (72%) of respondents call on the Government to take action to help those trying to sell their first home<sup>31</sup>
- 4.31 The report also found that those who want to move up the housing ladder are concerned about the higher levels of deposit needed for their second property, often because of a lack of equity, with 36% admitting that the lack of any deposit is the main problem they face in climbing up the ladder. The average deposit for a typical buyer looking to buy their second home in 2011 was £60,670 more than double the average deposit required in 2001 (£24,783)<sup>32</sup>.
- 4.32 More recent research by Lloyds TSB has also shown that applicants for three bed properties, which are seen by many as long term homes, are on average

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<sup>28</sup> Gov.UK, 'Affordable Home Ownership Schemes', December 2014 <http://www.helptobuy.org.uk/equity-loan/equity-loans#sthash.RQEtshS.dpuf>

<sup>29</sup>Gov.UK, Mortgage Rescue Scheme, May 2015 <https://www.gov.uk/support-for-mortgage-interest>  
<https://www.gov.uk/mortgage-rescue-scheme>  
<http://www.theguardian.com/housing-network/2013/nov/04/mortgage-rescue-scheme-scrapped-london>

<sup>30</sup> Lloyd TSB, 'Second Steppers: Trapped In First Home', February 2012  
[http://www.lloydsbankinggroup.com/globalassets/documents/media/press-releases/lloyds-bank/2012/2502\\_second.pdf](http://www.lloydsbankinggroup.com/globalassets/documents/media/press-releases/lloyds-bank/2012/2502_second.pdf)

<sup>31</sup> Lloyd TSB, 'Second Steppers: Trapped In First Home', February 2012  
[http://www.lloydsbankinggroup.com/globalassets/documents/media/press-releases/lloyds-bank/2012/2502\\_second.pdf](http://www.lloydsbankinggroup.com/globalassets/documents/media/press-releases/lloyds-bank/2012/2502_second.pdf)

<sup>32</sup> Lloyd TSB, 'Second Steppers: Trapped In First Home', February 2012  
[http://www.lloydsbankinggroup.com/globalassets/documents/media/press-releases/lloyds-bank/2012/2502\\_second.pdf](http://www.lloydsbankinggroup.com/globalassets/documents/media/press-releases/lloyds-bank/2012/2502_second.pdf)



35 years old in London and the South East. This is a year older than the national average. These regions remain the least affordable in the UK for three bed houses, as a result of high house prices<sup>33</sup>.

#### **d) Shared Ownership**

- 4.33 Shared ownership schemes are provided through housing associations. Homebuyers purchase a share of a home (25% to 75% of the home's value) and pay rent on the remaining share. Homebuyers need to take out a mortgage to pay for their share of the home's purchase price and shared ownership properties are usually leasehold. The Government also supports 'intermediate housing', and these are homes for sale (and rent below market levels). These homes can include shared equity (shared ownership and equity loans), other low cost homes for sale and intermediate rent, but not affordable rented housing<sup>34</sup>.
- 4.34 Shared ownership schemes are an attempt to alleviate the difficulties that first time buyers are having in getting on the housing ladder, and are seen as a stepping stone to full ownership. However there are a number of studies that show this is not always the case. Research by Cambridge University has shown that, "resales of shares in properties and "staircasing" - the practice of gradually buying more shares with a view to attaining full ownership - are both limited by structural and systemic problems which housing associations and policy-makers should address"<sup>35</sup>.
- 4.35 Furthermore, a survey conducted by the London Home Ownership Group, as part of a report on Shared Ownership commissioned by the Gateway Housing Association, summaries that income and savings were a key factor in owners' decisions to buy more shares, and those who had staircased had an average income of £10,000 more than those who had not, and they also had greater access to savings and inheritances. It also found that selling up and moving on from a shared ownership home is far easier if you own 100% of the property, but for many owners the up-front fees involved in staircasing, such as valuation and solicitor fees, were a major turn-off<sup>36</sup>.
- 4.36 The charity Shelter has also conducted research into what low to middle income families want from housing, what's holding them back, and what the Government should do to meet the needs of this key group. Their report found that the 'Help To Buy' scheme mentioned earlier in this paper would be of little help to these type of families, because their research indicated that 95% mortgages would make the mortgage costs on family homes higher than under the status quo. However, Shelter did feel that shared ownership schemes would be more affordable for low to middle income families. It found that 95% of low to middle income families would be able to afford a three bedroom home with shared ownership. It also felt that the shared ownership

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<sup>33</sup> Property Wire, 'UK home owners waiting longer than expected to move up housing ladder', March 2015  
<http://www.propertywire.com/news/europe/uk-aspiring-home-owners-2015031610265.html>

<sup>34</sup> Department of Communities and Local Government, 'Definitions of general housing terms', November 2012  
<https://www.gov.uk/definitions-of-general-housing-terms>

<sup>35</sup> Cambridge University, 'A Problem Shared', June 2012.

<sup>36</sup> Gateway Housing Association, 'Moving On Up', <http://www.gatewayhousing.org.uk/moving-on-up-report>

model needed some reforms for it to be more affordable, accessible and more attractive to lower-and-middle income families, such as:

- more homes on smaller ownership shares so that a wider span of low to middle income families can afford shared ownership family homes.
- a consistent set of eligibility criteria that covers to the full range of low to middle income families who can't afford the open market.
- major scale and long term political commitment to become a fully-fledged, mainstream market, available through all high street lenders, agents and brokers, that will help low to middle income families now and in the future get what they need from housing as their circumstances change.
- a direct link to new supply, to address the root causes of unaffordable housing costs: England's decades-long shortfall of new homes<sup>37</sup>.

4.37 The Greater London Authority/Mayor of London's Office believes that shared ownership could be an avenue to increase home ownership, and has used a scheme it has set up, called 'First Steps', to help more people buy a share in a home in London. This scheme has already delivered over 30,000 intermediate homes helping an estimated 44,000 Londoners. In 2013-14, there were 174 First Steps buyers in Lewisham<sup>38</sup>.

#### **The Picture in Lewisham: information from the 2011 Census and other relevant housing statistics**

- 4.38 The 2011 Census showed that owner-occupation in Lewisham has gone down from 53,800 to 50,700 between 2001-2011. The social rented sector has gone down from 38,200 to 36,100 in the same period, but is still larger than the private rented sector which leapt from 14,100 to 28,200. This outlines the growth in the private rented sector, which has occurred across London over the past 10-15 years.
- 4.39 Of the 50,700 in the owner-occupier sector, 63% owned by mortgage, 34% owned outright and 3% were in shared ownership. In terms of economic activity, the 2011 Census showed that 77.1% of owner-occupiers and 79.3% of those in the private rented sector were in employment. However, only 48.6% of those in the socially rented sector were in employment. 20.3% of those in the socially rented sector were either unemployed or long-term sick and 19.7 were retired.
- 4.40 93% of 116,000 'household reference people' on the 2011 Census were in four economic activity groups: in employment (80,000); retired (17,000); unemployed (6,000); long-term sick & disabled (5,500). Of the 6,000 people registered as unemployed, 55% were in the socially rented sector, 30% were in the private rented sector and 15% were owner-occupiers. One-third of households in Lewisham had dependent children and 60% of lone parents were in the socially rented sector.

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<sup>37</sup> Shelter, 'Homes for forgotten families: Towards a mainstream shared ownership market', August 2013 [http://england.shelter.org.uk/professional\\_resources/policy\\_and\\_research/policy\\_library/policy\\_library\\_folder/homes\\_for\\_forgotten\\_families\\_towards\\_a\\_mainstream\\_shared\\_ownership\\_market](http://england.shelter.org.uk/professional_resources/policy_and_research/policy_library/policy_library_folder/homes_for_forgotten_families_towards_a_mainstream_shared_ownership_market)

<sup>38</sup> Mayor of London, 'FIRST STEPS to home ownership' February 2013 <https://www.london.gov.uk/priorities/housing-land/first-steps-to-home-ownership>

- 4.41 The borough's median house prices are generally lower than the London average but still well above £200,000 (Crofton Park Ward has the highest average at £462,000 and the lowest ward is New Cross with an average of £240,500 as of 2014). Therefore the same issues concerning people being able to buy their own home affect those in Lewisham as they do those across London. Nevertheless, Lewisham was listed in the 'top 10 most affordable boroughs in Greater London to buy property' in recent research by property group, CBRE<sup>39</sup>. The median earnings for Lewisham are £27,251, whereas the London median earnings is £28,000 so this could have an impact on affordability across all housing tenures. Lewisham has the second-fastest rate of house price rises in the capital in the year to April, with an annual growth rate of 16.4%<sup>40</sup>.
- 4.42 In respect of the private rented sector, for a 2-bedroom property in Lewisham, the median borough rent is £1,104 per month, which compares to the London median of £1,288 per month. For a 3-bedroom property, the median borough rent is £1,380 a month, compared to the London median of £1,560<sup>41</sup>.
- 4.43 In respect of affordable rents, in 2013-14 Lewisham Council commissioned 'pod LLP' Council to undertake a study relating to "Affordable Rent" levels, and specifically the ability of local residents considered to be in housing need to meet a range of Affordable Rents, up to 80% of the market value. In its conclusion, the overarching findings of the study were:
- Although there are geographical affordability differences by postcodes, we would recommend applying overarching rent guidance rather than a set of guidelines based on postcodes. This will be simpler to operate in reality.
  - There is a huge difference in affordability between smaller and larger homes. One and (to some extent) two bed homes would appear to be affordable for most people, regardless of circumstances.
  - For three and four bed homes, affordability varies hugely depending upon whether the household is in employment. Unemployed larger families will see a sometimes significant reduction in their weekly budget.
  - Larger working families will not necessarily be affected by higher rent levels in terms of residual income.
- 4.44 The report concluded that that Affordable Rent guidance could be provided to Registered Providers within the Borough stating that appropriate Affordable Rent levels would be as such:
- 1-bed: 80% market rent or Local Housing Allowance (LHA)
  - 2-bed: 70 to 80% market rent or LHA
  - 3-bed: Up to 65% or a proportion at the capped rent of 50%

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<sup>39</sup> Daily Telegraph, 'Mapped: the last affordable London boroughs in which to buy', December 2014).

<sup>40</sup> Land Registry House Price Index

[https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/430497/HPIReport20150511.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/430497/HPIReport20150511.pdf)

<sup>41</sup> Mayor of London; 'London Rents map' <http://www.london.gov.uk/priorities/housing-land/renting-home/rents-map?source=vanityurl>

- 4-bed: 50% market rent (capped rent)

4.45 The report concluded that “The rent levels above would give some comfort that the ‘at risk’ larger unemployed families will at least have some housing options that will not see immediate affordability issues. As three beds are the threshold point at which affordability issues begin in earnest, it could be that a proportion of these could be appropriate at a lower “capped” level for families most in housing need, but with the remainder placed at a slightly higher rental level (up to 65%) for working families where affordability is not as acute an issue (quite a long sentence – but if it’s a quote then fine). Such a split would be more difficult for four bed homes as the affordability results are that much worse<sup>42</sup>.”

4.46 Lewisham is making a contribution to the social rented sector and affordable housing, with its Housing Matters policy and related future developments, which will deliver against the target for the Council to build 500 new homes by 2018. For all newly built homes, the previously agreed tenure split of 80 per cent social rented and 20 per cent private sale will continue to be applied in order for sales proceeds to cross-subsidise the construction of new social housing<sup>43</sup>.

## 5. Impact of the July 2015 Budget

### Rent Reduction

5.1 The budget announced that the previous policy of social housing rents increasing by the Consumer Price Index plus one per cent is to be ended. Instead rents will be reduced by one per cent a year from April 2016 until 2020 (when it is said that the previous policy will be re-adapted). This applies to all social rents including affordable rents.

5.2 Whilst this policy will make rents more affordable for tenants in social housing, concerns have been raised about the impact that this will have on the supply of new housing. The Office for Budget Responsibility forecast that this policy could result in 14,000 fewer affordable homes being built by 2021 due to Housing Associations revising their development plans<sup>44</sup>.

### Pay to Stay

5.3 The other proposal from the budget which will have an impact on rents and affordability is ‘Pay to Stay’. This proposal is that tenants of social housing with a household income higher than £40,000 a year in London (£30,000 elsewhere) will have to pay higher rents, up to the market rent, from 2017. Registered Providers will be able to keep additional rental income from this scheme, but local authorities (including those with ALMOs) will have to pay this additional rental income to the Treasury.

<sup>42</sup> Lewisham Council, ‘Affordable Rent Study: Market Research & Affordability Analysis’, February 2014  
<https://www.lewisham.gov.uk/myservices/planning/policy/LDF/development-policies/Documents/LewishamCouncilPODAffordabilityStudyFinal.pdf>

<sup>43</sup> Housing Select Committee Report, ‘New Homes, Better Places Update’ May 2015  
<http://councilmeetings.lewisham.gov.uk/documents/s36478/04HSCNewBbuildReportFinal190515.pdf>

<sup>44</sup> OBR, Economic and Fiscal Outlook, July 2015

- 5.4 In terms of affordability, this policy will mean that some tenants of social housing will see their rents increase significantly. It is not yet clear whether there will be a taper for those tenants who earn more than the threshold, but who could not afford full market rents where they live.

### **Welfare reform**

- 5.5 In addition to the announcements which will have a direct impact on rents, the budget also announced that working-age benefits will be frozen for four years, that those aged 18 to 21 will have no automatic entitlement to housing benefit and that the benefit cap will be reduced to £23,000 in London. All of these changes will have an impact on the ability of many residents in Lewisham to afford housing costs, regardless of the tenure in which they live.

## **6. Meeting the criteria for a review**

- 6.1 A review into “Affordability across all housing tenures” meets the criteria for carrying out a scrutiny review, because it is:
- The issue affects a number of people living, working and studying in Lewisham
  - The issue is strategic and significant
  - It is an issue of concern to partners, stakeholders and/or the community.

## **7. Background/purpose of review**

- 7.1 The Committee discussed this review, as outlined earlier, at its meeting on 15 April 2015.
- 7.2 In the period between the General Election and the upcoming 2016 London Mayoral Election, there is significant scope to make a contribution to the ongoing debate about how to make housing across all housing tenures more affordable, and how to build more affordable homes in London for those that live, work and study in London. It will give the Committee an opportunity to develop some innovative thinking in respect of affordable housing in London to feed into housing debate prior to the Mayoral Election.
- 7.3 The review would allow Members and the Housing Team to make a contribution to Lewisham’s policies going forward about affordable housing, and social rent, and shape the agenda locally.
- 7.4 The review would be a good learning exercise for Lewisham and other London boroughs as the affordable rents programme has been in place for four years, and some assessment of the policy would be constructive and useful.

## **8. Terms of reference/Key lines of Inquiry**

- 8.1 The Committee needs to consider whether it wants the review to look at all four categories of housing tenure, or focus the review to 1-2 areas of housing tenure.
- 8.2 Following on from this, the Committee also needs to consider the number of evidence sessions it wants to hold. It is suggested that an evidence session per tenure considered would be required. The review will need to be achievable in terms of the amount of meeting time available. Evidence sessions are only one item at a meeting, alongside a number of other items and the time available at each meeting to devote to an evidence session is unlikely to exceed 90 minutes.
- 8.3 The following key lines of enquiry will be refined and developed depending on the tenures the Committee wishes to consider as part of its review:
- Define what 'affordability' means at a local level.
  - What are the factors that are causing affordability issues across all housing tenures in the borough?
  - What are the Council and its key housing partners doing to alleviate the issue of affordability of housing in the borough?
  - What is the Council doing in terms of working with developers to ensure affordability issues in developments are appropriately addressed in the borough?
  - Are the Council's affordable housing objectives (as in the Sustainable Communities Strategy, the Core Strategy, the new Housing Strategy etc.) being met?
  - What are the policy options that could help deliver more affordable housing across all tenures in Lewisham?
  - Are there any current initiatives or research being conducted that could make housing more affordable in Lewisham?

## **9. Timetable**

- 9.1 The Committee is asked to consider the outline timetable for the review as set out below.

### **First evidence-taking session (16 September 2015):**

- Evidence from the Council Housing team on the tenures selected – policy overview
- Evidence from one of the Registered Housing Providers (assuming the affordability of social rent is being considered)

### **Second evidence-taking session (27 October 2015)**

- Evidence from the GLA
- Evidence from another borough or boroughs

- Evidence from the London School of Economics or a research think-tank

**Recommendations and final report** (1 December 2015 or 26 January 2016)

- The Committee will consider a final report presenting all the evidence taken and agree recommendations for submission to Mayor & Cabinet.

9.2 Should the Committee wish to look at more than two housing tenures, further evidence sessions are likely to be required

**10. Further implications**

10.1 At this stage there are no specific financial, legal, environmental or equalities implications to consider. However, each will be addressed as part of the review.

**Background Papers**

For further information please contact Roger Raymond, Scrutiny Manager on 020-8314-9976.

# How to carry out an in-depth review

