
Overview and Scrutiny

Affordability Review

Housing Select Committee

Membership of the Housing Select Committee in 2015-16:

Councillor Carl Handley (Chair)

Councillor Peter Bernards (Vice-Chair)

Councillor John Coughlin

Councillor Amanda De Ryk

Councillor Maja Hilton

Councillor Simon Hooks

Councillor Liz Johnston-Franklin

Councillor Olurotimi Ogunbadewa

Councillor Jonathan Slater

Councillor Susan Wise

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• Steve Moseley, Assistant Director, Strategy & Operations, L&Q	
• Dr Jacqui Daly, Research & Consultancy Director, Savills	
• Kath Scanlon, Deputy Director, London School of Economics and Political Science (LSE)	
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Appendices

Chair's Introduction

To be added

Councillor Carl Handley
Chair of the Housing Select Committee

1. Executive Summary

To be drafted once the recommendations have been agreed

2. Key Findings

Having considered the evidence presented to it over the course of the review, it is the Committee's opinion that:

3. Recommendations

The Committee would like to make the following recommendations:

Recommendation 1:

xxx

Recommendation 2:

xxx

Recommendation 3:

xxx

Recommendation 4:

xxx

Recommendation 5:

xxx

4. Purpose and structure of the review

- 4.1 At its meeting on 16 September 2015, the Committee decided to carry out a review into the affordability of housing in Lewisham.
- 4.2 A couple of the drivers behind the Committee's decision to carry out the review was a study on Affordable Rents was being carried by Affinity Sutton with the Cambridge Centre for Housing & Planning Research, and the 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.
- 4.3 The Committee therefore wanted to outline some of the key issues in respect of affordable in Lewisham and what policy initiatives could be considered to improve affordability.

Timetable

- 4.4 At its meeting on 16 September 2015, the Committee considered a scoping report for the review and agreed terms of reference. It was decided that the review would explore the following themes and seek answers to the following questions:
- 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?

Witnesses

- 4.7 Evidence sessions were held on: 27 October 2015 and 1 December 2015. The witnesses who gave evidence to the Committee were:

Neil McCall (Group Operations Director, Affinity Sutton)

Affinity Sutton is a national housing association, with 57,000 properties across over 120 local authorities across the country. In Lewisham,

Affinity Sutton has 593 properties, which are in the Orchard Gardens and Leybridge & Newstead estates, which were both stock transfers from the Council.

Steve Moseley (Assistant Director, Strategy & Operations, L&Q)

L&Q manages over 70,000 homes in London and South-East England. As well as building homes, they also help manage the homes after completion and are involved in community regeneration projects. Their 'L&Q Foundation' also invests £4 million each year in opportunities for local communities, including employment training, activities for young and older residents, financial advice and community building. L&Q are partnered with local authorities, voluntary organisations, faith groups, social enterprises and business networks.

L&Q manages over 7,000 properties in Lewisham. Their property portfolio in the borough mainly consists of properties the Council has transferred to them in the Grove Park, Catford, Rushey Green, Forest Hill and Sydenham areas. The first stock transfer from the Council to L&Q was Lewisham Park which took place in 2007.

Dr Jacqui Daly (Research & Consultancy Director, Savills)

Savills plc are an international real estate services provider, with an international network of more than 600 offices and associates throughout the Americas, the UK, continental Europe, Asia Pacific, Africa and the Middle East, offering a broad range of specialist advisory, management and transactional services to clients all over the world.

Savills plc offers a wide range of specialist property services from investment advice, consultancy services and valuations to sourcing sites for development and estate management.

Kath Scanlon (Deputy Director, London School of Economics and Political Science (LSE))

LSE is a specialist university with an international intake and a global reach. Its research and teaching span the full breadth of the social sciences, from economics, politics and law to sociology, anthropology, accounting and finance. Founded in 1895, the School has an outstanding reputation for academic excellence. 16 Nobel prize winners have been LSE staff or alumni.

5. The Policy Context and Review Focus

5.1 At their meeting on 16 September 2015, the Committee considered the Scoping Paper for the Affordability Review¹, and were giving the option of looking at the following four areas for the review:

- Social Housing
- Private Rented Sector
- Owner Occupation
- Shared Ownership

5.2 The Committee decided to concentrate on the following areas:

- Social Housing
- Private Rented Sector

The policy context

5.3 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.

5.4 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

5.5 The current administration has also made a specific commitment to build 500 new homes by 2018.

Social and affordable housing

5.6 The legal definition of social housing, from a regulatory perspective, is contained in the Housing and Regeneration Act 2008 (s68-70)² and it

¹ Affordability Across All Housing Tenures Review: Scoping Paper; September 2015, Housing Select Committee

² See: <http://www.legislation.gov.uk/ukpga/2008/17/contents>

includes low cost rental accommodation and low cost home ownership. However, 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 costs³ 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.

5.7 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.

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 ⁴	221.69	180.12	167 ⁵	114.71 ⁶	110.84 ⁷

5.8 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

5.9 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.⁸ 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)⁹.

³ Shelter website, What is social housing?
http://england.shelter.org.uk/campaigns/why_we_campaign/Improving_social_housing/what_is_social_housing

⁴ Cambridge University, 'Housing Costs, Affordability and Rent Setting', June 2014

⁵ Affinity Sutton, 'Affordability: A Step Forward', May 2015

⁶ Cambridge University, 'Housing Costs, Affordability and Rent Setting', June 2014

⁷ Savills, 'Living Rents by Local Authority', June 2015

⁸ 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>

⁹ Gov.UK, 'Definitions of general housing terms', November 2012, <https://www.gov.uk/definitions-of-general-housing->

- 5.10 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 above social rent, but below market levels and which does not include 'affordable' rent.
- 5.11 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 homes¹⁰.
- 5.12 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 £49.7m¹¹. 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 housing¹².
- 5.13 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 renting¹³.

[terms](#)

¹⁰ Financial Times, 'London struggles to build affordable homes', March 2015 <http://www.ft.com/cms/s/0/4ea96f5e-bde6-11e4-9d09-00144feab7de.html#axzz3blGBC4Om>

¹¹ 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>

¹² 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>

¹³ 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

- 5.14 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 Wage¹⁴ after research it undertook with the Cambridge Centre for Housing and Planning Research. L&Q also links rents to local wages¹⁵.
- 5.15 The Joseph Rowntree Foundation and the National Housing Federation commissioned a recently published report by Savills on affordability¹⁶. 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.
- 5.16 A report was also recently published by the campaign group SHOUT (Social Housing Under Threat), the National Federation of ALMOs and research consultants Capital Economics¹⁷ which argues for a return to social rents for new build properties, highlighting the potential savings in housing benefit this could provide.

Private rented sector

- 5.17 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.
- 5.18 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 usually required. Landlords involved in this part of the market are often very different from those letting to better-off employed households¹⁸.

¹⁴ <http://www.insidehousing.co.uk/affinity-sutton-links-rents-to-living-wage/7010383.article>

¹⁵ <http://www.insidehousing.co.uk/a-new-era-for-affordable-rents/7009008.article>

¹⁶ <http://www.savills.co.uk/blog/article/189220/residential-property/a-living-rent-could-solve-the-housing-crisis.aspx>

¹⁷ <http://4socialhousing.co.uk/research>

¹⁸ 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

- 5.19 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 agent¹⁹.
- 5.20 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 2012²⁰.
- 5.21 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 costs²¹
- 5.22 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 year²². 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 tenures²³.
- 5.23 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

¹⁹ 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/>

²⁰ 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>)

²¹ 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>

²² 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>

²³ Generation Rent, 'Heating, Eating, Or Paying Rent?' August 2014 http://www.generationrent.org/heating_eating_or_paying_rent

issues such as the specific up-front costs associated with obtaining a private rented sector tenancy, 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.

Government housing policy May 2015-

5.24 The Government's July 2015 Budget presented a number of proposals in relation to Housing Policy:

a) Rent Reduction

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.

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 .

b) Pay to Stay

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.

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.

c) Welfare reform

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.

- 5.25 The Government also has a Housing Bill which is presently going through Parliament, that will legislate for the Conservative 2015 Manifesto commitment to extend the Right to Buy to tenants in Housing Associations to enable more people to buy a home of their own.

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

- 5.26 The Scoping Paper for the Affordability Review also presented some relevant housing statistics in respect of Lewisham.
- 5.27 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.
- 5.28 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.
- 5.29 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.
- 5.30 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, CBRE²⁴. 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-

²⁴ Daily Telegraph, 'Mapped: the last affordable London boroughs in which to buy', December 2014).

fastest rate of house price rises in the capital in the year to April, with an annual growth rate of 16.4%²⁵.

5.31 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 £1,560²⁶.

5.32 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.

5.33 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%
- 4-bed: 50% market rent (capped rent)

5.34 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

²⁵ Land Registry House Price Index

https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/430497/HPIReport20150511.pdf

²⁶ Mayor of London; 'London Rents map' <http://www.london.gov.uk/priorities/housing-land/renting-home/rents-map?source=vanityurl>

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. Such a split would be more difficult for four bed homes as the affordability results are that much worse²⁷."

- 5.35 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 housing²⁸.

²⁷ 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>

²⁸ Housing Select Committee Report, 'New Homes, Better Places Update' May 2015
<http://councilmeetings.lewisham.gov.uk/documents/s36478/04HSCNewBbuildReportFinal190515.pdf>

6. The Evidence

Neil McCall (Group Operations Director, Affinity Sutton)

- 6.1 Affinity Sutton is a national housing association, with 57,000 properties across over 120 local authorities across the country. In Lewisham, Affinity Sutton has 593 properties, which are in the Orchard Gardens and Leybridge & Newstead estates, which were both stock transfers from the Council.
- 6.2 Neil McCall reported to the Committee that in Lewisham, Affinity Sutton has 593 properties, which are in the Orchard Gardens and Leybridge & Newstead estates, which were both stock transfers from the Council. After their research into affordability undertaken in 2011, Affinity Sutton chose to limit the rent charged on larger units to 65% as these were judged to be unaffordable at 80% to larger households with higher outgoings
- 6.3 The Committee also heard that with the reduction in capital grant rates for new housing supply reduced and other housing policy changes since 2010 like the Affordable Rent Policy, Affinity Sutton felt that some research needed to be conducted to consider what the principles of setting a rent policy should be and what Affinity Sutton's new Affordable Rent policy might look like. In doing so, Affinity Sutton decided that it would work alongside Cambridge Centre for Housing and Planning Research (CCHPR), as they had already worked alongside them for a research paper in 2014 called 'Housing Costs, Affordability and Rent Setting'.
- 6.4 Committee were also informed that the work in the report may need to be reviewed in light of the Government proposals since the elections, such as the 1% year-on-year reduction in social rent. Affinity Sutton has estimated that this could have the potential to cost them around £340m over the next 10 years.
- 6.5 Responding to questions from the Committee, Neil McCall said that Affinity Sutton refers to Social Rent as the 'Target Rent' in its report. He also said that Affinity Sutton would like to move more of its residents off Housing Benefit, as this benefits both the rent payer and the taxpayer in the long run.
- 6.6 The Committee also heard that Affinity Sutton's rent policy is linked to the National Minimum Wage and London Living Wage, and will take into account the Government's new National Living Wage, which will replace the Minimum Wage (which at the present rates will be lower). The Committee also heard that the rent-setting policy of Affinity Sutton is deliberately linked to the London Living Wage to make the rental link to earnings more prevalent. Affinity Sutton also pays its staff the London Living Wage.

- 6.7 Neil McCall also told the Committee that he estimated that approximately 55-60% of Affinity Sutton residents would be in receipt of Housing Benefit. The Committee applauded the aim of reducing the amount of Affinity Sutton residents that are in receipt of Housing Benefit
- 6.8 The Committee heard that even though many Housing Association run at a surplus, most of the finances are already earmarked for property improvements and new builds. They also need to borrow from financial institutions to deliver on their developments. This has to be balanced with setting rent levels that are 'affordable' for their residents. Housing Associations and housing providers like Affinity Sutton needed to be open to new arrangements – such as considering temporary accommodation – to tackle the housing crisis in London. Affinity Sutton does have some hostels in the London Borough of Bromley.

Steve Moseley (Assistant Director, Strategy & Operations, L&Q)

- 6.9 As noted earlier, L&Q manages over 7,000 properties in Lewisham. 300 properties within Lewisham are of 'Affordable Rent':
- 6.10 Steve Moseley reported to the Committee that, like Affinity Sutton, the reduction in capital grant rates for new housing supply reduced and other housing policy changes since 2010, meant that L&Q felt it needed to review the rents policy, to try to ensure that they were affordable, but still allow enough revenue to improve existing properties and create new developments. L&Q also decided that their rents policy would not have any properties at '80% of the market value'. Most of their properties are between 55-70% of the market rent. The Committee also heard that L&Q's rent policy will have to be reviewed again at the end of 2015-2016 in light of the new Government's housing policy proposals that have been announced since the General Election.
- 6.11 Steve Moseley also reported to the Committee that the Government's plans for a 1% year-on-year cut in social rent could lead to L&Q building 18,000 fewer homes up to 2020 due to loss of revenue. L&Q has chosen to bridge this gap through efficiencies and increasing income to maintain its development pipeline. Also, the proposed new the Benefits Cap of £23,000 inside London and £20,000, is estimated to cause average shortfall of £65 per week on those affected by it in L&Q properties. Larger households on low incomes could be affected by as much as a £110 per week shortfall. As housing associations housing providers do not have any control over welfare and tax policy, any efforts to make rents more affordable could be offset by Government policy. This might mean there is no reduction in the percentage residents pay on rent in relation to their household income.
- 6.12 The Committee also heard that L&Q has always taken a more conservative approach to rent setting, which is why no affordable rents are charged at 80% of the market rate – they have never seen that as 'affordable' rent. It was also noted that L&Q need to look further into the implications of the Governments latest welfare and housing policy changes to understand their implications on L&Q's rent setting policy.
- 6.13 Responding to questions from the Committee, Steve Moseley said that L&Q paid its staff the London Living Wage. Committee were also informed that L&Q believe that the average rent for Lewisham is approximately 65% of market rents, which is in line with similar Housing Associations and properties across London.
- 6.14 Steve Moseley also reported that L&Q has an L&Q Foundation, which was established in 2011, that helps residents with a number of community investments and initiatives. It has funding of approximately £4.5m a year does a number of things such as run 'job-ready' work and training programmes to providing discretionary housing payments for qualifying residents. These are measures that can help alleviate the

benefits cap and other welfare changes that have been enacted since 2010.

- 6.15 The Committee were also informed that L&Q recognised that there are some anomalies in respect of rent charges. Some of these have been caused by the move to affordable rents policy and they will be willing to look into any problems this caused to residents. The Government's 'pay-to-stay' policy may also cause a situation where people who live in similar properties, but pay different levels of rent.

Dr Jacqui Daly (Research & Consultancy Director, Savills),

- 6.16 As noted earlier, Savills plc are an international real estate services provider, with an international network of more than 600 offices and associates throughout the world. Savills plc offers a wide range of specialist property services from investment advice, consultancy services and valuations to sourcing sites for development and estate management. Jacqui Daly had spent approximately 15 years conducting research on the Private Rented Sector, and was currently conducting research in the Build-to-Rent market.
- 6.17 Jacqui Daly reported to the Committee that the current market trends in housing in the UK since 2000, are that owner occupation has been falling, social housing is continuing to fall (as it has since the early 1980s) and the private rented sector has been increasing, with an estimated 5.7m dwelling in the private rented sector by 2018. This period has also seen a growth in buy-to-let properties – from 2m to 4.2m from 2001-2015 and this has helped the growth of the private rented sector.
- 6.18 Jacqui Daly also reported that some of the factors that have led to an increase in the private rented sector have been cultural changes, such as the difficulty of young people to get on the housing ladder, more people divorcing and/or staying single, the flexibility of not owning your own home. The financial crisis of 2008 has also exacerbated the problem of first-time buyers owning their own home due to the stricter lending rules and difficulty in raising enough money for a deposit, so more people are using the private rented sector.
- 6.19 The Committee also heard that there is also the issue of rising house prices, especially in London/South-East London. House prices in London have seen real annual trend-line growth of 3.6% over recent years. In terms of deposit affordability, in 2002, the deposit-to-income ratio in London was approximately 40%, but in 2015 that has gone up to over 120%. In the UK as a whole, the average deposit is £27,885, whereas in London alone it is £74,519. There has been a definite shift from owner-occupation in the under 35 and 35-44 years categories, with a fall of 732,000 and 783,000 people in mortgaged owner-occupation.
- 6.20 Jacqui Daly reported to the Committee that in respect of the private rented sector, People using the private rented sector went up 2.43m from 2001-2011– and in the under 35 category, went up 1.137m. In Lewisham, properties in the private rented sector increased from 15,930 in 2001 to 29,375 in 2011. The social rented sector was pretty static around 36,000 and owner-occupation decreased slightly from 53,826 to 50,664 in the same period. The growth of growth of households in the private rented sector has been over 80%, which outstrips the growth in London and England and Wales (just over 60%). The projection is that the shift to using the private rented sector is set to

continue, with all age groups bar the over 65s seeing a growth in the use of the private rented sector.

- 6.21 Jacqui Daly also noted that policymakers have been looking to see how they support the 'build-to-rent' market to cater for this growth in use of the private rented sector. For local authorities, this is beneficial as it will help provide vibrancy and create a sense of place in large regeneration sites, ease waiting list for affordable housing, and it attracts dynamic and mobile young professional with high disposable incomes. The National Planning Practice Guidance (NPPG) has offered planning obligation flexibilities for particular schemes. Under 'viability under the Guidance, it acknowledges explicitly that viability will vary with housing type, including housing for sale or rent.
- 6.22 Jacqui Daly presented to the Committee some examples of flexible arrangements to encourage 'build-to rent':
- North Acton, Ealing: M&G / HUB Residential
Ealing agreed to allow the conversion of the original S.106 affordable housing requirements to 20 discounted market rent units, so enabling M&G to manage the complete property as a single entity but with some tenants paying a percentage of market rent.
 - Lewisham Gateway - Muse developments and Fizzy
Fizzy helped to de-risk the development to ensure delivery
- 6.23 The Committee also heard that research shows that people in this country still aspire to own their own homes, but this now happens much later than 30 years ago.
- 6.24 The Committee also heard that some landlords and developers have looked to offer longer-term contracts as per the 'German model' of private rented, but Savills have found through research that some young people are happy to have more short-term, flexible contracts. The Committee also heard that in the German private rented sector contract might start at market rate, but the rental rises are fixed, so the renter will know how much the rent will be incrementally.

Kath Scanlon (Deputy Director, London School of Economics and Political Science (LSE)),

- 6.26 Kath Scanlon, Deputy Director of the LSE, has carried out a series of research projects looking at the Private Rented Sector in London, elsewhere in the UK and abroad.
- 6.27 Kath Scanlon reported to the Committee that historically, private rented sector housing consisted of purpose built estates, for example Du Cane Court, Balham and Dolphin Square, Pimlico, both in London, built in the 1930s. However, things began to change post-WWII o Post-deregulation (starting in the 1950s) companies wanted to sell – and did over the next twenty years. Owner-occupation grew rapidly with well-developed leasehold arrangements and the possibility of buying long leases o Tax benefits and other incentives meant private sector building was almost always for owner-occupation o New rented housing provided in the social sector.
- 6.28 The Committee also heard from Kath Scanlon that Private rented sector declined to 11% of total stock in England by the mid- 1980s. However, the deregulation of rents in 1988 led to slow increase in supply of housing for the private rented sector. They also heard that other factors led to the growth of the private rented sector from the late 190s, namely:
- Owner-occupation for young people badly was hit in early 1990s with the recession
 - Buy-to-Let mortgages introduced in late 1990s – therefore the private rented sector started to increase quite quickly
 - ‘Affordability crisis’ of housing in the early 2000s added to pressure on private rented sector.
- 6.29 In terms of those who provide property for the private rented sector, nearly 80% of come from landlords who own only one property. That consisted approximately 40% of dwellings.
- 6.30 Kath Scanlon also reported to the Committee some information to give the Review an international perspective. The Committee heard that England’s private rented sector constitutes 17% of the housing market, but in countries like USA (32%) and Germany (59%) it is much higher. Some other countries like The Netherlands (10%) and Spain (7%) it is much lower. It was stated that in most countries tenants are:
- Young or old
 - Low-income
 - Singles or single parents
 - Mobile:
 - young professionals
 - students
 - high-income corporate transfers
 - Those who can’t afford owner-occupation:

- housing benefit recipients
- migrants
- those who can't afford mortgage deposits

6.31 The Committee also heard that generally, those that do not live in the private rented sector, are the following:

- Middle- and upper-income families almost always own their homes
- Very few of the elderly rent privately in the UK (not the case in some other countries)

A lot of Western countries have some form of 'rent control', whether that be rent regulation, or tenant has the first refusal on sale of unit.

The UK does not have these controls

6.32 The Committee also heard from Kath Scanlon about 'The German Model'. For the 'German model', the terms and conditions for renting are as follows:

- Tenants get indefinite leases
- Landlords can evict only for reasons set out in the law; notice period 3 – 9 months depending on how long tenancy has lasted
- If the landlord sells, the lease binds the new owner
- Initial rent can be freely set, but not more than 20-50% above average rents in the local area—but new restrictions in Berlin, Munich
- Rent can go up every 15 months by average in the area

6.33 The Committee heard that the rental offer in Germany has a number of factors:

- Most private rented sector units are in rental-only blocks in single ownership
- Tenants stay for long time (average 11 years)
- Landlords invest into the longer term
- Landlords provide minimal facilities beyond the dwelling itself: usually no furniture or kitchens

6.34 Kath Scanlon noted that the economic environment in Germany is different to the UK:

- Over most of last thirty years real house prices fell in most areas
- General inflation also very low so costs fairly predictable, though some problems as standards have risen for example energy efficiency
- Some areas where pressures on rental market and difficulties in finding accommodation - extending to more cities since 2008
- Owner-occupation and house prices in these areas now rising quite rapidly.

6.35 The conclusions for the evidence presented by Kath Scanlon was as follows:

- Private rented sector has grown quickly in London since early 1990s, mostly through transfer of existing homes rather than new build
- 1988 deregulation of rents and leases contributed. English rental market much less regulated than in most European countries
- Private rented sector rents higher in London than almost anywhere else—as are house prices
- Effects of policies like rent control depend on legal, cultural and economic frameworks. What works well elsewhere might work very differently here.

6.36 Under questioning from the Committee, Kath Scanlon reported that primary housing problem in London and the South-East has been the 'housing bubble' and high prices resulting from the supply of housing not keeping pace with demand resulting from economic growth and migration.

6.37 The Committee also heard that big property developers are more inclined to deliver longer-term tenancies, such as the East Village (London 2012 Olympic site). They also heard that in terms of housing costs, to income, this should not be more than 30% of income to be comfortable. In London, most rents are above 30% of income.

7. The Committee's findings

8. Monitoring and ongoing scrutiny

- 8.1 In addition to a Mayoral response, the Committee would like an update on the implementation of any agreed recommendations before the end of the 2016/17 municipal year.