FAIR TO MIDDLING: REPORT OF THE COMMISSION ON INTERMEDIATE HOUSING

Kat Hanna, on behalf of The Commission on Intermediate Housing, chaired by Cllr Rock Feilding-Mellen and Cllr Claire Kober

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Any errors in this report remain solely those of the author.

CHAIRS' FOREWORD

Welcome to this, the report of Centre for London's Commission on Intermediate Housing.

We were delighted to be given the chance to chair this Commission. The two of us belong to different political parties and represent very different boroughs, with distinct challenges. One of us is the Conservative Deputy Leader for the central London borough of Kensington and Chelsea and the other is the Labour leader of the outer London borough of Haringey. But despite all the differences between us, we both want to see more housing for Londoners on modest incomes in our boroughs and across London as a whole. We both acknowledge that intermediate housing alone can only ever have a partial role to play in meeting London's housing challenge – both our boroughs are committed to boosting new supply of affordable homes for people on low to middle incomes and market homes, both for rent and for sale. However, we also both believe that we need more and better intermediate housing if London is going to remain an economically successful and cohesive city. As this report sets out, fast-rising house prices mean that more and more of our capital is becoming unaffordable to people on moderate incomes – to school teachers and electricians, bus drivers and young doctors, solicitors and researchers, designers and engineers. Yet our city needs these people. They make a vital contribution to London's economy and to community life.

We recognise that with public money in short supply, spending on intermediate housing needs to be very well aimed. But the subsidies involved tend to be modest and the benefits large. And as this report suggests, the barriers to more intermediate housing aren't just economic. We need a greater appreciation from national, London and local politicians and policymakers, developers, employers and lenders of the benefits as well as the costs of intermediate housing and more readiness to experiment and innovate in its provision.

London has long been a tapestry of mixed income communities. We hope that this report will help keep it that way.

Cllr Claire Kober
Leader, London Borough of Haringey

Cllr Rock Feilding-Mellen
Deputy Leader and Cabinet Member for Housing, Property and Regeneration, Royal Borough of Kensington and Chelsea

ABOUT THE COMMISSION ON INTERMEDIATE HOUSING

In 2014 Centre for London published a report by Charles Leadbeater, *Hollow Promise: How London is Failing Its Modest Earners And What Ought to be Done About It*. Drawing on case studies and statistical analysis, the report offered an alarming account of the pressures facing London's 'squeezed middle'. As *Hollow Promise* showed, living costs have gone up faster in London than elsewhere, while earnings have increased more slowly than prices – especially for those in low-to-middle income jobs. The result is that London's modest earners – the backbone of the London workforce – are facing unprecedented pressures. Although many are relatively well qualified and work hard, they struggle to pay the weekly bills, let alone to save. A growing number of Londoners, Leadbeater suggested, have joined the ranks of the Endies – Employed but with No Disposal Income or Savings.

London's modest earners have found various ways of adapting to the pressures on them. They work longer hours, often holding down more than one job. They have reduced costs wherever they can, both by cutting back on non-essentials – buying new clothes and eating out become very rare luxuries indeed – and by paying as little as possible for essential items. And they increasingly live in more crowded or over-crowded homes. It is now common to find well qualified and relatively well rewarded workers sharing flats or living with their parents into their thirties. Indeed many older Londoners lucky enough to own their homes are now sharing them not just with their children but their grandchildren.

Hollow Promise argued that if London is to do better by its modest earners it needs to promote innovation across a wide front. The city needs to find way of helping its Endies boost their earnings and reduce their outgoings, including energy, transport and childcare costs. But housing costs have risen especially fast, and the report concluded that London needed to find ways of making housing for low-to-middle income earners more affordable as a priority.

The Commission on Intermediate Housing builds on the analysis contained in *Hollow Promise*. The Commission was set up with a remit to investigate 'the strengths and weaknesses of current housing policies with respect to those on middle incomes and make recommendations as to how London can best meet the challenge of providing housing which this group can afford'.

The Commission on Intermediate Housing commissioned original data analysis as well as reviewing existing analysis, interviewing experts and examining case studies. Commissioners drew on this research to develop a consensus on the justification for intermediate housing and the public subsidy it usually involves, the costs and benefits of various approaches to intermediate housing, and what more could be done to improve the provision of intermediate housing in London.

The Commission has been jointly chaired by Cllr Rock Feilding-Mellen (Deputy Leader, Kensington and Chelsea) and Cllr Claire Kober (Leader, Haringey).

The Commissioners met three times between May and August 2015 to define the scope of the research, discuss evidence, and to draw up recommendations. Our Commissioners bring together a wide range of expertise and experience. They include senior representatives from local government, housing associations, housing charities, large private and public sector employers, financial services and developers, and academic experts.

The Commissioners are: Kate Allen (Property Correspondent, Financial Times – in a personal capacity), Mark Boleat (Policy Chairman, City of London Corporation), Bill Davies (Research Fellow, IPPR), Martyn Evans (Creative Director, Cathedral Group), Keith Exford (Chief Executive, Affinity Sutton), Cllr Rock Feilding-Mellen, Deputy Leader, Royal Borough of Kensington and Chelsea), Robert Grundy

(Head of Housing, Savills), Cllr Claire Kober (Leader, London Borough of Haringey), Ben Morrin (Director of Workforce, University College London Hospitals NHS Trust), Tony Oakley (Head of Social Housing, Lloyds Banking), Jamie Ratcliff (Assistant Director – Programme, Policy & Services, Housing and Land, GLA), Pete Redman (TradeRisks Ltd), Campbell Robb (Chief Executive, Shelter), Paul Smee (Director General, Council of Mortgage Lenders), Christine Whitehead (Emeritus Professor of Housing Economics, LSE) and Ben Rogers (Director, Centre for London).

Research support has been provided by Andrew Heywood, an independent housing consultant.

EXECUTIVE SUMMARY

This report looks at whether housing for working people with modest incomes in London can be improved and if so, how. People on these incomes make an indispensable contribution to London life and to the London economy in particular. Yet the city is not working well for them. Living costs have gone up fast. Competition for work can be fierce, driving down wages, especially for low-to-middle income earners. Housing is a particular challenge. Where young Londoners on modest salaries might once have looked forward to being able to buy a home, this has become very difficult, especially for those who cannot draw on family help – 'the bank of mum and dad'. As new analysis undertaken by the Commission shows, even the cheapest outer London boroughs are close to becoming unaffordable for first time buyers with ordinary jobs. Rising house prices have had a profound impact on the way that wealth and opportunity are distributed across the capital. Close to 3 million Londoners (37%) have no stake in the property market at all, while 8% or 632,675 own a property worth £500,000 or more.

The result has been a dramatic increase in people on modest incomes living in private rented accommodation, including an increase in families with children. Almost half (48%) of London households aged between 25 and 34 were renting privately during 2013/14 compared to 21% per cent in 2003/04. Rents have also gone up, making it ever harder for these households to get by day to day, let alone build-up the savings that could help them get a mortgage. At the same time, more and more Londoners are living in sub-standard and overcrowded housing.

Against this background central government and the Greater London Authority have sought to develop and promote housing for modest earners – those not entitled to social housing but who struggle to afford a home on the open market. The GLA has been particularly active in promoting intermediate housing, eligible for households with incomes up to £71,000. Forty per cent of the Mayor's affordable housing budget is going to develop intermediate home ownership.

Yet the overall supply of intermediate housing is lamentably small, amounting to less than 2% of London's housing stock. Less than 17,000 intermediate homes had been completed in London under the 2011–15 Affordable Homes Programme. Most of that intermediate stock is in shared ownership which provides a valuable means for households to gain an equity stake in their home. However, shared ownership is unviable in some of London's most expensive areas. Where it can be developed in these areas, it can only be accessed by those near to the GLA's £71,000 income cap.

The case for intermediate housing

The intermediate housing market has developed in a largely non-strategic way, thanks to the introduction of new policies and products by successive governments, since the first intermediate home ownership markets came onto the market over 30 years ago. For this reason the Commission spent some time discussing the purpose and justification of sub-market housing catering to people on modest incomes. After all, while we all want to see more housing in London that is affordable to people on modest incomes, a sceptic might ask how we can justify spending tax-payers' money on subsidising it when there are so many other demands on the public purse.

We suggest there are three broad justifications for a public subsidy. First, we argue that intermediate housing has an important role in delivering 'the promise of London' – the promise that London has long made both to people born in the city and to those that move to it, that if you develop your skills and work hard you can prosper. London is struggling to deliver on this promise at the moment. We worry that if present trends continue, and home ownership continues to fall and rents to rise, the politics of London could turn sour. Do we want to live in a city where low-to-middle income earners are forced to spend their working lives in barely affordable rented accommodation, much of it on the outskirts of the city, and where owning a house has become a privilege only enjoyed by the wealthiest residents?

A second justification for intermediate housing lies in its role in sustaining mixed income neighbourhoods and community stability. As already indicated, the more expensive areas of London are becoming increasingly polarised, with only those in social housing and the wealthy able to afford them. In other areas owner-occupation has given way to private renting, with many landlords renting homes out by the room and often to tenants who come and go. While the private rented sector has an important contribution to make to meeting London's housing needs, it is hard to sustain local social capital when a neighbourhood becomes dominated by short term lets. Intermediate home ownership can help ensure that these areas retain a wider mix of tenure and promote their stability and social capital.

The final justification appeals to the contribution that intermediate housing makes to London's continuing economic success. A city like London depends on moderately paid workers to keep the city going and on moderately rewarded entrepreneurs and innovators to generate new ideas, products and services. Rising housing prices will inevitably squeeze these people out of the city or harm productivity in other ways – long commutes and unstable and overcrowded accommodation eventually affect performance. London employers are increasingly complaining that high living costs, especially high housing costs, are making it harder to recruit and retain talent. Housing costs are a particular problem for London's public services. Many public services – especially emergency services – benefit from having locally housed workers. Moreover, public services don't have the flexibility over pay that private businesses do. Finally, research points to the economic benefits that a city like London gets from income diversity.

Place-shaping

The justifications that we have offered for intermediate housing have significant policy implications. Intermediate housing comes in varying forms, with varying costs and benefits. We argue that it is very important to match the right product to the right household in the right location. It can be hard, for instance, to make shared ownership affordable in the most expensive parts of London, especially for people at the lower end of the intermediate income range. Intermediate rent, however, is a viable alternative and can be made to work. Given that part of the justification for offering intermediate housing in central London is to promote income mix, it follows that intermediate rent will be a particularly appropriate type of intermediate housing for these more expensive areas. Likewise, intermediate home ownership can be particularly valuable in helping provide an area with a 'backbone' of owner occupiers, so will be particularly appropriate in areas suffering from a great deal of residential churn.

For these reasons, we argue that London's boroughs and housing providers need to understand and use intermediate housing as an important place-shaping tool – one that can help them address their economic challenges and create mixed, resilient and successful communities. While the Commission did not want to recommend any reduction in resources for social renting in order to increase the supply of intermediate housing provision, they identified a need for government, boroughs and housing providers to explore the many products (for example, shared ownership, intermediate rent, discounted market sale), funding models (grant, discounted land) and partnership opportunities (developers, charities, employers) through which intermediate housing can be developed.

Recommendation 1:
In planning for future housing provision, national government, boroughs and the GLA should ensure that the promotion of mixed income neighbourhoods is given explicit priority within national planning policy, borough Strategic Housing Market Assessments and local plans. Boroughs

should draw up concrete plans to ensure that, in so far as possible, there is adequate and appropriate provision for intermediate housing for those on incomes within the GLA threshold.

Fair funding

We note that many national intermediate housing policies have very little bite in London. Take-up of the Help to Buy Equity Loan for instance – a government scheme aimed at making home ownership more affordable – has been much lower in London than across the country as a whole, probably because of high housing prices in the capital. This means that a small proportion of the support that government directs to intermediate housing goes to London – the region with the greatest need for such housing. The Commission calls on the government to devolve the appropriate portion of Help to Buy funds to the GLA and grant the GLA the powers to use them to promote or provide intermediate housing in a way that is appropriate to the needs of the capital – for example, by supporting shared ownership, especially for those who would struggle to buy a shared home currently.

Recommendation 2:
The government should devolve Help to Buy Equity Loan funds spent on London to the GLA, in order that those funds can be spent in the most appropriate way in the capital. The government should ensure that the funds allocated reflect the numbers of transactions and the value of those transactions in London when compared to the country as a whole.

Shared ownership

Shared ownership is by far the most common form of intermediate housing in London. For this reason it is especially important that it meets the needs and aspirations of those that opt for it or might opt for it. It is acknowledged that some of London's shared owners are dissatisfied with the product in some respects, such as the difficulty the majority find in staircasing to full ownership. Another source of dissatisfaction is the limited mobility of shared owners who find it difficult to move to another shared ownership property or trade their share of their home and buy a cheaper home outright. The GLA has been working to address mobility issues by ensuring that shared owners are eligible to buy another shared ownership property and also by encouraging individual boroughs to time-limit any eligibility restrictions that they may impose that would have the effect of restricting the movement of shared owners across borough boundaries. It is not yet clear how successful these efforts have been. The Commission believes that promotion of staircasing is important and urges the GLA, boroughs, housing associations and other stakeholders to continue seeking practical ways to make staircasing easier.

Recommendation 3:
The GLA should build on existing research as to why there is a low rate of staircasing in London in order to develop a scheme that eliminates up-front staircasing costs and allows a gradual progression towards full ownership. If this exercise is successful the GLA should consider whether such a scheme can be integrated into the terms of the standard shared ownership lease. In addition, the GLA should monitor carefully whether the incidence of shared ownership resales and purchase of shared ownership properties by existing shared owners are at levels that suggest that their recent measures to improve mobility have been successful. The GLA should be prepared to take further action if needed.

Promoting intermediate housing
Shared ownership is necessarily a fairly unfamiliar and complex product and this can limit its uptake. The Commission calls on the government, the GLA, local

authorities, housing associations and other interested parties to review the promotion of intermediate housing products and also examine whether further simplification or standardisation would be helpful in gaining acceptance from potential users, providers, lenders and investors.

Recommendation 4:
Government, the GLA. local authorities, housing associations and other stakeholders should review the promotion of intermediate housing products, in particular shared ownership. The Commission suggests that they should:

- Ensure that the key features of shared ownership and other products are communicated effectively to households and that those products are regularly reviewed.

- Ensure that there is regular liaison with the Council of Mortgage Lenders and with lenders themselves so that shared ownership and other intermediate products requiring mortgage finance are understood by lenders and that their key features are acceptable.

- Ensure that intermediate products are effectively communicated to the investor sector and that investor feedback is taken into account in shaping products on an ongoing basis.

Intermediate rent
As already indicated, there are particular challenges to providing intermediate housing in London's most expensive areas – even a shared ownership home is now unaffordable to intermediate earners and all but those at the very top of the intermediate range will be unable to afford an intermediate rent set at 80% of market rent. At the same time, these areas are often the most polarised in terms of income

distribution. Against this background the Commission believes that it is important that boroughs and other housing providers develop a housing offer that helps ensure these areas remain broadly balanced and economically resilient. This will need to include intermediate housing that works for people across the intermediate earning range. While shared ownership and discounted market sale might both have a role to play, intermediate rent will tend to offer the best deal to housing providers and investors.

> Recommendation 5:
> Local authorities and other housing providers should make appropriate use of intermediate rent products as well as those offering a route towards low cost home ownership. Intermediate rent policies should be offered at a range of levels to meet the needs of different types of household and households confronting expensive locations.

Currently most intermediate rent is offered at a flat rate – while only those on intermediate earnings are eligible for intermediate rental housing, every household paying intermediate rent tends to pay much the same rent on a similar property in the same area, regardless of their earnings. The Commission would like to see a greater testing of flexible rent policies – tenants paying different rents in line with earnings – on the grounds that flexible rent is fair and best adapted to securing intermediate housing objectives, including the promotion of mixed communities. The Commission believes that these can be designed in a way that does not penalise tenants whose earnings rise.

> Recommendation 6:
> The GLA and individual local authorities should promote and test flexible intermediate rent models, with rents adjusted to household income. The case for a flexible approach is particularly strong in the more expensive areas of London.

Higher earning social tenants

The government is proposing to introduce reforms requiring that higher earning social and affordable tenants – in London, those earning above £40,000 – pay market rents or close-to-market rents. This policy could result in some tenants in more expensive areas having to give up their homes, so encouraging further income polarisation. The Commission believes that boroughs and other housing providers should explore if and how they might offer these tenants the option of intermediate rent or intermediate home ownership.

> Recommendation 7:
> Boroughs and other housing providers should explore how they might offer higher earning social tenants, especially those who could lose their home as a result of new 'Pay to Stay' policies, the option of intermediate rent or intermediate home ownership.

A role for employers?

Many employers, both nationally and in London, used to offer their employees free or discounted housing as part of their remuneration. The capital is dotted with properties that were once built by the Church, business and public services for their workers, but most of these have now been sold off. Employer supported housing has become much less common and the Commission appreciates that it brings challenges. For one thing, London's work force has become more mobile – it is much less common for people to spend decades, let alone a lifetime, in a job. Nevertheless the Commission identified some interesting examples of employers getting back into the business of helping their staff secure affordable housing. Many universities for instance are helping with their academics' housing costs – either through subsidised rents or supporting them in buying a home – and at least one city firm is doing the same. The Commission would like to see more employers investing in homes for employees, especially where proximity of workers' homes to the workplace is of importance.

Savills furnished the Commission with a model for an employer-backed shared ownership scheme that would help employees buy a share in a home that they otherwise could not afford, and help the employer attract and retain valuable workers while making a good return on its investment.

> Recommendation 8:
> The Commission urges employers across London to explore the costs and benefits of offering employer-sponsored intermediate housing and, where a good business case can be made for such housing, offer it.

Conclusion

Rising housing costs are putting huge pressure on London's modest earners and mean that a growing number of working households are struggling to secure decent accommodation. Government is introducing the most fundamental reforms to affordable housing in a generation. The implications for London are far from clear but the Commission urges government to ensure that reforms do not result in a decline in provision of affordable housing in London, including housing for those on modest incomes.

1

INTRODUCTION

London is a great, economically dynamic world city, attracting talent from across Britain, Europe and the world. It drives much of the UK economy. But its success comes at a price. It is no secret that the capital faces a severe shortage of housing and that as a result house prices and rents have gone up. On present trends, this pattern looks set to continue: London's population is projected to increase rapidly over the coming decades and if recent experience is anything to go by, new supply will continue to fall short of increased demand.

Of course not everyone is losing out. Those lucky enough to own a home have seen its value rocket – London is full of homeowners who are sitting on small or not-so-small fortunes. But just as there are many who have done very well from rapidly rising housing costs, there are others who are suffering. London's housing crisis has hit the most vulnerable Londoners hard. Homelessness and overcrowding have got worse, as has the contribution that housing costs make to poverty in London.[1] 11.5% of households in London are now overcrowded, compared to 7.5% in 2010.[2]

But the housing crisis has also made life increasingly difficult for many Londoners on low-to-middle incomes. As Centre for London set out in its report *Hollow Promise*, while modest earners across the country have seen their living standards squeezed over the last decade, the squeeze has been much greater in London.[3] Earnings for this group have hardly gone up at all, while essential living costs have increased dramatically.[4] This is true of transport, childcare and utility costs, but it is

1. London's poverty rates goes up from 16% to 28% once housing costs are taken into account. The comparable figures for the UK as a whole are 16% before housing costs and 21% after. 2010/11-2012/13 Family Resources Surveys, available from www.gov.uk/government/collections/family-resources-survey--2
2. Integrated Housing Survey, ONS 2010 and Overcrowding and Under-occupation in England and Wales, ONS, 2014
3. Leadbeater C, *Hollow Promise: How London Fails Its Modest Earners and What Ought to be Done About It*, Centre for London, 2014
4. Theseira M, *Stressed: A Review of London's Private Rented Sector*, Centre for London, 2013

above all true of housing. Housing costs have gone up far faster in London than the rest of the country and much faster than earnings.

The Commission was set up to look at what more could be done to help London's housing offer for intermediate earners and in particular to look at what more could be done to improve and perhaps expand what housing experts call 'intermediate housing' – that is sub-market-priced housing for people on low-to-middle incomes. Intermediate housing was first introduced in the 1970s and has grown slowly and in a rather non-strategic way since then.[5] As this report sets out, both national and London government and local authorities have been busy promoting intermediate housing products in recent years. Nevertheless the scale of the offer appears dwarfed by the scale of the problem and the Commissioners believed that there would be value in an independent review of intermediate housing in the capital.

What do we mean by households on modest incomes? The Commission has chosen to focus on housing solutions for households on earnings above those of social renters but below the GLA household income cap for intermediate housing eligibility of £71,000. In London the GLA caps the maximum household incomes of those households eligible to apply for intermediate housing at £71,000 for those accessing one- or two-bedroom properties and £85,000 for those accessing seeking three bedrooms or more.

Based on figures from the Family Resources Survey, 44% of households in London have a gross household income of between £25,000 and £71,000. This represents a total number of 1,505,000 households. Though the many households have incomes that could in theory entitle them to intermediate housing, most will be excluded on other grounds. Many householders already own a home or have other secure, decent and affordable accommodation. Many others can and do

5. de Santos R, *Homes for Forgotten Families*, *Shelter*, 2013

draw on family support – the bank of mum and dad. Moreover, many modest earners are simply not attracted to intermediate products – or at least not intermediate home ownership. They aspire to buy a home on the open market and will move and/or save until they are in a position to do so.

Throughout our deliberations the Commission was acutely aware that intermediate housing tends to involve a public subsidy. Public subsidies always need justification but never more than at a time when public money is in very short supply and public services and benefits are being cut. Commissioners were particularly concerned to affirm that they would not want to see any reallocation of social housing budgets to intermediate housing given the role that social housing plays in protecting the most vulnerable families and individuals in our community.

This said, the Commission does believe that a good case can be made for maintaining the subsidy involved in intermediate housing and that it can be designed to work well for many households. As we set out in chapter 2, intermediate housing has an important role to play in maintaining London's historic social mix and community stability. It can help boost London's economic strength and competitiveness. Above all it can help keep what one commissioner referred to in our deliberations as the 'promise of London' – the promise the city has long made that people who work hard and contribute to the city can prosper in it. And it's important to remember that although intermediate housing tends to involve public subsidy, the sums involved tend to be modest, at least relative to social housing, so you get more housing per pound of the tax payer's money spent. Indeed, we set out proposals that would see many higher earning social tenants paying higher 'intermediate' rents on their properties, or taking shared ownership in them. In these cases, an extension of intermediate ownership would reduce subsidy not increase it.

One final point. The government elected in May 2015 appears set on radical reform to housing policy, especially affordable housing policy. Among other measures, the government is committed to:

- Giving housing association tenants the right to buy their homes on the same terms as local authority tenants;

- Reducing social and affordable rents by 1% per year;

- Obliging higher earning social tenants – in London those earning over £40,000 – to pay higher rents;

- Reducing the overall benefit cap from £26,000 to £23,000 in London and £20,000 elsewhere;

- Freezing the Local Housing Allowance for four years;

- Introducing the Starter Homes Initiative intended to build up to 200,000 homes at 20% discount.

Clearly these and other policies are likely to have profound implications for the Greater London Authority (GLA), London boroughs and affordable housing providers, not to mention many Londoners. The Commission adds its voice to those who are calling on government to ensure that its policy reforms don't lead to a diminution in affordable housing in London or a shift of spending on affordable housing away from the capital. While the Commission does not believe that anything in these reforms alters the fundamental analysis and principles of this report, recommendations are made in the context of a shifting policy background. Moreover, the full details and ramifications of these policy changes are yet to be seen at the time of going to print.

2

LONDON'S HOUSING SQUEEZE

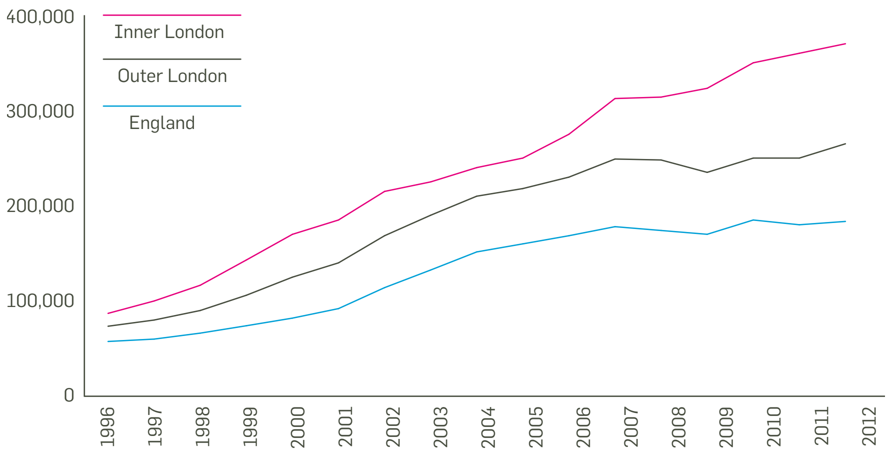
This chapter offers an overview of recent trends in housing costs in London and how these have affected accessibility of home ownership and suitable rental accommodation for Londoners on modest incomes.

House prices

As already stated, property prices have risen extraordinarily fast in London over the last few decades. Apart from a brief interruption during the banking crisis, prices have risen continually, and during the past three years the trend has accelerated. By May 2015 the average price of a home in London was £475,961. This compares with an average price for England and Wales of £179,696.[6] Prices in London have risen much faster than for the country as whole. In addition, there is a significant difference between Inner and Outer London.

High prices do not in themselves imply poor affordability, since earnings can vary from region to region. Nevertheless, London house prices are 165% higher than in the country as a whole, while earnings are only 23% higher.[7]

Figure 1: Median house prices inner London, outer London and England 1996–2012
Source: DCLG/Land Registry



6. DCLG/Land Registry
7. ASHE, 2014 www.ons.gov.uk/ons/dcp171778_385428.pdf Retrieved 29.09.15

Analysis of affordabilty trends: six first time buyers on modest incomes

The Commission undertook research on trends in housing affordability for those with modest incomes. We took six households on modest incomes and charted the relationship between their earnings and house prices in four London boroughs over the last 10 years (2004–2014). In each case the income we attributed to the household is based on median income for a household of that type. It is entirely feasible that those households looking for terraced houses and larger properties are households with children, highlighting the need for properties that are both affordable and suitable for families.

This is not a formal affordability assessment. It is, rather, an illustration of the changing position of different individuals earning the London average for their occupation over time and in different parts of London.

The six illustrative households we examined were:

- A full-time female primary school teacher seeking a flat and earning a salary of £37,820.
- A full-time male electrician and their partner who is a full-time female chef, with a joint income of £58,401, seeking a terraced house.
- A full-time male advanced specialist nurse earning £39,811, seeking a terraced house.
- A full-time female bus driver and partner who is a part-time female sales assistant. Joint income: £40,872, seeking a terraced house.
- A full-time female hospital doctor earning £61,152 and seeking a flat/maisonette.
- A full-time male solicitor and a full-time female journalist earning £98,218 seeking a semi-detached house.

The four boroughs we chose were:

- Kensington and Chelsea; the most expensive borough of all in terms of price and price/income ratio in 2013–14;
- Haringey; an inner London borough close to the middle of the affordability range in terms of the ratio of prices to incomes in 2013–14;
- Enfield; an outer London borough close to the middle of affordability;
- Barking and Dagenham; the borough with the lowest prices and price/income ratio in 2013–14.

In each case we looked at the relationship between incomes and average local house prices (rather than rents). We took as a measure of affordability of 35%

of household income – in other words, we posited that any borough in which a household would have to pay more than 35% of their after-tax income on a typical mortgage was unaffordable. The picture that emerged from our research was alarming. All the households have seen their position decline, as buying a house has become progressively less affordable across all boroughs. The appendix to this report sets out the full findings, but some of the more striking findings are that:

- Kensington and Chelsea is now unaffordable for all our households, and has been unaffordable for all households except the hospital doctor for the entire period covered.

- Only the two highest earning households – the doctor, and the solicitor and journalist – can now afford to live in Haringey, but they will be priced out of the market in 2016 on present trends.

- On present trends both the nurse and the teacher households will find London unaffordable in two years, while the electrician household will only be able to afford Barking and Dagenham, and Enfield.

It is worth noting that these findings probably underplay the affordability challenge in London. All of our illustrative households have a sole or higher earner in the top 50% of earners, and we assumed that all the households were able to raise the typical first-time buyer deposit of 19%. It should also be noted that the highest earning household, the doctor and solicitor, has an income that exceeds the GLA intermediate housing eligibility cap of £85,000 for a property of two or three bedrooms.

The increase in house prices in London has gone hand in hand – at least in the last decade – with tighter restrictions on mortgage lending. These developments have had a profound effect on home ownership and especially on the profile of first time buyers. Nationally, home ownership increased from the early 1950s. By 2001 69% of households in England and Wales owned a home. However, the decade between 2001 and 2011 saw the overall population of owner-occupier households fall from 69% to 64%. In London, owner occupation dropped from 56.5% to 49.5%.[8] The younger generation largely bear the brunt of this trend, as they struggle to afford to buy a home at all, or are forced to defer buying a home until they are older. In 1991, across England and Wales, 67% of the 25 to 34 age group were homeowners. By 2011/12, this had declined to 43%.[9] London has the highest average age for first-time buyers of any region, at 32. Those who do buy a house are increasingly likely to have financial assistance from their parents. In 2005, 68% of first time buyers purchased their home without assistance, compared to just 29% in 2011.[10]

Renting in London

The decline in home ownership has led to a corresponding rise in people living in the private rented sector, which has now overtaken the social rented sector as the second largest tenure type in the capital. The proportion of London households in the private rented sector increased from 14% to 30% between 2003–04 and 2013–14.[11] The proportion of private renting households with children has increased from 19% to 29% between 2001 and 2011.[12]

High house prices and increased demand in the private rented sector have fed through into higher private rents. Rents in London rose by 3.8% in the year to June 2015 compared to 1.7% in England as a whole.[13] As a proportion of household income (excluding Housing Benefit), rental costs have increased overall from 21%

8. ONS, 2013, *2011 Census Analysis, A Century of Home Ownership and Renting in England and Wales* www.ons.gov.uk/ons/rel/census/2011-census-analysis/a-century-of-home-ownership-and-renting-in-england-and-wales/index.html Retrieved 29.09.15
9. ONS, *Housing and Home Ownership in the UK, ONS 2015* http://visual.ons.gov.uk/uk-perspectives-housing-and-home-ownership-in-the-uk
10. Council of Mortgage Lenders, Regulated Mortgage Survey www.cml.org.uk/news/390/ Retrieved 29 Sep 2015
11. English Housing Survey Headline Report 2013–2014, DCLG, 2015 p.13
12. Office for National Statistics, 2011 and 2001 Census: Aggregate data (England and Wales) Tenure by household composition. Downloaded from Nomis on 12 October 2015
13. London Fairness Commission, *Interim Report* 2015

in 2001/02 to 27% in 2010/11.[14] The increase in rents has been particularly steep for lower- and middle-income groups. Households on modest weekly incomes of £400–£549 before tax have seen the costs of their rent increase by 14 percentage points over the last decade. People in this group paid a full 41% of their income in rental costs in 2010/11.[15] The rise in rents in the capital has wide-ranging implications for individuals living in the sector.

- Over half of renters in one survey considered paying rent to be the most significant problem they faced.[16]

- One in four Londoners in the private rental sector live in accommodation that does not meet the Decent Homes Standard.[17]

- Overcrowding in the sector has risen from 5% in 1995/6 to 13% in 2011/12.[18]

Wealth

Increasing housing costs have had a profound impact on the way that wealth and opportunity are distributed across the capital. As the proportion of Londoners owning a home has declined, and house prices and rents have increased, so property wealth has become concentrated in fewer hands. The 30% of households with least wealth, hence very likely not to own property, have increased their wealth by a maximum of £21,000

14. Theseira M. *Stressed: A Review of London's Private Rented Sector* Centre for London, 2013
15. As with house prices, rents vary widely between boroughs. To take the two extremes, the average monthly two-bedroom rent in Kensington and Chelsea was £2,622 in Q3 2014 whereas the rent for a similar property in Barking and Dagenham was £850; a figure which is still 41% above a comparable rent for England as a whole
16. www.generationrent.org/generation_rent_decide_2015_election Retrieved 01.10.2015
17. *Housing in London, The Evidence Base for the London Housing Strategy* (Greater London Authority, December 2012)
18. GLA, based on DCLG data from Survey of English Housing and English Housing Survey. Rolling three year averages used

between 2006 and 2012, while households at the 40th, 50th and 60th percentiles (very likely to have property wealth) have increased their wealth respectively by £53,000, £65,000 and £70,000.[19] Rising property prices and falling home ownership have become an increasingly important driver of inequality in London. Close to 3 million Londoners (37%) have no property wealth at all, while just over half a million (8%) have property worth £500,000 or more.[20] Access to assets is important in securing access to homeownership, and for those without access to assets, funding a deposit in order to secure a mortgage on a home is a particular problem. Research by Ipsos MORI and the Halifax Housing Market Confidence Tracker indicates that inability to raise a deposit ranked as the most common obstacle to home ownership, above finding an affordable home.[21]

Case study: affording a mortgage – Becca, financial services worker

I graduated from university in 2010 and went on to complete a post-graduate law degree. I moved into finance and commercial property immediately after, and have been working in this sector for almost five years. Two years ago, I bought a one-bedroom flat in Wandsworth. My job put me in the top quartile of earnings, but I would not have been able to afford the property had my parents not refinanced their house. I now find myself feeling rather overwhelmed by the cost of living in London, especially my mortgage payments. I am over-levered and living beyond my means. I am planning on leaving London to move to Uganda. I am not yet sure if this is a permanent move, but I do know that when I return to the UK, coming back to London will not be an option.

That finding a deposit outranks finding an affordable home is striking, but perhaps not surprising given London's housing situation. First-time buyers in London borrow on average 3.86 times their income with the average loan amounting to £213,750 according to the Council of Mortgage Lenders. The average

19. Tooley Street Research ONS, Wealth and Assets Survey, Waves 1, 2, 3, 2015. Figures are given in nominal terms. This research forms part of a forthcoming Centre for London research project on inequality to be published in early 2016
20. ONS 2014
21. www.ipsos-mori.com/Assets/Docs/Polls/ipsos-mori-halifax-housing-tracker-charts-September-2015.pdf Accessed 14.10.15

household income of a London first-time buyer (FTB) is £55,687pa.[22] The average FTB deposit is 19% of the property value. This means that a prospective buyer on median London earnings would have to save their entire pre-tax earnings for over two and a half years to raise the deposit on an average London house. Even a deposit on a flat in Barking and Dagenham would require saving all their pre-tax earnings for almost one and a half years. They would have to save their entire earnings for eight years to raise a deposit to buy a house in Kensington and Chelsea.

In summary, dramatic increases in housing costs have hit many lower- and middle-income Londoners very hard. It has become increasingly difficult for those on modest incomes who don't own a home and can't call on parental help, to buy a home in London, with the result that more and more of this group are living in the private rented sector. But rents have gone up too, undermining living standards and making it ever harder for those that want to save for a mortgage to do so.

22. Council of Mortgage Lenders, 2015 www.cml.org.uk/news/press-releases/london-house-purchase-lending-down-16-year-on-year-in-first/

3

THE CASE FOR INTERMEDIATE HOUSING

As the last chapter set out, rising housing costs are hitting those on those on low-to-middle incomes hard.

But what can London do to help them? Clearly and most fundamentally we need to increase the supply of housing in London. But what about the role for intermediate housing, understood as subsidised housing for those on modest incomes who are struggling to buy or even rent on the open market? How can the subsidy for intermediate housing be justified and what objectives does it serve?

The Commission identified three distinct justifications for the subsidy generally involved in intermediate housing.

Delivering on London's promise

First and perhaps most fundamentally, intermediate housing can help make housing more affordable for low-to-middle income earners. As *Hollow Promise* documented, a growing number of Londoners who work hard and contribute to the success of the city find that they simply can't make ends meet. That is deeply undesirable in itself. But there is a real chance that unless we succeed in making London work better for modest earners, the politics of the city will turn sour. As already set out, intermediate housing can take a variety of forms, including sub-market rent. All these forms can help realise the aspirations and ambitions of modest earners for a reasonably priced and decent place to live. But intermediate home ownership is particularly relevant here. Many surveys have shown that the great majority of people aspire to own their own home. Though social commentators often hypothesise that the younger generations are far less 'obsessed' with home ownership than in previous years, survey evidence suggests that preference for home ownership amongst those aged 25–34 has not dropped below 80%.[23] Again it's often suggested that the UK is an outlier in that it has unusually high levels of home ownership – but

23. www.cml.org.uk/news/508/

this too is not borne out by the evidence.[24] Moreover people's desire to own their own home is for the most part a reasonable one. Home ownership has a range of personal benefits. Parents with young children rightly value the stability and security that ownership tends to provide in contrast to renting. The purchase of a home provides the owner with a capital asset – one they can use to help pay for their retirement or other needs. Many of us enjoy investing time and money in home improvements or find a creative outlet in altering and furnishing our own home.

But where a generation ago, people on low to moderate incomes could reasonably expect to be able to afford a home at some point in their life – perhaps buying a flat or small house when young, moving into a larger one as earnings and family size increased, and then scaling down at retirement – that is, as we have seen, no longer the case, especially not in London. Intermediate home ownership products can help ensure that London is able to deliver on its promise to its modest earners.

A competitive city

The second justification for intermediate housing is provided by its role in keeping London competitive and boosting its economic success. True, London's economy has grown faster than that of any other UK region in recent years, but high house prices make doing business – and running public services – in London more expensive.

Of course high housing costs are a problem at every level of the economy. They make it harder, for instance, for law firms and engineering consultancies to attract and retain high earning talent. But the dramatic increase in costs at the bottom and middle of the housing market is arguably hitting London's economy particularly hard. It makes it more difficult for employers based in the capital to attract and retain talent. And it risks

24. http://appsso.eurostat.ec.europa.eu/nui/submitViewTableAction.do

Case study: leaving London – Ed's story

I moved to London in 2004 and began working as an Engineer in a South London roofing company. My salary was around £25k, about 40% of which was going directly on rent. For the next seven years I lived in a variety of shared houses, mostly in Zones 1 & 2, saving very little and enjoying everything London has to offer. I then met my future wife, and in the same year we moved into a 40m², one-bedroom flat in Islington. It was a former council flat and in a pretty poor state. The insulation had deteriorated and our heating bills were rather large. Altogether this cost us about £1,400 per month, which made up about 50% of our combined income. During this time we also looked at buying a flat but there was simply no option that we could see of affording a mortgage, given my limited savings.

When we got engaged and began thinking of our future, we had to face the fact that we would need to leave the UK and move to my wife's homeland of Germany. To put it simply, in Germany our salaries are almost double what they were in the UK, and our rent is almost halved. We rent a beautiful, insulated 100m² two-bedroom flat in the centre of our city and it only takes up about 20% of our combined income. We are now married and have a baby on the way. We save about 50% of our income each month for the deposit on a new detached house which we hope to build in about four years.

Leaving London was a terribly difficult decision for us, to leave all of our friends, jobs we loved, and the grand old city itself. But in the end we simply couldn't imagine ourselves voluntarily staying under such dire financial strain and, with heavy hearts, we left at the end of 2012. Looking back, I don't regret the decision, but it is sad that we really saw no option to stay and start our family there.

squeezing out the younger entrepreneurs and innovators who are so important to city economies.[25]

The London Housing Strategy, which sets out the Mayor's vision for housing in London makes it clear that a shortage of housing could jeopardise London's economic success.

> *"It is estimated that half of all employment growth between 2010 and 2020 in London will comprise professional, senior manager or associated professional and technical jobs, accounting for around 80% of all earnings. Although these earnings*

25. *Housing Policy in High-Density Global Cities*. Dolphin Square Foundation, Policy Foundation 2014

are forecast to rise faster than average incomes, there could be a total shortfall of between 50,000 and 90,000 homes for professionals in London over the next ten years. Failure to provide homes for this group could have a serious negative impact on London's economy, estimated at up to £85 billion over the decade up to 2025."[26]

Concerns around the impact of housing on London's economy have also been voiced by the private sector. A recent CBI survey saw nearly two-thirds of respondents (61%) list housing costs and availability as having a negative impact on recruitment of entry level staff, with half of respondents saying the same thing for mid-level managerial employees.[27] A recent survey of London employees revealed that 41% of those struggling with costs would consider relocating out of London and taking a job in another city. Moreover, the proportion of those considering relocating from London is highest among the 25–39 age group at 50%.[28]

Housing affordability is affecting not just recruitment and retention of employees, but also their working practices. Census data shows that in-commuting to London from outside London increased by 9%, (73,000 people) between 2001 and 2011.[29] Businesses report that this increase in commuting is affecting employee performance. A 2014 business survey revealed that one third (33%) of London firms believed the lack of affordable housing to rent or own local to their place of work was affecting employee productivity and punctuality.[30]

26. GLA (2014), *London Housing Strategy 2014* www.london.gov.uk/sites/default/files/Draft%20London%20Housing%20Strategy%20April%202014_0.pdf
27. www.cbi.org.uk/media/2712430/london-business-survey-april2014.pdf
28. http://londonfirst.co.uk/wp-content/uploads/2014/09/Moving-Out-Final.pdf
29. Transport for London, Travel in London, Report 7, 2014. http://content.tfl.gov.uk/travel-in-london-report-7.pdf
30. London Chamber of Commerce and Industry, *Getting our House in Order*. London Chamber, 2014

Recruitment and retention in the public sector: view from a headteacher of a large secondary school in inner London

I have a number of staff who now travel longer distances – from Kent and Essex – to get to work as they have moved further out of London to get affordable family sized accommodation. We have lost three members of staff in the past year due to their frustration at travel times and the impact this was having on their quality of life. I am aware of other staff looking for posts nearer home and willing to consider a drop in salary to secure a post that requires less travel time.

Housing is increasingly a topic of conversation among younger staff as our more mature staff were already in the housing market before prices escalated. We find increasingly that younger staff don't mind shared accommodation for a couple of years, however once they wish to settle down more formally, even with two wages coming in, housing in London is out of reach; so if there are family ties or the offer of promotion outside of London, they choose to make the move.

The increase in travel times is a noticeable factor when we recruit for less well paid jobs in admin or support. People who are qualified for the posts increasingly cannot afford to travel to the school and sustain themselves on lower end salaries. In many ways I think we will see lower paid jobs in London hit hardest as people just cannot afford to travel into London to work.

It is important to stress that it is not just private sector businesses that are being hit by high housing costs. They are increasingly a challenge for the capital's hard-pressed public services. And these services tend to rely disproportionately on low-to-middle income earners – the people at whom intermediate housing is aimed. The private sector has a much wider spread of earnings, with more low-paid and high-paid workers, with public sector wage distribution becoming more compressed in recent years.[31] The private sector also tends to have more flexibility in relation to remuneration. London's NHS faces growing challenges in retaining and recruiting clinicians and caregivers. Vacancy and turnover rates for nurses have increased over the last three-year period and in parts of the capital are now between 15% and 20%.[32] Like many private sector workers, a large number of public sector workers end up commuting into London,

31. *Public Sector Pay in the UK*, Institute of Fiscal Studies www.ifs.org.uk/uploads/publications/comms/r97.pdf
32. Royal College of Nursing London, *Safe Staffing Report 2014*, RCN London

in part because housing costs tend to be much lower outside the capital. Over half of London Metropolitan Police officers live beyond London, with just 1,100 of the 15,000 officers who live in London working in their borough of residence in 2013.[33] Long commutes are a significant challenge for the city's emergency or 'blue light' services, who need a workforce who can be on hand when emergency strikes.

Mixed income and stable communities

The third and final justification for the subsidy involved in intermediate housing appeals to the role it can play in fostering mixed income and stable communities. One of the qualities that long defined London was the way that households of different tenures and varying incomes have lived in close proximity. Yet recent developments appear to threatening this social mix.

Clearly there is only a limited role that policy can play in sustaining residential social mix.

As urban economists have often noted, a city's demography will largely be the result of the decisions that individuals make as to where they want to live.[34] "Residential segregation on the basis of both income and ethnicity is a universal feature of all cities in which people have a measure of control over where they live."[35]

Nevertheless, the general public support mixed income developments. Over half of Londoners (52%) believe that local authorities should encourage mixed developments for households from all incomes.[36] Such communities are generally deemed successful, especially when the obvious dangers in allowing segregation to proceed unchecked are taken into account.[37]

33. Question n. 2383/2013 to the Mayor of London Boris Johnson by London Assembly Member Jenny Jones on 17/07/2013, Borough police officers who live in London
34. Cheshire, Nathan, Overman *Urban Economics and Urban Policy, 2014*
35. Cheshire, P. (2007). *Segregated neighbourhoods and mixed communities*. http://eprints.lse.ac.uk/19446/1/Segregated_neighbourhoods_and_mixed_communities_-_a_critical_analysis.pdf: Joseph Rowntree Foundation
36. Theseira M. on behalf of London Fairness Commission *Is London a fair city?* 2015
37. *Foundation*, JRF (2006) www.jrf.org.uk/report/mixed-communities-success-and-sustainability

What role then can intermediate housing play in achieving social or in particular income and tenure mix? The Commission identified two rather different roles. First, it could help prevent what is sometimes described as the 'hollowing out' of central London, as the most expensive parts of the city become unaffordable to all but the very rich. Of course, this phenomenon has been much discussed, with commentators worrying about high land values and welfare reforms putting pressure on boroughs to house social tenants in cheaper areas. The Commission shares some of these concerns. Yet it also notes that social homes currently make up almost a quarter of homes in London and a third in central London. Most of the tenants living in these homes will be on very low incomes. By contrast very few people on modest incomes who don't already own a home, can now afford to live in the central parts of the city. Westminster, for example currently has 1,600 intermediate homes compared to over 27,000 social rented homes.[38] Therefore, it is the hollowing out of those on low-to-middle incomes that is inner London's greatest challenge and the biggest threat to preserving the city's historic mixed-income neighbourhoods, which are felt to be such an important part of London's character and attractiveness. At the same time, there are concerns that the Government's proposals to force the sale of high value Council homes to fund the extension of Right to Buy for Housing Association tenants could run the risk of London becoming the sole preserve of the very rich.

Westminster, and Kensington and Chelsea in particular, have experienced wealth polarisation in recent years. Westminster has seen the largest reduction in middle income households of all London boroughs. In 1980, almost three quarters of households in Westminster were classified as middle income – that is they are wealthy enough to afford basic

38. London Borough of Westminster *Westminster Housing Strategy: Draft for public consultation* June 2015

necessities, but not wealthy enough to be liable for inheritance tax. By 2010, this figure had dropped to 36% – equivalent to a little below 23,000 households. The reduction is equally attributable to rises in the numbers of poor households and of wealthy ones. In 1980, middle-income households represented 58% of all households in Kensington and Chelsea, and poor households 28%. Just 14% of households (7,500) were wealthy. By 2010, the percentage of wealthy households had risen to 36% (26,000) and the percentage of middle income households had declined to 30.4% (24,000 households). Those on middle incomes now represent the smallest grouping in Kensington and Chelsea.[39]

Clearly intermediate housing can help address the development of 'dumb-bell' communities in boroughs like Kensington and Chelsea and Westminster, and enrich their social mix.

If high property prices risk sucking the life out of parts of central London, other parts of the city face a different problem. Over the last decade or so, some areas, mainly in outer London, have seen a decline in owner-occupied homes and a large increase in privately rented housing – many rented by the room and often on short term lets. Barking and Dagenham has seen its share of households in the private rented sector increase from 6% to 18% from 2001 to 2011, with other outer London boroughs such as Greenwich and Enfield seeing increases from 10% to 20%, and 10% to 23% respectively.[40] This has had the effect of eroding neighbourly life and weakening local social capital. The Commission recognises that the private rented sector has a valuable role to play in London, but we also believe that intermediate housing can help promote community stability and social capital in areas suffering from high levels of churn in the private rented sector, and that this is particularly true of intermediate home-ownership.

39. www.londonmapper.org.uk/analysis/poverty-and-wealth-1980-2010/
40. ONS Census 2011 Tenure, Households Local Authorities, accessed via Census Information Scheme, GLA intelligence. Retrieved on 14.10.2015

Thus the Commission suggests that there are reasonable grounds for taking action to ensure that London's communities do, as far as possible, include a mix of incomes and tenures rather than allowing segregation to proceed unchecked. The Commission believes that the ability of London to flourish as a city with a sense of common identity and purpose is sufficiently important to help justify the subsidy that intermediate housing tends to entail. Indeed, we warn that there could be real dangers in allowing London to become polarised, with the wealthy elite and low-income tenants in the centre and other highly desirable neighbourhoods, and those on modest incomes living parallel lives in rented accommodation in poorer, outer areas.

The economic benefits of mixed income communities – One Church Square

Dolphin Square Foundation carried out research into the wider economic benefits of intermediate housing, using the Dolphin Living development at One Church Square as a case study. Their report argues that London's economic, social and cultural mix is vital to the success of the capital's economy. While economic policy champions diversification, particularly in the wake of the financial crisis, these efforts risk being undermined by the rising cost of living, specifically housing.

Using a cost-benefit model of DSF provision of intermediate rent at One Church Square, the Foundation calculate the economic and social value of a DSF development housing 40 individuals at approximately £600,000 per annum. This figure is based on the spill-overs and productivity derived from ensuring a range of occupations are represented in central London. DSF argues that developments such as theirs play an essential role in retaining the economic and socio-demographic diversity that is central to the continued prosperity of the capital.[41]

Intermediate housing: fair and affordable?

So much for the justifications for intermediate housing. Before we turn to looking at ways London's intermediate housing offer can be improved, we need to counter an objection from another direction. If intermediate housing is housing offered to those who are not eligible for social housing and can't afford market housing then clearly a very large and growing proportion

41. For more information, see http://dolphinliving.com/wp-content/uploads/Dolphin-Square-Foundation-Housing-Policy-Report-2014.pdf

of the population might be eligible for it. As previously noted, around 44% of London households have an income between £25,000 and £71,000. This lower limit is more than is likely to be suitable for social housing, and the upper limit is below the GLA's eligibility criteria. So, the objection goes, either the subsidy that is involved in intermediate housing will be vast and so unaffordable, or it will necessarily only meet a small proportion of those who would like to access it, in which case any allocation of it will seem arbitrary or unfair.

The Commissioners felt that this argument moves too fast. If we argue that intermediate housing should be focused on those households struggling financially in the private rented sector or in keeping up with mortgage payments, the number of households in the target group falls dramatically to some 70,000 households. Even when taking into account a broader definition of need into account, the number of households suitable for intermediate housing narrows when we factor in the number of households already in appropriate and affordable accommodation. Of the 1,505,000 households with an income between £25,000 and £71,000, 23.6% own their home outright. 13% are in the social rented sector and 2.6% are in intermediate housing. This leaves just over 60% of the cohort either owning a home with a mortgage or living in the private rented sector, representing some 900,000 households. Of course, not all of these households will want to buy an intermediate housing product – either being happy to remain in the PRS, or able to afford a property with the help of parents or by being in a low-cost area.

There are well-established criteria for prioritising households who register an interest in intermediate housing just as there are for allocating social and affordable homes. The GLA for instance states that "Shared ownership or equity loan products are predominantly targeted at first time buyers, with existing owner occupiers ineligible in all but exceptional circumstances."[42] The GLA

42. Mayor's Housing Covenant, GLA, September 2012

identifies the following levels of priority in allocating intermediate housing.

1—Londoners living in social rented housing and people in the armed forces.

2—Londoners who meet the criteria set by their local boroughs. (These will typically include connections to the local area and work in the local area.)

3—Any other eligible first time buyer.

Case study: getting on the housing ladder – Luke, secondary school teacher, 26
I was a freelance tutor and singer renting privately with friends since graduating in 2010. After three years I found I was unable to sustain the costs of renting, which reached up to £800 a month, so I moved back into my aunt's house for six months to save money. I started teacher training last year and found a cheap sublet with friends for just £350 a month, although I have to make sure I'm out of the house if the landlord comes around, and my room is barely bigger than the futon. I am now in full time employment and keen to get onto the housing ladder, but my salary means my budget is capped at £190,000. I looked into shared ownership, but the combined outgoing of mortgage and rent means most properties in any remotely central location are out of reach. In the short term, I'm applying to key worker rent schemes, and in the long term I am planning to buy with two friends, as a combined budget means we should be able to afford a mortgage and also reduce our commuting time.

Conclusion
In sum, though the Commission recognises the need to ensure public subsidy is justified, commissioners concluded that intermediate housing has a valuable role to play in helping low-to-middle earners to a better life, keeping London competitive and promoting social mix and community stability. Local government is more than a service provider. We look to it to shape our local areas, and strengthen the local economy, communal life and quality of place. The Commission believes that intermediate housing is an important localist, place-shaping tool.

4

LONDON'S OFFER

While the need for sub-market housing has been thrown into the policy spotlight by London's current housing crisis, intermediate housing schemes have been in existence since the late 1970s, when London housing associations, notably Notting Hill Housing Association, began offering shared ownership.

Margaret Thatcher's 1979 government implemented a package of low-cost home ownership initiatives, including Home Purchase Assistance and shared ownership, as well of course as giving council tenants a chance to buy their homes (Right to Buy).

New Labour policies built on those of the Thatcher government. But Labour directed additional funding to intermediate housing for key public sector workers – represented by the introduction of the shared equity scheme Homebuy – and placed a new emphasis on creation of mixed communities as a justification for supporting intermediate home ownership.

Both the first Mayor of London, Ken Livingstone, and the current one have pursued their own intermediate policies. Livingstone's 2004 London Plan set out a target that half of all new London housing should be affordable, with 70% social housing and 30% intermediate provision, envisioned overwhelmingly as shared-ownership. The Plan set the household income limit for intermediate housing at £40,000, to be reviewed on an annual basis. The 2004 London Plan also stated that "it may also be appropriate for a borough to set sub-targets for priority groups, such as key workers, within the intermediate provision category."[43]

On his election in 2008, Boris Johnson raised the income limit for family-sized intermediate homes to £77,200. When publishing the first London Plan under his mayoralty in 2011, Johnson rejected the target for 50% affordable housing, opting instead for a numerical target of 13,200 per year in London over the term of the Plan. Johnson altered the targeted breakdown of this affordable housing to 60% for social rent and 40% for

43. Mayor of London, *London Plan 2004*, Greater London Authority, 2004

intermediate rent and sale “in order to give impetus to a strong and diverse intermediate housing sector.”[44]

In 2010 the government introduced the affordable rent model, with the primary aim of reducing the government’s housing bill, by allowing local authorities and housing associations to charge up to 80% of market rates. The Mayor’s affordable housing target is now set at 42,000 homes over 2015–2018. This comprises a target of 60% affordable rent and 40% intermediate housing (primarily shared ownership).[45] This is equivalent to 25,200 for affordable rent and 16,800 intermediate homes over 4 years.

The GLA and local authorities deserve credit for trying to promote intermediate housing and increase resources allocated to it. But all in all London’s housing offer to intermediate earners is extremely modest. Shared ownership makes up only 2% of residential sales. Intermediate housing amounts to less than 1.2% of the housing stock in London – most of it shared ownership. And the best estimates suggest that there are only 1,000 intermediate rents homes – 0.03% of homes in London.[46]

Most intermediate housing in London is provided through one of three ways: it is funded through GLA affordable housing grant; it is funded through Section 106 planning agreements with developers; or it is funded through developments on land owned by boroughs and housing associations. About 40% of shared ownership subsidy currently takes the form of grants, around a third through S106 planning agreements and a quarter through cross-subsidy (usually in the form of housing associations subsidising intermediate housing through the development of market housing). The trend has been to rely less on grant and more on S106 planning agreements. Just 3% of shared ownership subsidy takes the form of discounted land.

44. Mayor of London, *London Plan 2011*, Greater London Authority, 2011. www.london.gov.uk/sites/default/files/LP2011%20Chapter%203.pdf p. 96
45. Mayor of London, *The Mayor’s Housing Covenant 2015–2018 Programme Prospectus*, Greater London Authority, 2013
46. Estimate provided by Redman P, Managing Director, TradeRisks Ltd

Housing Londoners on low-to-middle incomes – what are the options available?

Table 1: Types of Subsidised housing available in London

MODEL	DESCRIPTION	SCALE OF USE	ALLOCATION POLICY
SOCIAL RENT	HOUSING OWNED BY LOCAL AUTHORITIES AND PRIVATE REGISTERED PROVIDERS. GUIDELINE TARGET RENTS ARE DETERMINED THROUGH THE NATIONAL RENT REGIME. IT MAY ALSO BE OWNED BY OTHER PERSONS AND PROVIDED UNDER EQUIVALENT RENTAL ARRANGEMENTS TO THE ABOVE, AS AGREED WITH THE LOCAL AUTHORITY OR WITH THE HOMES AND COMMUNITIES AGENCY. SOCIAL RENT IS NOT USUALLY COUNTED AS A FORM OF INTERMEDIATE HOUSING, ALTHOUGH A PROPORTION OF SOCIAL TENANTS DO IN FACT HAVE RELATIVELY HIGH INCOMES.	APPROXIMATELY 780,000 UNITS.[47] ACCOUNTS FOR 22.97% OF LONDON'S HOUSING STOCK. UNEVENLY DISTRIBUTED ACROSS LONDON – 32% OF STOCK IN INNER LONDON AND 16.7% IN OUTER LONDON.	LOCAL AUTHORITIES SET THEIR OWN QUALIFICATIONS CRITERIA, BUT ARE REQUIRED BY LAW TO INCLUDE PRIORITY GROUPS UNDER A POLICY KNOWN AS 'REASONABLE PREFERENCE'. THIS MAY INCLUDE THE HOMELESS, THOSE IN INSANITARY OR OVERCROWDED CONDITIONS, THOSE NEEDING A HOME ON MEDICAL OR WELFARE GROUNDS AND THOSE WHO WOULD SUFFER HARDSHIP UNLESS A MOVE TO A PARTICULAR LOCALITY IS ACHIEVED. CERTAIN GROUPS, SUCH AS FORMER MEMBERS OF THE ARMED FORCES, WILL NORMALLY RECEIVE PRIORITY.
AFFORDABLE RENT	HOUSING IS LET BY LOCAL AUTHORITIES OR PRIVATE REGISTERED PROVIDERS OF SOCIAL HOUSING TO HOUSEHOLDS WHO ARE ELIGIBLE FOR SOCIAL RENTED HOUSING. AFFORDABLE RENT IS SUBJECT TO RENT CONTROLS PROVIDING THAT THE RENT IS NO MORE THAN 80% OF THE DWELLING'S MARKET RENT.	APPROXIMATELY 17,000 UNITS (INCLUDING CONVERSION FROM SOCIAL RENT).[48]	AFFORDABLE RENT FOLLOWS THE SAME ALLOCATIONS POLICY AS SOCIAL RENT, IN THE FORM OF LOCAL AUTHORITY NOMINATIONS.
EQUITY LOAN INCLUDES HELP TO BUY PRODUCTS	AN INTEREST-FREE OR LOW-INTEREST EQUITY LOAN COVERING A PORTION OF THE VALUE OF THE PROPERTY, USED IN CONJUNCTION WITH A CONVENTIONAL MORTGAGE. ANY INCREASE IN VALUE OF THE PROPERTY MUST BE SHARED WITH THE EQUITY LOAN PROVIDER.	3,128 PROPERTIES HAVE BEEN PURCHASED THROUGH THE HELP TO BUY EQUITY LOAN SCHEME IN LONDON AS OF JUNE 2015.[49]	AVAILABLE ON NEW-BUILD PROPERTIES UP TO A PROPERTY VALUE OF £600,000. ONLY AVAILABLE IN CONJUNCTION WITH MORTGAGE LOANS OF UP TO 4.5 TIMES BORROWER'S INCOME (LIMITING AVAILABILITY IN LONDON).
DISCOUNTED MARKET SALE	PROPERTY OFFERED FOR SALE WITH SHARE OF THE EQUITY BEING RETAINED BY THE SELLER – USUALLY A LOCAL AUTHORITY OR HOUSING ASSOCIATION.	APPROXIMATELY 1000 UNITS.[50]	DISCOUNTS AND INCOME CRITERIA ARE SET ACCORDING TO SELLER (EITHER LOCAL AUTHORITY OR HOUSING ASSOCIATION).

47. Source: ONS Census 2011 Tenure, Households Local Authorities, Accessed via Census Information Scheme, GLA intelligence. Retrieved on 14.10.2015
48. Homes and Communities Agency Statistical Data Return March 2015
49. www.gov.uk/government/statistics/help-to-buy-equity-loan-scheme-and-help-to-buy-newbuy-statistics-april-2013-to-june-2015 Accessed 19/10/2015
50. Estimate by Peter Redman, Managing Director, Policy and Research, TradeRisks Ltd

MODEL	DESCRIPTION	SCALE OF USE	ALLOCATION POLICY
INTERMEDIATE RENT INCLUDES RENT TO SAVE SCHEMES	INTERMEDIATE-RENT SCHEMES ARE SUBJECT TO RENT CONTROLS PROVIDING THAT THE RENT IS NO MORE THAN 80% OF THE DWELLING'S MARKET RENT. THEY MAY BE TIED TO AN INTENTION TO OWN, WITH THE TENANT USING MONEY SAVED ON RENT TO RAISE A DEPOSIT OR PURCHASE A SHARE IN THE HOME.	ESTIMATED 1000 UNITS IN LONDON, OF WHICH AROUND 100 FORM RENT TO BUY PILOT.	THE GLA HOUSEHOLD INCOME CAP IS £71,000 FOR A ONE OR TWO BED AND £85,000 A LARGER FAMILY DWELLING.
SHARED OWNERSHIP ALSO KNOWN AS 'PART BUY, PART RENT'	ELIGIBLE BUYERS PURCHASE A SHARE OF THEIR PROPERTY, USUALLY BETWEEN 25% AND 75%, AND PAY RENT ON THE REMAINING SHARE. PURCHASERS ARE NORMALLY GRANTED A LONG LEASEHOLD.	2,318 SALES IN LONDON IN 2013–14. 31% OF THESE WERE RESALES. TOTAL SHARED OWNERSHIP SALES REPRESENT C. 2% OF TOTAL ANNUAL RESIDENTIAL SALES IN LONDON AND ACCOUNT FOR 1.2% OF TOTAL STOCK. SHARED OWNERSHIP ACCOUNTS FOR APPROXIMATELY 45,500 DWELLINGS IN LONDON.	AS ABOVE

The table above sets out the types of subsidised housing available in London, and the role these products currently play in making housing more affordable for Londoners on low-to-middle incomes. It should be noted that the current scale of use is changing due to policy developments including the extension of Right to Buy, and will change further after the introduction of Starter Homes.

5

PLACE SHAPING AND INTERMEDIATE HOUSING

So much for the case for intermediate housing, its history and current policies.

In the following chapters we turn to making a series of recommendations aimed at improving London's intermediate housing offer.

We begin with the most fundamental point. The Commission believes that intermediate provision falls well short of what is required. First, as we have seen, though the Mayor has done much to promote shared ownership, supply remains lamentably limited. It is also important to emphasise that the type of intermediate housing needs to be tailor made for local place and individual households. Nevertheless, as previous chapters have suggested – and as we set out in more detail below – there are many types of intermediate housing. The appropriate type – shared ownership, discounted market sale, rent to buy, intermediate rent – will vary from place to place and household to household. So the cost of providing intermediate shared ownership in the most expensive areas of London tends to be prohibitively high, and intermediate rent will often represent a better deal for the provider. And this can secure the main objective of intermediate housing in these areas: income mix. In other less expensive parts of London, with a large PRS and a high degree of churn, home ownership represents a better deal and can help promote community stability.

Intermediate housing needs to be seen as an important place-shaping tool that can help the development and maintenance of mixed income, economically resilient neighbourhoods. The Commission would like to see a greater understanding of the contribution that intermediate housing can make to local developments, boroughs and London as a whole, and a greater appreciation of the varieties of intermediate housing, their cost and benefits.

The recent government announcement of the Starter Homes Initiative has the potential to drastically alter the provision of affordable housing in London. This policy will see Starter Homes classified as Affordable Housing, with Starter Homes replacing the Affordable Rent and intermediate homes currently developed as part of private-sector led schemes. Local authorities will be required to accept Starter Homes as part of S106 negotiations, rather than negotiating for Affordable Rent and shared ownership homes at levels which are suitable to the borough.

What can local authorities do? Westminster's Draft Housing Strategy, 2015

The 3,800 households registered for intermediate housing work in a range of professions and include teachers, nurses, chefs, architects, administrative workers, postal workers, IT managers, business analysts, theatre staff, hotel staff, artists and solicitors. Of those on the waiting list, 68% are aged between 25 and 39, and the majority are currently renting privately.

Westminster's housing strategy identified affordable housing for low-to-middle incomes as a priority "to promote work, and to support the local and London economies."[51] This is in the context of the borough's housing market being characterised by social housing for those most in need, and expensive market housing. In light of this, Westminster has set a target to deliver 1,250 new affordable homes over the next five years, through Section 106 contributions, collaboration with housing associations and redevelopment of poorly used land.

Most notably, Westminster intends to change planning policies so that in new developments they will ask for 60% of new affordable housing to be intermediate and 40% social on all new affordable housing developments. This policy aims to address the balance of housing stock available – 1,600 intermediate homes, compared with over 27,000 social rented homes – by delivering 750 intermediate homes. Westminster's housing strategy asserts that altering this planning policy will not reduce the borough's supply of existing social housing.

Starter Homes will be sold with a discount of 20% of market price, with a cap of £450,000 for homes sold in London. In addition, Starter Homes are available to first time buyers with any income level, and homes will not remain affordable in perpetuity. The lack of eligibility criteria, combined with the £450,000 cap means that Starter Homes will not meet the needs of Londoners on moderate incomes, and in many cases will go to households who would have been able to buy without assistance. A number of housing experts have

51. Mayor of London, *The London Plan Spatial Development Strategy for Greater London* (2004) http://transact.westminster.gov.uk/docstores/publications_store/housing/9.35_wcc_housing_strategy_a4_aw.pdf

warned that Starter Homes will be unaffordable to households on low to middle incomes in London. Shelter have calculated that households in London will need an income of £77,000 and a deposit of £98,000 to secure a Starter Home, concluding that "most average earners would struggle to afford an average priced Starter Home."[52]

While the Commission did not analyse the impact of the Starter Home Initiative due to the timing of the announcement, there is clear concern amongst policy experts that the Starter Home Initiative may undermine efforts to develop intermediate housing suited to London's housing markets.

> Recommendation 1:
> In planning for future housing provision, national government, boroughs and the GLA should ensure that the promotion of mixed income neighbourhoods is given explicit priority within national planning policy, borough Strategic Housing Market Assessments and local plans. Boroughs should draw up concrete plans to ensure that, in so far as possible, there is adequate and appropriate provision for intermediate housing for those on incomes within the GLA threshold.

Fair funding

It's arguable that London has more need of affordable middle income housing than any other city or region in the UK. Yet national intermediate housing policies tend to have very little bite in London. Although Help to Buy is not an intermediate housing product, it is an initiative aimed at low cost home ownership. Take-up of the Help to Buy equity loan, for instance, has been much lower in London than across the country as a whole, largely because of high housing prices in the capital. Moreover, the Help to Buy equity loan was designed to address areas of low demand – an issue that is not

52. Jeffrys P, *Who can afford a Starter Home Shelter Blog*, October 2015

faced in London. Analysis of the Help to Buy data suggests that over the first two years of the Help to Buy scheme London received 7.8% of the available funds.[53] This amounts to £156 million out of £1.993 billion. However, in terms of the volume of sales, London has around 14.8% of total sales in England.[54] In terms of the value of sales the mismatch would be greater since the average house price in London is around 2.7 times that in England as a whole. The government's Help to Buy ISA is another case in point. The scheme allows a saver to claim a maximum of £3,000 if they save £12,000. The Commission welcomes this scheme but believes that it is unlikely to make much difference in London where a first time buyer's deposit on an average price home could be over £80,000.

The Commission calls on the government to devolve the appropriate portion of Help to Buy funds to the GLA and grant the GLA the powers to adapt these initiatives to promote or provide intermediate housing in a way that is appropriate to the needs of the capital – for example, by supporting shared ownership, especially for those who would struggle to buy a shared home currently.

Recommendation 2:
The government should devolve Help to Buy funds spent on London to the GLA in order that those funds can be spent in the most appropriate way in the capital. The government should ensure that the funds allocated reflect the numbers of transactions and the value of those transactions in London when compared to the country as a whole.

53. DCLG (2015), *Help to Buy (equity loan scheme) and Help to Buy (Newbuy) statistics April 2013–March 2015*. www.gov.uk/government/statistics/help-to-buy-equity-loan-scheme-and-help-to-buy-newbuy-statistics-april-2013-to-march-2015
54. DCLG (2014), *Live tables on housing market and house prices*. www.gov.uk/government/statistical-data-sets/live-tables-on-housing-market-and-house-prices

6

INTERMEDIATE HOME OWNERSHIP

Most intermediate housing in London helps people on modest incomes with home ownership. For this reason, it is particularly important that intermediate home ownership policies and products are well designed.

Shared ownership

In practice, most affordable home ownership developed under the Affordable Homes Programme to date has been shared ownership. Given the status of shared ownership as the predominant intermediate tenure in London and the level of popular aspiration towards home ownership, the Commission believes that it is worth considering shared ownership in some detail.

Shared ownership offers eligible buyers the opportunity to purchase a share of their property and then pay rent on the remaining share. Buyers normally purchase somewhere between a 25% and 75% share of their property, though some housing associations offer minimum shares as low as 10%. The intention is that buyers then purchase increasing shares of their property – a process known as staircasing – until they are outright owners. The amount that buyers pay in rent declines in line with the increase in shares of the property. Once buyers own 100% of the property, they are entitled to sell it and move on, with the Housing Association being given first refusal. Further details on the challenges of staircasing, and suggestions as to how the system can be improved follow at the end of this chapter.

As previously noted, the 2,318 shared ownership sales per year in London represent c. 2% of total annual residential sales. Around 70% of shared ownership sales are of new-build homes. Overall, over 50% of households buy a shared ownership property supported by one income rather than two.[55]

55. CORE sales data 2014

Case study: Claire and her husband, Tower Hamlets

I purchased my one-bedroom flat through shared ownership in 2012. I had a pot of savings, £14k, built up while living in London house shares for the previous eight years. I was earning £28k as a civil servant in central London and purchased 30% of my flat, which had been valued at £225k, and approximately half of my salary was going on rent, mortgage and bills.

I met my now-husband in 2013 and he moved in with me as there's a no sub-letting rule on my property. I continued to pay the full rent and mortgage payments for the flat which allowed my partner to work on building up some savings. In 2014 we got married and I got a promotion, now earning £48k a year.

We now have a little one on the way and recently looked into options for selling up here and moving to a bigger place on the open market. The search didn't go very well and we've had to make the difficult decision that we're much better off staying here and being a bit squashed in our little flat rather than trying to struggle with a significantly bigger mortgage in Zone 4 for the sake of one extra room. With a joint income of approx £100k and savings of £35k, we still don't see an option to buy a two-bedroom flat in this area. I don't know how anyone can afford to buy in London on the open market without a lot of support from family or a lottery win.

In 2013–14 shared ownership was affordable across London as a whole, although not in every borough. The average purchaser's joint income was £51,293, used to purchase a 41% share in properties worth on average £252,237. The average deposit paid was 10% of the property value.[56] The picture is more complex when sales are broken down into individual boroughs. The average sale price, initial equity stake purchased and average deposit paid for shared ownership sales in London 2013–14 can be seen in Table 2 below.

56. CORE, (2014), CORE summary tables. www.gov.uk/government/statistics/social-housing-lettings-in-england-april-2013-to-march-2014: DCLG

Table 2: Average sale price, initial equity stake purchased and average deposit paid for shared ownership sales in London 2013–14[57]
Source: CORE

LONDON BOROUGH	NUMBER OF SALES	AVERAGE SALE PRICE (£)	INITIAL EQUITY STAKE (%)	AVERAGE DEPOSIT PAID (£)
BARKING AND DAGENHAM	15	150,066	43	13,125
BARNET	78	264,026	39	22,087
BEXLEY	42	211,859	40	26,346
BRENT	47	266,106	38	20,133
BROMLEY	66	244,295	38	21,196
CAMDEN	16	403,438	33	46,925
CROYDON	87	188,259	39	15,105
EALING	132	272,259	45	32,140
ENFIELD	68	200,549	39	27,466
GREENWICH	184	260,878	37	18,465
HACKNEY	161	337,601	38	32,887
HAMMERSMITH AND FULHAM	38	350,763	39	35,028
HARINGEY	100	207,365	52	20,766
HARROW	101	226,351	43	20,525
HAVERING	45	173,989	54	61,311
HILLINGDON	59	223,475	41	16,154
HOUNSLOW	53	205,948	42	15,830
ISLINGTON	189	328,005	41	26,289
LAMBETH	144	303,409	41	26,991
LEWISHAM	176	245,439	39	20,297
MERTON	85	206,532	45	27,819
NEWHAM	56	233,466	36	15,814
REDBRIDGE	29	192,327	39	13,378
RICHMOND UPON THAMES	19	291,682	39	67,351
SOUTHWARK	201	321,726	42	30,028
SUTTON	26	188,769	41	16,322
TOWER HAMLETS	201	245,654	37	20,870
WALTHAM FOREST	76	228,250	39	18,532
WANDSWORTH	89	342,393	42	29,002
LONDON AVERAGE	2583	252,237	41	26,144

It is interesting to note that the average share purchased is remarkably consistent, at close to 40% for all boroughs in spite of widely differing property values. This

57. It is important to note that no sales were recorded in Westminster, City of London, Kensington and Chelsea and Kingston on Thames

suggests that purchasers do not typically purchase a smaller share in order to access a more expensive area. The scope for paying a smaller deposit in more expensive areas would seem limited also. In fact, when viewed in the context of the size of shared ownership loans, deposits are comparable to typical first time buyer deposits in the open market. The Commission notes that the level of shared ownership deposits is determined in large part by the level of capital weightings imposed on lenders of this product by the Prudential Regulatory Authority and which is therefore out of their control.[58] This is a long-running issue and the Commission adds its weight to calls for the capital weightings for lenders lending for shared ownership be kept under regular review.

Case study: shared ownership – Jack (policy and communications worker) and his family, Greenwich

The arrival of our son magnified the lack of permanence and security of our status as private tenants. We started looking on Rightmove and Zoopla, and quickly realised we couldn't afford to buy anything in the area we were living in and where we had put down roots over nearly 10 years. Quite by chance we came upon an advert for new shared ownership flats just half a mile away, and we registered to be sure we were eligible. I honestly never thought we'd buy anything through shared ownership, as there are some drawbacks to the model. However, the flat was amazing, we could afford it, and we were quite desperate to live somewhere where we knew we would not be evicted at the whim of a landlord. The process of buying the flat was very easy and seemed far less stressful than the experience of friends who'd bought on the open market.

It's been more than two years now, and we've been lucky enough to be able to buy more equity. The next step, to be able to find a home large enough for our now three children, will be harder. In the long-run with shared ownership you're still priced out of your area as your share doesn't keep up with full market prices. But we're better off than many who are still stuck in the PRS. Clearly the secondary market for shared ownership can be improved, and the possibility to move within tenure would also open up far more choice, especially to growing families. In the absence of a huge increase in housing supply to stabilise prices, shared ownership is a good model that can provide security for those that can afford it. It's certainly given us stability and peace of mind.

58. Sinn C. and David S, *Shared Ownership 2.0* (2014)

Purchasing a smaller equity stake in more expensive areas does not seem to be a typical expedient. Even if it were, this reduces the opportunity for shared owners to staircase to full ownership. In fact only 3.3% of shared owners in London staircased to full ownership in 2013–14, although this was a significant increase on the previous year.[59]

The main way in which shared owner purchasers make more expensive areas affordable appears to be the same as other home purchasers in that those with higher incomes buy in more expensive areas and those with lower incomes choose cheaper areas. In addition, a review of CORE data suggests that it is more likely for those households with dual incomes to purchase in more expensive areas.

The increasing cost of shared ownership

The figures above bear out the view of a number of local authorities that shared ownership is becoming viable only for those on incomes very close to the GLA income cap in the most expensive boroughs. This raises difficult political questions, in that because of the subsidy involved in developing shared ownership housing, less affluent households may be subsidising the housing of more affluent households via the tax system.[60] Housing associations and the London Assembly have confirmed that in certain boroughs shared ownership can no longer be viably developed even with subsidy if the income of purchasing households is to be kept within the GLA upper income cap.[61] Shelter noted in 2013 that shared ownership on a 35% share was unaffordable for those on "middle incomes" in inner London.[62]

59. HCA, (2014), SDR return 2013–14. www.gov.uk/government/collections/statistical-data-return-statistical-releases
60. London Assembly (2015), *First steps on the ladder? An appraisal of shared ownership in London.* www.london.gov.uk/sites/default/files/First%20Steps%20On%20The%20Ladder_1.pdf
61. Ibid
62. De Santos R. *Forgotten Families.* Shelter (2013)

Discussions in some of the more expensive boroughs about how to render shared ownership more accessible have revolved around use of more grant, use of low-cost land (perhaps provided by a local authority) and reductions in the rental element as a percentage of the retained share. It has been suggested that rental rates could be reduced to 2.5% of the unsold equity or even below. However, all such options represent a significant additional subsidy.

Pocket Living – A private developer's approach to the intermediate housing market

Pocket living is a developer operating in London with the aim of producing one bedroom flats that are affordable to those on middle incomes and which will remain affordable in perpetuity. Pocket Living see their target market as single person households or couples, with household incomes in the region of £40,000 pa. and in their thirties.

Pocket works to develop flats that can be sold for a discount of at least 20% less than the average market price for a one bedroom flat in the same area. In order to achieve this Pocket have developed a distinct and innovative business model. Around half this discount is achieved by making properties smaller than average and the rest by other economies (such as the absence of parking facilities) and efficiencies. Pocket concede that in more expensive areas a higher discount may be required and that in some circumstances a subsidy may be required in the form of discounted land, which might be offered by a local authority or other body. In this respect, Pocket acts as a "non-registered provider" and a suitable partner on S106 agreements.

Potential purchasers of Pocket homes are subject to the GLA upper income cap of £71,000 and may in addition be subject to lower maximum income restrictions imposed by individual boroughs. Pocket homes cannot be resold within twelve months and on resale the price must be agreed with Pocket. The original discount is then passed on to the next purchaser. However, this discount can be reduced to provide protection for the original purchaser if the price of the flat has fallen during their term of ownership. The original discount is then passed on to the next purchaser, meaning that Pocket homes will remain affordable to buyers in the intermediate market.

The Commission believes that shared ownership is now not viable or else not affordable in a number of inner London boroughs and that alternative intermediate solutions, notably intermediate rent, will have to be flexibly employed in these areas if it is considered desirable to ensure provision for households with modest incomes. Inevitably the costs in subsidy will be high, but as already indicated, the Commission believes that the price can be worth paying to maintain mixed-income communities.

Changing the balance of intermediate housing supply
Intermediate products made up 32.8% of the Affordable Housing Programme (AHP) 2011–15 for London. Of that intermediate development the great majority was affordable home ownership (shared ownership), while the remainder was intermediate rent.[63] The proportion of affordable homeownership is expected to rise to 40% under the 2015–18 programme with the remaining 60% being supplied by affordable rent.[64]

Using data derived from the 2011–15 AHP one can predict that the amount of grant that will be needed for each Affordable Rent home is £35,795 and for each Affordable Home Ownership home the necessary grant is £20,978. Thus it costs 71% more in grant to develop each home for Affordable Rent than for Affordable Home Ownership.

The GLA could on this basis develop more homes for the same amount of grant by shifting the balance of development from Affordable Rent to Affordable Home Ownership. Thus, with a 60/40% tenure split between Affordable Rent and Affordable Home Ownership in the 2015–18 AHP the GLA can build a total of 42,000 homes with grant of approximately £1.2 billion. If the GLA were to decide to build only Affordable Home Ownership homes the same amount of grant would fund almost 60,000 homes.

63. *GLA affordable housing programme outturn*. http://data.london.gov.uk/dataset/gla-affordable-housing-programme-outturn: GLA
64. GLA (2015), The Mayor's housing covenant; 2015–18 programme. www.london.gov.uk/sites/default/files/The%20Mayor%27s%20Housing%20Covenant%202015-18%20Programme%20prospectus.pdf

The above figures should be treated with care; they are in effect based on a prediction of what actual grant levels will turn out to be and take no account of asset management efficiencies achieved by housing associations, or their additional contributions to the programme, which may vary between tenures. Nevertheless, the above calculation does provide some guide to the impact of moving grants from one tenure to another.

The Commission did not want to recommend any reduction in resources for social renting in order to increase the supply of intermediate housing provision. To do so would prejudice the position of the neediest at the expense of those in less need and with wider housing choices. However, this does not preclude individual boroughs from using their powers flexibly to increase the proportion of intermediate housing (and hence increase total numbers of homes developed) where specific circumstances demand it. The negotiation of S106 affordable housing requirements – pending the implementation of the Starter Homes initiative – and the development of council-owned land provide examples of where such discretion exists.

A better shared ownership product

Given the prevalence of shared ownership and the cost to the public and shared owners themselves of providing it in more expensive areas, the Commission believes that it is important to work to ensure that the tenure meets the perceived needs of its clientele. The inability to staircase to full ownership and the costs of staircasing have been cited as a source of dissatisfaction amongst shared owners.[65] It is in the interest of housing associations to encourage clientele into full ownership, as an increase in the rate of staircasing represents a reduction in the typical period before the initial

65. See Clarke A, & Heywood A (2012), *Understanding the second-hand market for shared ownership properties*. Cambridge: CCHPR; and London Assembly (2015), *First steps on the ladder? An appraisal of shared ownership in London.* www.london.gov.uk/sites/default/files/First%20Steps%20On%20The%20Ladder_1.pdf: London Assembly

investment in a property can be recycled into the development of further new homes. Thames Valley Housing has launched a Shared Ownership Plus Scheme designed to tackle the inability of the majority of shared owners to staircase by allowing shared owners to buy an extra 1% share in their property each year at a pre-determined price, enabling investment to be recycled into new homes at a quicker rate.

Difficulty in staircasing is linked to the limited mobility of shared owners who find it hard to move to another shared ownership property since they were not eligible to purchase a property under existing criteria and would in any case have been a low priority.[66] The GLA has been working to address mobility issues by ensuring that shared owners are eligible to purchase another shared ownership property and making it easier for shared owners to move across borough boundaries. It is not yet clear how successful these efforts have been in promoting mobility amongst shared owners. The Commission believes that promotion of staircasing is important and urges the GLA, boroughs, housing associations and other stakeholders to continue seeking practical ways to make staircasing easier.

Recommendation 3:
The GLA should build on existing research as to why there is a low rate of staircasing in London in order to develop a scheme that eliminates up-front staircasing costs and allows a gradual progression towards full ownership. If this exercise is successful the GLA should consider whether such a scheme can be integrated into the terms of the standard shared ownership lease. In addition, the GLA should monitor carefully whether the incidence of shared ownership resales and purchase of shared ownership properties by existing shared owners are at levels that suggest that their recent measures to improve mobility have been successful. The GLA should be prepared to take further action if needed.

66. Clarke & Heywood (2012), Understanding the second-hand market, op. cit.

Improving understanding of a complex product
Shared ownership is a relatively complex product, which has various implications for investment, development and take-up. These include:

- Difficulty communicating the key features of shared ownership to households, including weak information on the lease and its obligations provided by the purchaser's conveyancer;

- A perception by mortgage lenders that the product is over complex. Standardisation and updating of the shared ownership lease have helped to ensure that there is adequate lending capacity in the mortgage market;[67]

- A potential disincentive for investors, who have become increasingly important as a source of development funding for housing associations.

Shared ownership is necessarily a fairly unfamiliar and complex product and this can limit its uptake. The Commission calls on government, the GLA, local authorities, housing associations and other interested parties to review the promotion of intermediate housing products and also examine whether further simplification or standardisation would be helpful in gaining acceptance from potential users, providers, lenders and investors.

Recommendation 4:
The GLA, local authorities, housing associations and other stakeholders should review the promotion of intermediate housing products, in particular shared ownership. The Commission suggests that they should:

67. Ibid

• Ensure that the key features of shared ownership and other products are communicated effectively to households and that those products are regularly reviewed.

• Ensure that there is regular liaison with the Council of Mortgage Lenders and with lenders themselves so that shared ownership and other intermediate products requiring mortgage finance are understood by lenders and that their key features are acceptable.

• Ensure that intermediate products are effectively communicated to the investor sector and that investor feedback is taken into account in shaping products on an ongoing basis.

Discounted Market Sale (DMS)

DMS is a property offered for sale with a share of the equity being retained by the seller – typically a local authority or housing association. The owner has the right to staircase to 100% ownership. The key difference with shared ownership is that there is no rent or fee to pay on the retained share. This means that DMS tends to require a higher subsidy than shared ownership, as there is no rental element to provide a return on the retained share. In principle, if large enough discounts were offered, DMS could be offered in some of the most expensive areas of London, since affordability would be maintained by offering a lower percentage share. The purchase of a smaller share would also reduce the deposit required to obtain a mortgage. The difficulty with DMS tends to be the cost of the subsidy required. Unlike shared ownership where a rental element provides some return on the retained share, no rent is charged, so the level of subsidy required will be higher for any given level of retained share however that subsidy is generated. In the most expensive areas the high percentage retained share of a property could be a decisive factor. As such, the level of subsidy required is likely to be a limiting factor in terms of scale.

7

INTERMEDIATE RENT

As already set out, only a very small proportion of London's intermediate housing takes the form of intermediate rent, and a tiny percentage (0.03%) of London's homes overall. Yet intermediate rent has certain advantages:

- Grant rates are lower than for traditional social rented housing and are similar to equivalent affordable rent properties, although much depends on the actual percentage of a market rent to be charged.

- The occupier does not need to save for a substantial deposit.

- Transaction costs are low in comparison to those of buying and selling a property and there is no need to sell an asset that may prove illiquid if the tenant needs to move home.

Intermediate rent can thus work well for people who might need or want to move easily.

As we have also already indicated, there are particular challenges to providing intermediate housing in London's most expensive areas – even a shared ownership home is now unaffordable to intermediate earners and all but those at the very top of the intermediate range will be unable to afford an intermediate rent set at 80% of market rent. Yet these areas are often the most polarised in terms of income distribution. Against this background the Commission believes that it is important that boroughs and other housing providers develop a housing offer that helps ensure these areas remain broadly balanced and economically resilient. While shared ownership and discounted market sale might both have a role to play, intermediate rent is the best model to ensure that properties remain affordable in perpetuity. The Commission believes that the more expensive boroughs need to look at letting similar sized intermediate homes at different prices, to suit different household income bands. This ensures that some intermediate stock is affordable for those on lower incomes.

Recommendation 5:
Local authorities and other housing providers should have the discretion to make appropriate use of intermediate rent products as well as those offering a route towards low cost home ownership. Intermediate rent policies should be offered at a range of levels to meet the needs of different types of household and households confronting expensive locations.

Currently most intermediate rent is offered at a flat rate – while only those on intermediate earnings are eligible for intermediate rental housing, every household paying intermediate rent tends to pay much the same rent on a similar property in the same area, regardless of their earnings. The Commission would like to see a greater testing of flexible rent policies – tenants paying different rents in line with earnings – on the grounds that flexible rent is fair and best adapted to securing intermediate housing objectives, including the promotion of mixed communities. The Commission believes that these can be designed in a way that does not penalise tenants whose earnings rise.

Recommendation 6:
The GLA and individual local authorities should promote and test flexible intermediate rent models, with rents adjusted to household income. The case for a flexible approach is particularly strong in the more expensive areas of London.

Higher earning social tenants
The government is proposing to introduce reforms requiring that higher earning social and affordable tenants – in London, those earning above £40,000 – pay market rents or close-to-market rents. This policy could

result in some tenants in more expensive areas having to give up their homes, so encouraging further income polarisation. The Commission believes that boroughs and other housing providers should explore if and how they might offer these tenants the option of intermediate rent or intermediate home ownership. An earlier report by Centre for London has already set out how a flexible rent scheme might work.[68] Responding to the government's Pay to Stay reforms in this way could lead in effect to a significant increase in intermediate housing in London, with tenants currently paying social rents paying a higher intermediate rent, or moving into shared ownership, while retaining their home, and contributing to income mix.

> Recommendation 7:
> Boroughs and other housing providers should explore how they might offer higher earning social tenants, especially those who could lose their home as a result of new 'Pay to Stay' policies, the option of intermediate rent or intermediate home ownership.

68. Redman P., *Housekeeping*, Centre for London, 2013

8
A ROLE FOR EMPLOYERS?

Many employers, both nationally and in London, used to offer their employees free or discounted housing as part of their remuneration. The capital is dotted with properties that were built by the Church, businesses and public services for their workers. Most of these, however, have now been sold off. Today only 2% of London households lived in a home owned by an employer. The Commission appreciates that it brings challenges. For one thing, London's work force has become more mobile – it is much less common for people to spend decades, let alone a lifetime, in a job. Public sector employers admittedly have limited scope to invest in housing for staff, as the sheer number of employees on low to middle incomes is likely to make the subsidies required unfeasible. In such instances, measures to help employees deal with high costs of renting or commuting may be appropriate. The Commission identified some interesting examples of employers getting back into the business of helping their staff secure affordable housing. London's universities, for instance are increasingly helping with their academics' housing costs – either through subsidised rents or supporting them in buying a home – and at least one city firm is doing the same.

The Commission would like to see more employers investing in homes for employees, especially where proximity of workers' homes to the workplace is important. There are clearly a number of approaches that employers could adopt – they could offer intermediate rent schemes, discounted market sale and shared ownership.

Helping with mortgages:
Recognising the difficulties many of their younger employees were facing in securing a home, KPMG worked with Clydesdale Bank and Yorkshire Bank to provide a bespoke mortgage arrangement for employees. These mortgages factor in future earning potential and offer KPMG employees preferential rates. While the initial relationship with the bank is facilitated by KPMG, the employee's mortgage is taken out directly with the bank, and so would not be affected by the employee leaving KPMG.

Housing for staff:
University College London has recently made the decision to provide 90 homes on the site of their new campus in Stratford. The homes are aimed at early career staff, for whom the cost and convenience of renting from the university may be attractive. Rex Knight, Vice-Provost considers the decision to offer housing for academics a matter of competiveness:

> *Apart from Oxford and Cambridge, most UK universities do not offer staff housing. It is much more common in the US. If we are to compete, both with Oxbridge and with Ivy League universities in the US, an offer of affordable and flexible housing is hugely important.*

Helping private renters:
In 2015 Shelter and the Mayor of London launched a rental deposit scheme, in which companies can offer employees interest-free loans to pay their deposits when they move into a privately rented home, which are then paid back through their salary over the course of up to a year. This scheme has been adopted by employers including the Cooperative Bank, some government departments and Starbucks. The latter is the first private company to adopt the scheme, and is justified on the basis of recruitment and retention of a workforce of which over half of employees are under 25 years old.

Dealing with the cost of commuting:
Discounted housing or financial assistance into ownership is not the only means by which employers may support employees. NHS employers in London are currently considering how changes in policy and reward may help them mitigate the costs of living faced by their staff many of whom are more likely to live outside London. University College Hospital London Hospitals NHS Foundation Trust have found that transport costs are a consistent concern for their staff . Staff across their five hospitals sites in central London live an average of 21 km from their work base – an increase in 4km in the past five years. Given the distance between home and work base, a contribution towards transport costs can be a cost effective way of tackling problems of retention and recruitment caused by housing costs in the capital.

Employer-sponsored shared ownership model
While investment in housing is not an option that will be open to all employers, the Commissioners thought it would be useful to present an illustration of how employer-sponsored shared ownership may work.

Savills kindly furnished the Commission with a model for an employer-backed shared ownership scheme that would help employees buy a share in a home that they otherwise could not afford, and help the employer attract and retain valuable workers while making a good return on its investment.

The model assumes that an employer invests in the provision of shared ownership housing. Since under the standard shared ownership lease the shared owner-occupier is responsible for all maintenance and repairs to the property, the landlord role is limited, but that role and other management functions would be contracted to a housing association unless an employer wished to assume these responsibilities. Alternatively a number of employers could pay into a common fund that would be managed by a housing association. This model aims to find an appropriate way to balance affordability with the need to provide an investment return.

The worked example rests on the following assumptions:

- 10 units purchased off-plan at close to full open market value, by an employer or by a fund, with a housing association as managing agent.

- A total purchase price of £285,000 per unit (assumed to be close to full open market value, or at a small discount for forward purchase). This price point is still reasonable for a new two-bedroom apartment in Barking and Dagenham and possibly parts of Enfield, but probably more appropriate for a one-bedroom in Haringey. The pricing for a central London home would be considerably higher.

- Units sold at practical completion as 'shared ownership' to eligible employees as follows:

    – 25% equity shares (i.e. £71,250)
    – 12.5% deposit paid by purchasers
    (i.e. 12.5% of initial share acquired)

– An annual rent of 3.5% of the unsold equity.
– Rental growth of 3.5%, plus an additional top up rent from year two
– A minimum household income of £45,000 at the point of purchase (with a max. of 30% of gross income spent on housing costs)
– Household income growth of 10% per annum, 50% of which is used to fund an additional top-up rent. Household income is therefore assumed to be £65,000 in year five
– Total monthly housing costs (i.e. rent + mortgage repayment and service charge) which do not exceed the market rent for a similar unit type

A full breakdown of the monthly costs for the purchasers can be found in the appendix to this report.

The provision of a 'top up rent' not only boosts the rate of return for the employer but also provides an incentive for the employee to consider other housing options as their income increases. The model could allow for staircasing by the purchaser with the receipts from staircasing to be re-invested in additional housing. Thus even 100% staircasing need not deplete the scheme and would enable it to contribute towards new housing supply in London.

It will be noted that in common with standard shared ownership, this model will not be affordable in all parts of London for those on incomes below the GLA cap. However, since grant or other subsidy is not involved it may be that the GLA income cap could be ignored where an employer felt that it would be advantageous to build in an expensive area.

Because of the top up rent and the restriction of purchasers to employees of a particular organisation the model set out above is different from the standard shared ownership one. It would therefore be necessary to negotiate with lenders to ensure mortgageability, and this would necessitate a commitment to scale, since mortgage lenders typically do not wish to modify their back-office systems for small bespoke schemes.

For this reason this may be a scheme best promoted by the GLA or another pan-London body.

The Commission believes that it is important that employers receive an acceptable return on their financial investment in housing. However, such a return should take into account the advantages for the employer in terms of their ability to attract employees with the right skills and experience and in retaining those who have received expensive training. Thus an 'acceptable' return should not need to equate with a 'commercial return' narrowly conceived.

As already noted, an issue for any employer-sponsored scheme is ensuring that over time the scheme does not become a provider of homes for ex-employees as employees change jobs or retire. There would need to be an incentive for employees to seek other accommodation within a reasonable period of quitting their job. This might be provided by a steeper progressive rise in the rental component after a period of grace during which the ex-employee would be expected to seek another home. There would inevitably be some sensitive issues associated with this situation, not least the appropriate stance in relation to an ex-employee who had not moved and was falling into mortgage or rent arrears. These problems require further investigation.

Overall, the Commission believes that employer-sponsored housing could help some employers address the impact that housing is having on recruitment and retentions, while making a valuable contribution towards the provision of new affordable supply in London.

Recommendation 8:
The Commission urges employers across London to explore the costs and benefits of offering employer-sponsored intermediate housing, and where a good business case can be made for such housing, offer it.

CONCLUSION:
AN UNCERTAIN FUTURE

As this report has set out, London's desperate housing shortage is falling especially heavily on modest earners – particularly those who can't draw on family help. Pay has stagnated, while costs, especially housing costs, have gone up fast. House prices and rents are so expensive in London that national initiatives aimed at helping first time buyers get little grip.

As this report has also argued, there are real dangers in letting these developments continue unchecked. We can all agree that London needs more homes and that, in the medium to long term, increasing supply will be the best approach to reducing house prices and helping modest earners.

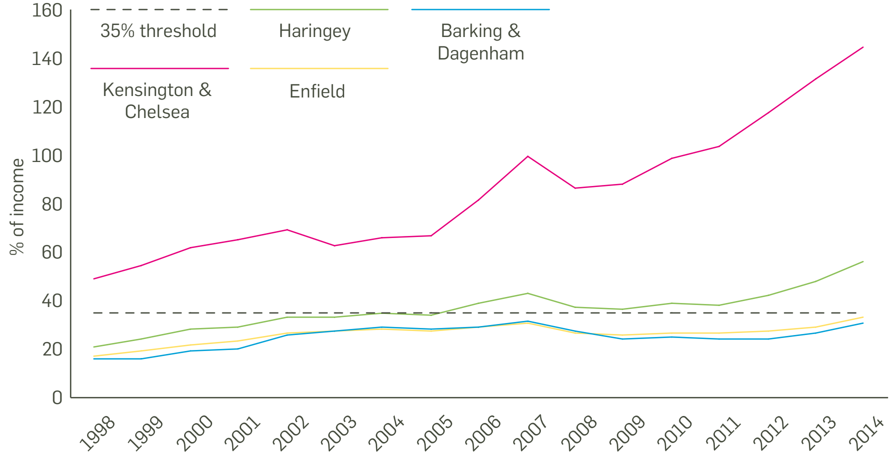
But the enormous pressures on London's housing supply are unlikely to lessen any time soon – it is likely to be a very long time indeed until people on low-to-middle salaries can afford to live in the more expensive areas. In the meantime, there are strong arguments for doing more to help working modest earners find decent and secure homes across the city. The subsidy involved tends to be relatively modest itself, and intermediate housing has important economic and social benefits, helping keep London an economically competitive, creative, and cohesive city.

This report has made a number of suggestions for improving intermediate housing policy. Beyond these individual reforms, we call on policy makers at all levels of government, politicians, developers, housing associations, businesses and charities to recognise the important contribution that London's modest earners make to the capital and redouble efforts to develop more and better housing for them, both for sale and for rent.

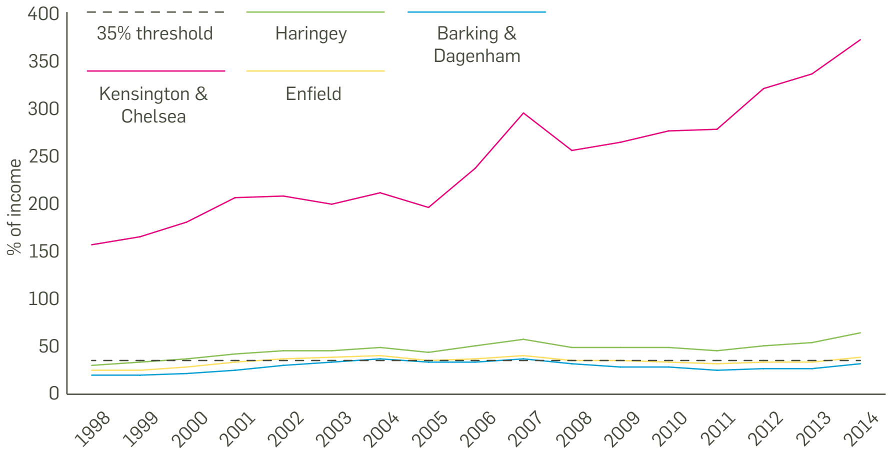
APPENDIX 1

Graphs showing affordability over time of four London boroughs: Kensington and Chelsea, Haringey, Enfield, and Barking and Dagenham

Primary teacher + flat
Source: ASHE

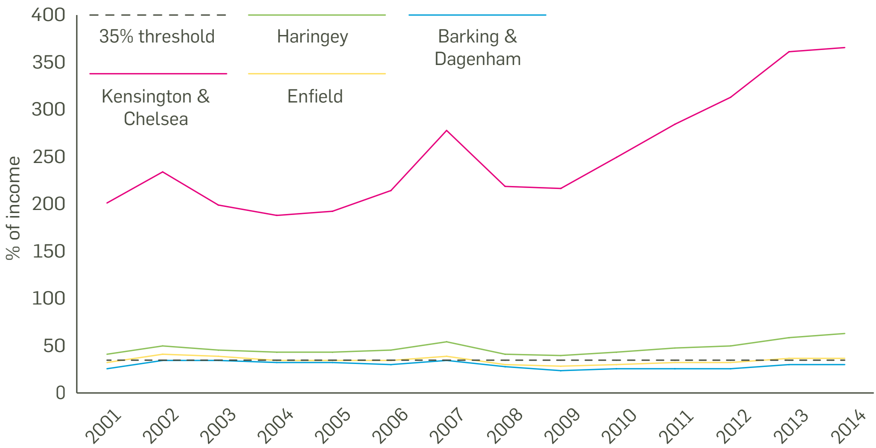


Nurse + terraced house[69]
Source: ASHE

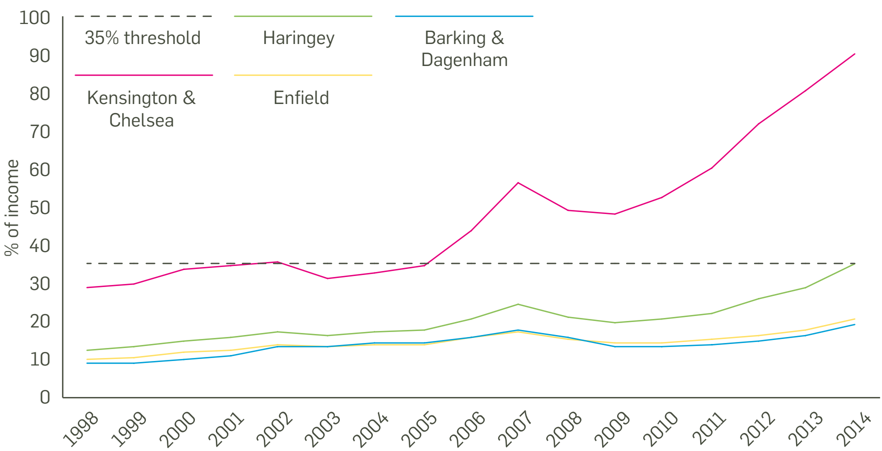


69. Please note the salary level used is that of Advanced Specialist Nurse

Bus driver and PT sales assistant + terraced house
Source: ASHE

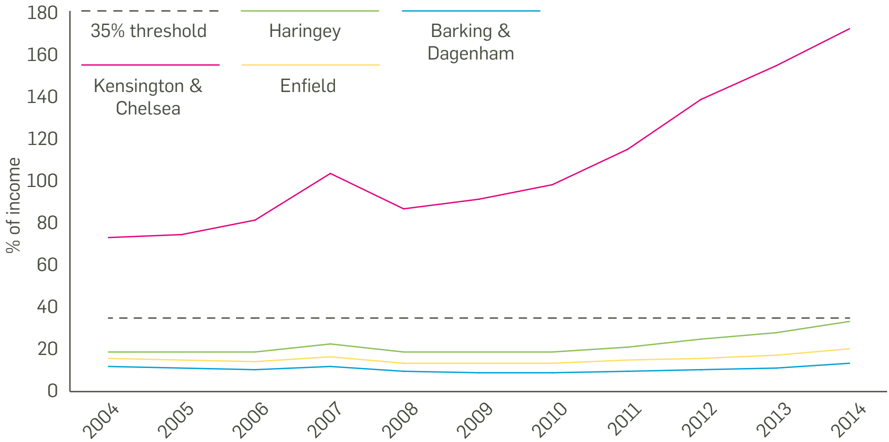


Doctor + flat
Source: ASHE



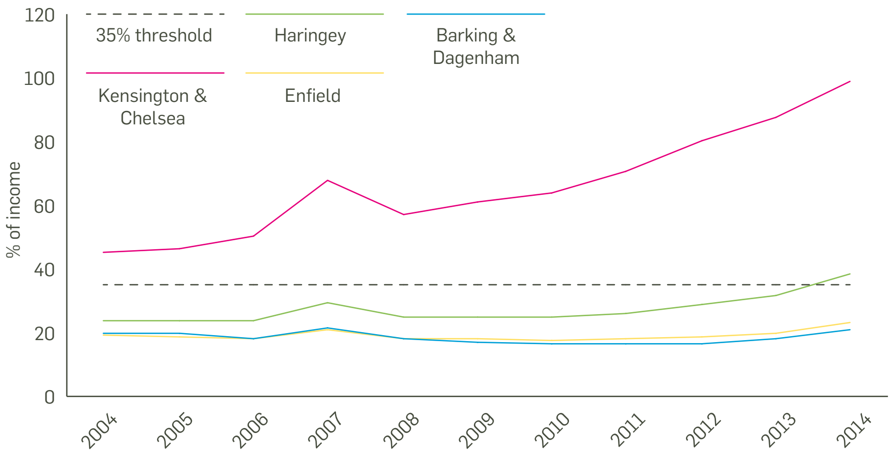
Solictor and PT journalist + semi-detached house

Source: ASHE



Electrician and PT chef + flat

Source: ASHE



APPENDIX 2

Employer sponsorship of housing – monthly costs for purchaser (Savills)
Source: Savills

HOUSING COSTS PCM	YEAR 1	YEAR 2	YEAR 3	YEAR 4	YEAR 5
DEPOSIT (ONE OFF PAYMENT)	£8,906				
MORTGAGE		£320.53	£320.53	£320.53	£320.53
SERVICE CHARGE		£75.00	£75.00	£75.00	£75.00
RETAINED PROPORTION RENT		£623.44	£645.26	£667.84	£691.22
TOP UP RENT (BASED ON NET SALARY)		£ -	£102	£112	£123
TOTAL		£1,018.97	£1,142.68	£1,175.46	£1,210.04
ASSUMED RENT FOR LOCATION PCM (ASSUMING 3.5% GROWTH PER ANNUM)		£1,175.00	£1,216.13	£1,258.69	£1,302.74
BETTER OFF BASED ON MONTHLY OUTGOINGS USING THIS METHOD OF PURCHASE?		YES	YES	YES	YES
INCOME REQUIRED		£40,759	£44,835	£49,318	£54,250
AMOUNT OF MORTGAGE REPAID		£ -	£1,508	£3,017	£4,525
CUMULATIVE INCREASE IN VALUE OF EQUITY		0	£1,425	£5,059	£8,874
PERCENTAGE OF RESIDENT'S SALARY SPENT ON HOUSING (GROSS)		30%	27%	26%	24%

For many years now housing costs have been rising dramatically in London. Rents have gone up much faster than incomes, but house prices have gone up even faster.

These developments are clearly hitting those on modest incomes hard. Young people are living with their parents where they can, long after they expected to be able to set up home themselves. Others live like students, squeezed into private rented accommodation – much of it sub-standard – well into their 30s. Families with young children are forced to move to the edge of the city or beyond, far away from family networks of support, and often far away from their work or work opportunities. While both government and the market make various offers to modest earners, the needs of this group have not figures largely or imaginatively in policy thinking up to now.

This report provides a new evidence-based consensus on the nature and scope of the challenge facing London's low-to-middle income households, the costs and benefits of various housing policies that could be adopted for them, and what more London could do provide homes for those on modest incomes.

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