

London Tenants Federation

'Genuinely affordable' housing or just more of the affordable housing con?

**Briefing about new and rebranded
'affordable housing' types and delivery targets.**

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'Genuinely affordable' housing or more of the affordable housing con?

- 1.0 Introduction:** In the run up to the Mayoral elections in 2016, LTF urged candidates to end the use of the misleading term 'affordable housing'. The term is a catch-all for all types of homes that are less than market costs. However, there are enormous differences between the various types of less-than market-cost homes and thus which sections of society might actually be able to afford or gain access them.
- 1.1 Most 'affordable homes' are **not affordable** or accessible to families that are homeless, living in overcrowded homes or who have been languishing for decades on housing waiting lists. Also housing targets set by the London Mayor for types of housing that such households might be able to afford continue to be reduced.
- 1.2 Since being in power, London Mayor, Sadiq Khan, has not ended the use of the term, but has simply added to the types of 'affordable' homes available and rebranded some existing ones. In addition he now refers to some types as 'genuinely affordable', further misleading the general public into assuming that it is the least well off that are benefiting, when it is not.
- 1.3 Sadiq Khan has also trumpeted much about delivering more 'affordable housing', particularly his aim to work towards delivery of a 50% 'affordable housing' target. However, it seems that this is only to be achieved by decreasing targets for homes that ordinary working class households, that have long suffered on housing waiting lists might be able to afford, to benefit middle income households. Ultimately, this will increase the number of low income households being forced out of London.
- 1.4 This briefing aims to clear the way through some of these additional smoke and mirrors.

2.0 Types of 'affordable housing and who can afford or access them These include:

- (a) **Social-rented homes:** Most existing council and housing association homes are social-rented with secure or assured tenancies. Their rents are set by a national formula which, in part, reflects local manual earnings and, in part, local property values (with caps on rent increases applied). Since 2011 no 'affordable' housing grant has been available to build social-rented homes, although some boroughs have managed to develop small amounts of homes at social-rents, but where this has been without access to affordable housing grant. Since 2011 housing associations have also been able to grant fixed term tenancies. The Housing and Planning Act 2016 introduced mandatory 'fixed term tenancies' of between two and ten years for council tenants.
- (b) **Affordable-rent homes:** Introduced in 2011, these have rents of up to 80% market rents. In areas that have high value property values (like London) these are much higher than social-rents and in some instances are too high to be covered by benefits. In London, social-rents are around 30%-40% market rents.

The previous London Mayor, Boris Johnson, created two affordable housing types - 'capped' and 'discounted' affordable-rent housing. Both were accessible to households that would

previously have been eligible to access social-rented housing although benefit caps prevented many accessing 'discounted' affordable rent homes, particularly in inner London.

Capped affordable-rent homes had rents that were 'no higher than 50% market rents' (inclusive of service charges). Capped rents are pretty much the same as the new 'London Affordable Rent' homes that have been introduced by the current Mayor, Sadiq Khan (see detail below)

Discounted affordable-rents were affordable rents with up to 80% market rents and were mostly intended for households that would previously have had access to social-rented homes but who would not be affected by benefit caps.

'London Affordable Rent' homes have been introduced by Sadiq Khan. These are based on 'capped' **formula rent levels**, exclusive of service charges (see table below). This is the highest amount of rent that a council or housing association may currently charge for social-rented homes. Rents at this level are quite a lot higher than average social-rents in London. According to the latest available data (2015/16) the average London council rent in was £107.93¹ and the average London Private Registered Provider rent was £125.27².

Table 1: London Affordable Rent benchmarks for 2017-18

Bedroom size	2017-18 Benchmark (weekly rents, exclusive of service charge)
Bedsit and one bedroom	£144.26
Two bedrooms	£152.73
Three bedrooms	£161.22
Four bedrooms	£169.70
Five bedrooms	£178.18
Six or more bedrooms	£186.66

If we assume that a three bedroom sized home is the 'average', London Affordable Rents are almost 50% higher than average council rents and 43% higher than average private registered provider (housing association) rents. As average social-rented household incomes in London are only £17,500 this is a significant hike in rent levels.

This hasn't stopped many authorities and the Mayor's office saying that 'London Affordable Rent' homes are the same as, or 'equivalent' to, social-rents, when actually in cost terms they are actually pretty much the same as the previous Mayor's capped affordable rents homes. Indeed London Affordable Rents, once service charges are added, can be higher than 50% market rents. The example on page 4 relates to the Oaklands development, approved by the Old Oak and Park Royal Development Corporation. Note that in this example London Affordable Rent homes are described as 'social rents' but some are also (once indicative service charges are added) above 50% market rents.

The London Mayor will also allow development of affordable rent homes that are above 'London Affordable Rent levels'.

1. <https://www.gov.uk/government/statistical-data-sets/live-tables-on-rents-lettings-and-tenancies> (Table 702)

2. <https://www.gov.uk/government/statistical-data-sets/live-tables-on-rents-lettings-and-tenancies> (Table 704)

5.9 Table 5.3 Indicative rent levels for social rented and affordable rented units without service charge

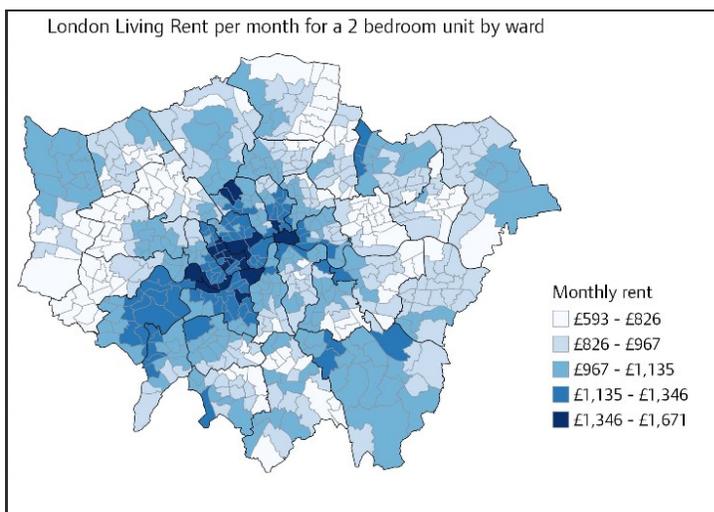
Unit type	Open market rent	Social rent	Social rent % of market rent	Affordable rent	Affordable rent % of market rent
1B2P	£251.00	£120.38	48%	£165.00	66%
2B3P	£298.00	-	-	£195.00	65%
2B4P	£339.00	£143.60	42%	£200.00	59%
3B5P	£354.00	£154.92	44%	-	-
3B6P	-	£154.92	-	-	-

5.10 Table 5.4 Indicative rent levels for social rented and affordable rented units with indicative service charge

Unit type	Open market rent	Social rent	Social rent % of market rent	Affordable rent	Affordable rent % of market rent
1B2P	£286.00	£155.38	54%	£200.00	70%
2B3P	£333.00	-	-	£230.00	69%
2B4P	£374.00	£178.60	48%	£235.00	63%
3B5P	£389.00	£189.92	49%	-	-
3B6P	-	£189.92	-	-	-

(c) **Intermediate housing:** This includes a range of housing for sale or rent at a cost above social-rents but below market levels. In most instances this has generally meant some kind of shared ownership (part-rent part-buy) housing. Sadiq Khan, however, has also introduced London Living Rents - a form of intermediate renting.

London Living Rents: Khan describes this product as being '**genuinely affordable**'. The rents are based on a third of average incomes in any one ward, which is supposed to be better or fairer than rents based on market rents. However, since average incomes are high in exactly the same areas where there are high market rents, there would seem to be little difference or benefit in emphasising a percentage of income rather than rents. London Living Rents and average incomes are highest in central and south-west London where market housing is most expensive.



Map showing London Living Rent levels, which shows rents highest in central and south-west London. Average incomes and average private rents are also highest in the central and south-west London.

London Living Rents are up to 80% market rents (the same as 'discounted affordable rents'). On average, they tend to work out at about 67% market rents across London.

The big difference between affordable rents and London Living Rents, however is that London Living Rent homes are **only accessible to middle income households** that have an income of no more than £60,000 and **who are already renting and can afford to save money to buy or part-buy a homes** (although its not clear how much a household would be expected to put away each month to do this). **They are not aimed at households registered on housing waiting lists** or households that need to claim benefits to meet the cost of their homes. On income basis alone, generally households that have a less than annual median income level (£39,000) will only be able to afford the lowest two levels of London Living Rent homes (see map on page 4) - generally in outer London (most at the edges).

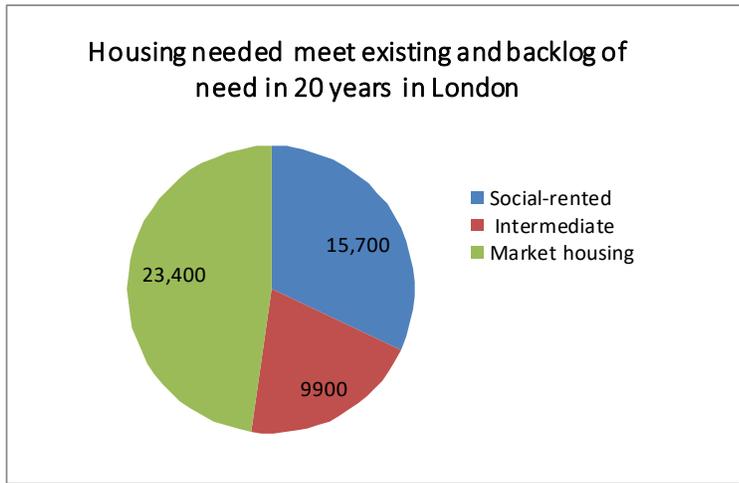
Shared ownership: This is currently available to households whose income is less than £90,000. Generally households can buy a minimum 25% of such homes and can (if they can afford) stair-case up to own higher percentages of ownership.

A local Strategic Housing Market Assessment analysing housing need in Brent, Ealing and Hammersmith & Fulham, has recently been carried out as a supporting document for the Old Oak and Park Royal Development Corporation's Local Plan. This assessment found that to meet housing need over the next 20 years, 45% of new homes delivered would need to be 'affordable housing'. Of this 'affordable housing' only 7% of households would be able to meet the cost of London Living Rent homes and 7% other intermediate housing types. The rest, 86% would only be able to meet the cost of social rented.³

3. How is housing need assessed? All planning authorities are required (by planning legislation) to carry out assessments of the need for different housing types within their boundaries.

3.1 As highlighted above, these are called Strategic Housing Market Assessments (SHMA). They consider a range of projections and data to assess future and backlog of housing need including homelessness, overcrowding and newly forming households, the cost of different types of housing and inward and outward migration.

3.2 **London housing need:** The 2013 Greater London SHMA was carried out by Greater London Authority for London Mayor, Boris Johnson. It assessed that 49,000 new homes comprising 23,400 market homes (48%), 15,700 (32%) social-rented and 9,900 (20%) intermediate homes were needed annually to meet existing and the 121,399 backlog of housing need over a 20-year period. Half of this backlog of need is for social-rented homes.



If the backlog of need for social-housing were to be addressed in 10 years (as has been assumed

3. https://www.london.gov.uk/sites/default/files/43._strategic_housing_market_assessment_0.pdf (see table on p4).

in all previous London Plans) 18,745 social-rented homes would need to be built each year, and if over 5 years (as government guidance pre 2014 used to suggest), 24,280 social-rented homes would need to be built each year.

3.3 Planning authorities are also required to consider the likelihood that housing targets can be delivered including looking at 'viability'. This generally refers to developer profit margins. Developers carry out viability assessments which include how much profit they might make, dependent on the number of 'affordable homes' they might deliver in a development. They often suggest that delivering social or affordable housing in their developments reduces the prices they may charge for the market housing they deliver.

3.4 **London Plan targets.** The current London Plan sets a target for a minimum of 42,000 homes of all types each year (and acknowledges the need for 49,000 homes). The London Plan also sets targets for each of London's planning authorities. Together this amounts to 42,388.



3.5 Only 17,000 of these homes (around 40%) are for 'affordable homes'. The affordable housing target is split 60% social-rented (25% of the total target) and 40% intermediate housing (15% of the total housing target). The London Plan currently allows flexibility on delivery of these percentage targets. Even if the targets were met, the backlog of London's 'affordable housing' need (particularly social rented) will continue to increase.

3.6 **New targets set out by Sadiq Khan.** The current London Mayor, Sadiq Khan will publish a draft new London Plan later this year. He also published draft Affordable Housing and Viability Strategic Planning Guidance in November 2016, which sets out what he will include in a new London Plan. It suggests moving towards a 50% affordable housing target. He proposes a 'threshold approach' to delivery of 'affordable housing', through which schemes that provide 35% affordable housing, without access to public subsidy, do not have to present a viability assessment. If an authority delivers less than 40% affordable housing then grant funding will be provided for homes above the baseline level of affordable housing shown as being viable above the nil-grant basis. If the total exceeds 40% affordable housing then grant may be applied to all homes in the scheme.

The Mayor's preferred split of 'affordable housing' is for at least 30% social and affordable rent and at least 30% intermediate housing (including London Living Rent) and for boroughs to determine what the remaining 40% might be. The key worry here is that, in reality, authorities will go for 30% social and affordable rent homes and 70% intermediate homes in order to deliver higher numbers of 'affordable homes'. NB it is cheaper to develop intermediate than social rented homes - but need for social and affordable rent is much greater. This is what is being proposed in the Old Oak and Park Royal Development Corporation area - effectively dropping the 60/40 current split between social / affordable rent and intermediate housing.

4. **Delivery of housing targets / meeting need:** Delivery of affordable housing is generally poor

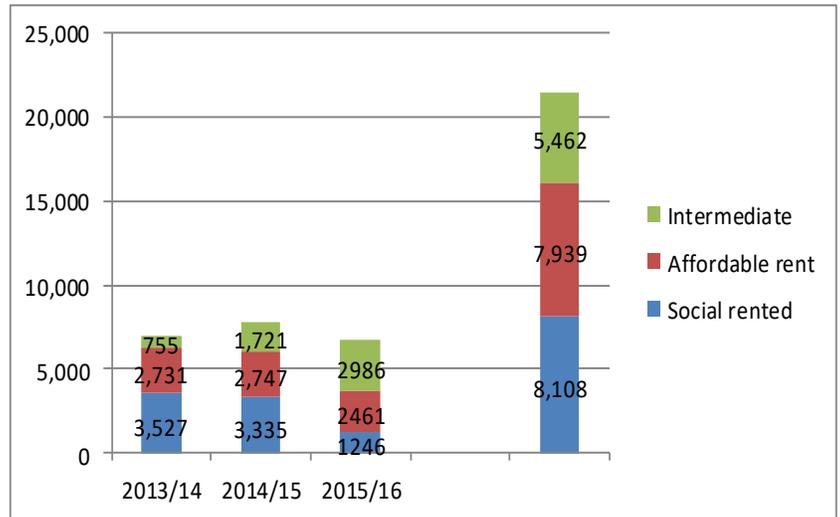
(particularly for social-rented homes). In 2015/16, 17% of homes delivered were affordable. Only 10% of the homes delivered were social / affordable rent homes and 8% were intermediate homes.

4.2 Over the 10-year period of 2005-15, 30% of homes were affordable. This was split 17% social and affordable rent homes and 13% intermediate.

4.3 The adjacent graph shows delivery of 'affordable homes' in London

over the last three years. Despite a higher target for affordable housing for 2015/16 (up from 13,000 to 17,000), the amount of 'affordable housing' delivered was less and the proportion of intermediate housing greater than in the two previous years.

4.4 We suspect that without strong policy and targets in the London Plan on the delivery of 'not-for-profit' homes (and scrapping of the misleading term 'affordable housing') that we continue to see middle income household's needs prioritised with resultant increases in levels of homelessness, overcrowding and low income households being displaced from London.



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