

housing & inequality in london

*Building a better London
for all Londoners*



The problem of inequality is one of the defining issues of our time. We now have more knowledge than ever before about the damaging effects of inequality on our society, our communities and many aspects of our lives.

This pamphlet describes how London's housing crisis is bound up with the problem of economic inequality. It presents some specific proposals to help tackle the housing crisis and argues that housing policies must also work to narrow the gap between rich and poor.

London's current housing crisis is not inevitable. It is the consequence of 40 years of the wrong policies. National, regional and local government all need to put reducing economic inequality at the heart of housing policy. Reducing inequality will ease our housing problems, and the right approach to housing would help to reduce inequality.

My **Fair** London

The UK's housing crisis has been building over the last 40 years. And our housing problems have contributed to growing inequality in our society. London's housing crisis is both a symptom and a cause of increasing economic inequality in Britain.

London's housing problems are particularly extreme: high private sector rents and lack of security, ever increasing house prices, chronic lack of social housing and rising homelessness. High housing costs make ordinary people poorer, and wealth and income inequality lead to huge differences between the housing opportunities of the rich and the less well off. Ironically there is probably enough housing space in London for all Londoners but the way this space is shared out is increasingly unfair. This paper proposes a number of policy changes which could change the situation.

Housing tenure in London has changed dramatically in recent decades. 26% of Londoners now rent from a private landlord – a rise of 12% since 1991. Owner occupation, still the dominant tenure, has fallen from 57% to 50%, while social housing has fallen from 30% to just 24% of all housing.

High rents in the private sector

Private sector rents have risen much more steeply in London than the rest of the UK, with the average rent now just under £1300 a month. London's renters spend around one third of their income on rent, compared with just a quarter 15 years ago.

THE MAIN PROBLEMS IN LONDON'S HOUSING MARKET

Rising house prices

Since 1995 house prices in London have risen steeply. The current average (£500,000) is roughly 20 times London's average household income. A typical buyer now borrows four times his or her income. Unless in the very top income bracket, buyers need a large capital sum as well – simply not a possibility for many Londoners. Rising house prices have made it increasingly difficult for younger people to get a foot on the housing ladder, unless they have family who can help.

Chronic shortage of social housing

There were over 50,000 households in temporary accommodation in 2016, and nearly 20,000 households were newly accepted as 'statutorily homeless'. One third of children in social housing in London and a quarter of children in private rented housing in London live in overcrowded conditions

Rising homelessness

There were 2,750 people reported sleeping rough on London's streets in the first three months of 2017, seven percent up on the previous year. Rough sleeping in London has more than doubled since the

mid- 2000's. The number of people accepted as homeless by London councils is 5 per 1000 households, in contrast to 2 per thousand in the UK as a whole. (1)

A case study from LSE Professor John Hill's work graphically describes the plight of someone falling victim to London's housing problems and the unfair and punishing nature of recent changes to benefits.

"Anne's troubles started when her husband passed away in 2010. In 2011 she was diagnosed with cancer. She had a spare room in her council property and her rent increased from £65 to £150 per week when she didn't even know how to deal with her present debts and bills. In 2013 she was evicted and made homeless. She resorted to a pay day loan when she moved out but couldn't afford to pay it back.

"Now they are catching up with me. I can't afford to ignore these people so must get it sorted. I would have liked them (the Council) to have listened to me – I was paying off the arrears before the Bedroom Tax went on. If they had given me a council one bedroom place and let me take the arrears with me it wouldn't have happened" (2)

Housing and inequality

Since the crash of 2010 static or falling incomes at the middle and bottom end of the social ladder have meant most people have to spend a larger proportion of their income on housing than in previous years. Remarkably, between 2008 and 2013 the incomes of the poorest 10% of Londoners fell by 19%, after meeting their housing costs. (3)

London has the most unequal pay distribution of any part of the UK, wholly due to high pay rates at the top. The top 10% of employees in London earn an average of £1400 per week, while the bottom 10% earn £350. More significantly for housing, the richest 10% of Londoners have £260 billion of financial wealth (much of it their property value). The poorest 10% have negative wealth (more debt than credit). (4) The rich, the super rich and international investors' desire to own a property in London, an investment considered 'safe as houses', has contributed to London's extreme house price inflation. Some properties are even bought and kept empty. And as prices at the top have been driven up by people with nearly unlimited funds an upward pressure is felt all the way down.

Housing inequality is both a symptom and a driver of wealth and income inequality. With flatlining incomes rising housing costs make ordinary people poorer. Wealth and income inequality lead to huge differences between the housing opportunities of the rich and the less well-off. Residential property is seen as a good way for those with spare cash to make even more money. Private rents are usually a direct wealth transfer from poorer to richer people. In the last Parliament nearly one third of MPs declared that they received income from rental properties.

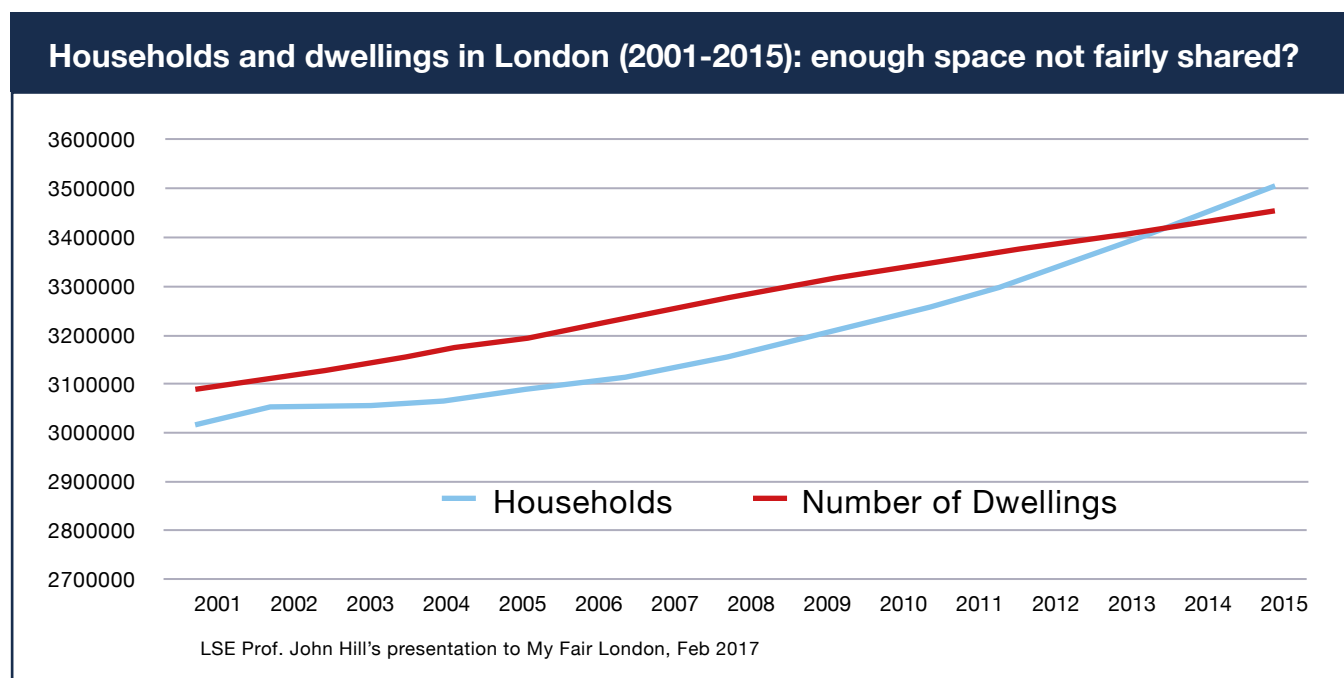
In 2009 the book 'The Spirit Level' showed how economic inequality contributes to many social problems: poor mental and physical health, high crime and violence, overall life expectancy - all are worse in more unequal societies. (5) London's housing inequality makes overall inequality worse.

However, contrary to the general belief, in London there is enough housing space for everyone.

Over the period 2001-2015 the number of households in London grew from 3 to 3.5 million. The number of dwellings kept pace with this, growing from 3.1 to 3.4 million. The average amount of floor space per dwelling has also been rising. So there is in fact enough space for all the extra households in London (6).

**HOWEVER,
CONTRARY TO
THE GENERAL BELIEF,
THERE IS ENOUGH
HOUSING SPACE
FOR ALL
LONDONERS.**

This graph shows supply and demand of housing don't appear that out of balance. London's housing crisis is largely about how we share out the housing space we have.



WHAT CAN WE DO ABOUT HOUSING AND INEQUALITY IN LONDON?

My Fair London co-sponsored the London Fairness Commission in 2016. That commission made a series of evidence based recommendations on housing :

Protecting homes for Londoners

- Use the Mayor's housing funds for quality rented housing for those unable to afford a decent home and urgently pursue moves to generate private investment in rented housing for those earning the least.
- Set 'affordable rents' to 30% of household income rather than 80% of market rent.
- Suspend right to buy for five years while supply is increased and provide a portable discount for those who have lived in social housing for 15 years.

A fairer deal for renters

- Encourage longer-term tenancies to provide greater stability in the private rental sector.
- Champion mandatory registration of landlords.
- Undertake a review of the enforcement of quality standards in the private rental sector, in order to identify how enforcement can be strengthened and made more effective.

More homes for Londoners

- Seek further devolution of powers to enable the introduction of a tax on land owners of land in London with planning permission, which has not been developed within three years of permission being granted.
- Petition the Government to re-establish dedicated grant funding programmes and support to Local Authorities to bring empty properties back into use which will enable Local Authorities to enforce their power to compulsorily purchase properties if required.

The biggest problem with housing in London is that the space in our houses is shared out far less equally than it used to be. Much of new housing space built over the last 30 years has gone to the better off. Overall the number of rooms per person has risen since 1991. The people in the top thirty percent income bracket have seen the biggest rise of space: from 1991-2011 the top 10% saw a rise from 3 to 5 rooms per person, and the next 10 percent from 2 ½ to 4 (7). These are UK figures – the differences in London are likely to be greater because of the concentration of wealth in the capital.

SO WHY IS THERE A HOUSING SHORTAGE WITH ALL ITS ATTENDANT PROBLEMS?

Since the 1970s the UK housing market has been 'financialised.' Figures show that house price inflation in the UK relates much more closely to the supply of credit from the banks than it does to the supply or demand for housing. Banks decided they like lending money on property. This massive increase in available borrowing underpins our chronic house price inflation. And the banks liking for lending money on existing properties rather than new properties further stokes rising house prices without creating any more homes. London's housing market has made paper millionaires of fairly average households who were simply fortunate enough to buy a home in previous decades. As interest rates collapsed after the crash, and the Bank of England poured credit into the banking system even more money has moved into the property market.

WHY ARE OWNER OCCUPIERS UNWILLING TO DOWNSIZE OR LET PART OF THEIR PROPERTY?

Moving is always an upheaval so the benefits need to be significant. Staying put is attractive to most if they see the value of their home steadily increase. Reductions in the long-term value of many pensions creates another incentive for people to hang on to their property. In addition, Council Tax and other property taxes have not responded to

rises in house prices. Even the tax incentives currently offered to people who rent out rooms are confined to space within the same household. Reforms to the way social care is funded are proposing that cash should be released from the value of people's homes as they need care. This further locks home owning fractions of the population into the conception that their house is as much an investment as a place to live.

Taken together all these effects lead us to use London's housing stock in the most unproductive and unfair ways.

Given that the housing crisis is as much a failure of distribution as it is a shortage of supply, what can be done?

- 1 Government should take steps to increase incomes at the bottom. This could be through further increases in the minimum wage, with a top-up for Londoners, and/or reductions in their tax. This would be paid for by higher, progressive taxes on the rich.
- 2 Consider regulating private rents on the German model, in which there are reasonable restrictions on rent increases and much more security of tenure than in the UK. This might helpfully undermine short-term investment based solely on increasing property values.
- 3 Create better incentives for owner occupiers to use spare space in their properties by converting it into self-contained flats. This could be done by grants for building work and/or tax concessions on the rents received by owners.
- 4 Examine legal changes based on European models (Stockholm for example) to make it unlawful for international investors to purchase residential property unless they intend either to become resident, or at least to rent out the property.
- 5 Reform Council Tax into a progressive property tax with strongly progressive higher rates for higher value and/or under-occupied properties.

- 6 Since space freed up by (3) above would be unlikely to be affordable for people on Council waiting lists, the Government should fund a substantial programme of Council and Housing Association new build at genuinely affordable rents. This could be partly funded by the money saved from the large amount of Housing Benefit currently paid to private landlords by Councils to house those on waiting lists. Government could even take powers to buy back private housing for rental, perhaps at capped prices or using compulsory purchase powers.



www.myfairlondon.org.uk

The UK is a very unequal society. We are more unequal than most other developed countries. Over the last 40 years wealth has become ever more concentrated at the very top. The gap between rich and poor is particularly extreme in London.

ABOUT US

This inequality is highly damaging to individual wellbeing and to society as a whole. It is the engine of many of our social problems. Inequality causes damage: to our mental and physical health, to our children's life chances, to our human relationships. More unequal countries have more crime and lower levels of trust. And inequality damages the economy. So London's very high inequality should concern us all.

But it doesn't have to be like this. We can change our city and our society. All that is required is political will, and concerted, long term action.

Find out more & join us at
www.myfairlondon.org.uk

My Fair London campaigns for action to reduce inequality and create a healthier, happier and fairer society.

SOURCES

1) Shelter statistics – www.shelter.org.uk, 2) John Hills lecture to My Fair London, reprise of a lecture given at the LSE <http://www.lse.ac.uk/International-Inequalities/Videos-Podcasts/Charles-Booth-Centenary-Lectures>, 3) John Hills, as above, 4) London Poverty Profile, <http://www.npi.org.uk/publications/income-and-poverty/londons-poverty-profile-2015/>, 5) The Spirit Level, Richard Wilkinson and Kate Pickett, Penguin Books, London 2009, 6) John Hills, as above, 7) John Hills, as above

Useful information on housing in London

London's Poverty Profile 2017 - <https://www.trustforlondon.org.uk/publications/londons-poverty-profile-2017/>

The Mayor of London's Housing Strategy and other housing information - <https://www.london.gov.uk/what-we-do/housing-and-land>

Homeless statistics - Chain Quarterly Reports - <https://data.london.gov.uk/dataset/chain-reports>

Housing, the rich and the super rich - <https://www.theguardian.com/uk-news/2016/aug/31/londons-elite-pushed-out-of-exclusive-postcodes-by-super-rich>

London Fairness Commission – final report, March 2016 -

<http://londonfairnesscommission.co.uk/wp-content/uploads/2016/03/London-Fairness-Commission-Final-Report-Exec-Summary.pdf>

Note: this paper was drafted before the Grenfell Tower fire. The fire seems to symbolise so much that is wrong in British society, but particularly inequality in housing provision. My Fair London commits to taking action on inequality because we believe that a fairer society would be better for everyone and would look after its poorer citizens better.

 **THE EQUALITY TRUST**

My Fair London is an autonomous group of Londoners affiliated to The Equality Trust <https://www.equalitytrust.org.uk>