

The crazy cost of affordable housing



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London's housing crisis is a monument to this nerveless government's inability to act, argues Dan Lewis.

A simple failure to increase housing supply, coupled with rising demand, is impoverishing London's poorest first and is now fast decapitalising its middle classes. Yet our ruling politicians prefer to bandy concepts like 'affordable housing' and 'sustainability', while our planners and some leading architects pontificate unhelpfully on urban density. But we're not as dense as they think. Many Londoners are now beginning to realise that the only way forward is through a major building programme that provides for the housing they actually want.

Whatever way you look at it, it's hard to put a positive spin on London's housing statistics. London's 7.2 m population is forecast to grow another 700,000 by 2020, many of whom will have to be newly housed in the Thames Gateway. According to Mayor Livingstone's office, over the last 20 years, there have been 20,000 homes constructed per annum. This falls way short of the 31,500 that would have been needed to keep prices in line with incomes. (Indeed in 2001, fewer homes were built in the capital than in any year since 1924 – 11,000). The Corporation of London, however, puts the number needed at the much higher figure of 44,000. No wonder the average London house price since 1995 has risen by nearly 150 per cent, against an average rise in incomes of 20 per cent. Nor is it surprising that the price per dwelling in London is 1.6 times that of England or Wales, while private sector rents are three times the national average.

Yet as a whole, it's with affordable housing – a brilliant semantic for state subsidised housing – where the crisis looms with greatest intensity. According to the Housing Corporation, in 2002 there were 175,000 fewer social rented homes owned by councils and housing associations in London than in 1981. Clearly, this owes something to the right-to-buy legislation brought in under Margaret Thatcher. Yet far more important has been uncontrolled immigration, which has sent demand for social housing through the roof. As at the end of 2001, there were 400,000 refugees and asylum seekers in London, or about 30 times the national average. That's why in every London council estate, residents can't wait to tell you how much they resent asylum-seekers for jumping the housing queue over their son, cousin etc.

Joining the queue for the limited stock of houses, along with the asylum seekers and London's impoverished lower class, is a brand new left-wing Überidol – the key worker. But who are key workers? It's worth listing all of them, if only to see a common trait; NHS staff, teachers, police officers and some civilian staff in some police forces, prison service and probation service staff, social workers, educational psychologists, planners (but of course!), occupational therapists employed by local authorities, full time junior fire officers and retained fire fighters in some fire and rescue services. So there you have it. What they all have in common, as our esteemed editor once remarked, is that if they go on strike, you would notice.

So at the time of writing, as London went to the polls to elect a new mayor, what are our politicians doing, or proposing to do about affordable housing?

Let's start with the government, which on home-building and planning is represented by the Deputy Prime Minister, John Prescott. Nationwide, earlier this year, the government pledged £3.5 billion to an affordable house-building programme over the next two years. This will be rolled out via the cunningly named 'Sustainable Communities Plan' and English Partnerships' London Wide Initiative. Collectively, these schemes are set to create 67,000 new affordable homes, of which 2000 should be in London over the next two to three years. There's also a £690 million key worker living programme for London and the wider South East, to help favoured public sector workers buy or rent a home.

Prescott has been pilloried of late for supporting building on some greenfield sites and actually trying to increase supply. These critics have picked the wrong target. The real problem is that Prescott is trusted with the where and the how of the building. And clearly the lobbies have got to him – public sector trade union supporter workers, mixed in with the current fashion for sustainability. Planning power at the centre is just no way to deal with local demand. Even a superman Deputy Prime Minister would not have perfect knowledge of the individual requirements, tastes and preferences of 1.2 m home-seekers.

For all that, in London, the Mayor has more influence over planning and house-building than the Deputy Prime Minister. And

Livingstone certainly has ambitions. Of the 31,900 projected annual building requirement, he aspires to 50 per cent of them being affordable. Broken down, as part of his Spatial Development Strategy, he wants 35 per cent to be socially rented to those on low incomes and 15 per cent affordable to those on moderate incomes. He is also an unrepentant Corbusier enthusiast and likes tower blocks and high urban density.

Londoners ought not to forget that none of Livingstone's schemes have produced a net improvement in housing supply. Simon Hughes, the Liberal Democrat contender, tried to outdo Livingstone with a firm commitment to 50 per cent of new homes to be built as affordable and a promise to negotiate head on with landowners to release undeveloped brown-field sites. Steve Norris advocated adopting a far more flexible approach to affordable housing, determined on a site-by site basis, depending on location and type of housing to be built.

Readers may have noticed a definite bias to the left in support for affordable housing. This has a long history. Herbert Morrison, the controversial 1930s Labour leader of the London County Council, boasted of building the Tories out of London through the addition of social housing – a policy that would continue under the guise of affordable housing. Socialism creates socialists and creating a whole new caste of key workers dependent on subsidised housing is a sure-fire way to electoral rout for the Tories. Note by the way that a parallel policy allegedly pursued by Tory Lady Porter led to criminal proceedings and a whopping fine. Social engineering is only OK when Socialists do it.

In the past the arguments were made for subsidized housing for unskilled industrial workers, landless labourers and the temporarily socially dislocated; nowadays it's the young middle class professional, pursuing a career in medicine or teaching. These are the new union aristocrats who have taken over from the defunct miners.

Yet the greatest paradox of all is that affordable housing actually bumps up prices for everyone else. Section 106 of the Planning Act is the basis by which large-scale new private-sector housing development may be required to include a substantial affordable element.

Developers and landowners, however, are not rewarded by the public sector for this, so they just increase the price of the private units that are built alongside. Moreover, this slants the economics against development, so even fewer homes are built which adds to further inflationary pressures. It's remarkable how few people are willing to grasp this unintended consequence of over-regulation. Politicians can argue all they like about what percentage of new developments should be affordable. But if the economic conditions are not favourable enough, the homes will continue not to be built and prices will keep going up.

There is a better way to tackle the problem: it means acknowledging government failure and letting market forces do the job. The more you multiply planning controls, the more you stoke up the fires of inflation. The harder it is to comply with regulations, the harder it is to build. In the 50 years prior to the 1947 Town and Country Planning Act, stable house prices marched hand in hand with growing incomes. In the 50 years since, house prices have exploded. That is not progress. The supply side of housing will not work until planning controls and regulations are relaxed.

It's population that drives demand. This has to be addressed on two fronts. There is no alternative to limiting immigration to a more manageable number per year, or possibly a net zero figure. That would radically reduce demand for affordable housing. Secondly, and this will take unheralded political will, legislation should be passed that ends the right of trade unions to bargain national pay scales for public workers.

There is at present very little difference in regional pay scales for public workers, but as discussed, a massive discrepancy in housing costs. Regional pay must reflect regional costs. It's absurd to let the distortion of public sector pay, further distort the housing market at great cost to everyone else.

The real answer is another 1930s-style house-building boom. It was highly successful, raising the standards of living for millions of families down the decades, including public sector workers. The suburbs of London are a tribute to how homes can positively mix with the environment, supporting as they do, far more species per acre than a piece of farmland, even when interspersed with parks. The Green Belt set up in the 1930s was a reflection of modish ideas of that era. It has progressively raised the cost of living for the working and middle classes in and outside it. We need a flexible green belt, building homes where they're wanted, offset with partial reforestation in other parts of the country. Building, planning flexibility and immigration control are the only ways to solve London's housing crisis. Until our politicians accept this, the cost of affordable housing will go from lunar to astronomical and all Londoners will be the worse off.

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THE HOUSING CORPORATION IS READY TO GO PRIVATE

The Housing Corporation has signalled that it will have cash available immediately for private sector developers to bid for if the controversial procedure is allowed in the final form of the Housing Bill. Corporation chair Peter Dixon suggested that around £200m would be available, with the money coming from 'end of year slippage' rather than being taken out of the pot available to housing associations.

The ODPM has been keen to have the option of offering social housing grant directly to house-builders, despite fierce opposition from many in the sector. Dixon told a housing conference that he was able to reassure the ODPM that a bidding round would be manageable once the bill receives assent.

However Dixon also revealed that the Corporation is looking at a plan to allow housing associations to bid alongside private developers for the same money, on the basis that there should be a level playing field. This in turn has raised the thorny question of whether the usual regulatory requirements might be relaxed for associations, or conversely imposed on house builders, with either route likely to meet opposition.