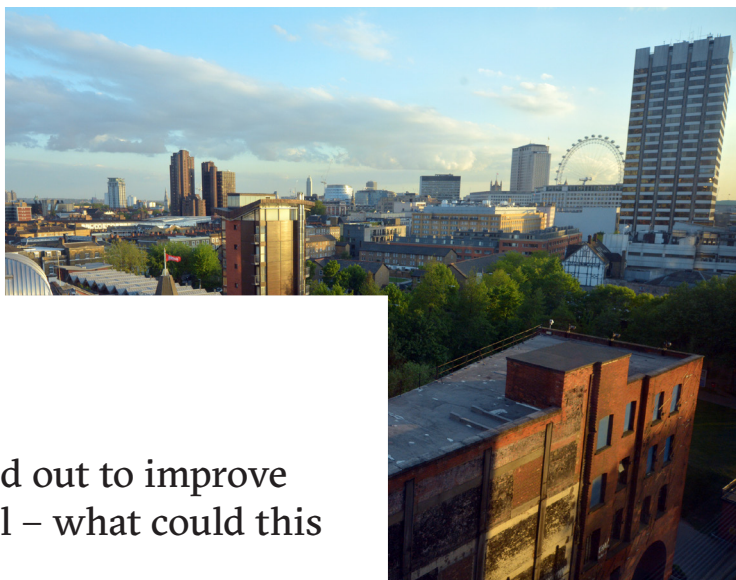


Insight focus

JUNE 2017

London Living Rent

A 'London Living Rent' is being rolled out to improve rental affordability within the capital – what could this mean for new development?



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Despite the recent political uncertainty brought about by the general election and the EU referendum outcome, the cost of housing remains Londoners' biggest concern about living in the capital¹.

Decades of undersupply have produced a significant shortfall; indeed, the annual housing requirement set out in the London Plan 2016 is 42,000 homes - 7,000 homes short of meeting actual housing 'need'. But housing stock in the capital increased by only around 30,000 homes in 2016 - which, in itself, was a seven year high. This prolonged undersupply of housing in London has produced significant pressure on affordability for both homes to buy and to rent.

The Mayor's London Living Rent is an intermediate affordable housing product, with rents based on one third of average local household incomes. Designed as a product to provide discounted rents to households looking to save for a deposit to buy their own home, those eligible must have an income level of below £60,000 p.a. and cannot be existing homeowners. London Living Rent homes will be delivered in partnership with the Greater London Authority (GLA) and are intended

to be built on all sites, including within Build to Rent schemes. Rent levels would be set by ward and would be based on estimates of private market rents in a ward, and on local income levels (assessed at borough level).

Providers are encouraged to actively support London Living

Rent tenants by offering the home to buy as a shared ownership property. However, if the tenant does not take this up within a ten year period, it is expected that the provider would sell the property to an eligible shared ownership buyer instead. Build to Rent providers, who may wish to retain long-term ownership of an entire building, are not required to sell a London Living Rent property.

By design, London Living Rent levels across London reflect the existing spatial variation in household income, house prices and rental levels. As can be seen in Figure 1, higher London Living Rent levels tend to be in central and south west London – traditionally the areas of London where housing is most expensive – while lower London Living Rent levels tend to be found in east and outer London.

LONDON LIVING RENT IN BRIEF

Key features

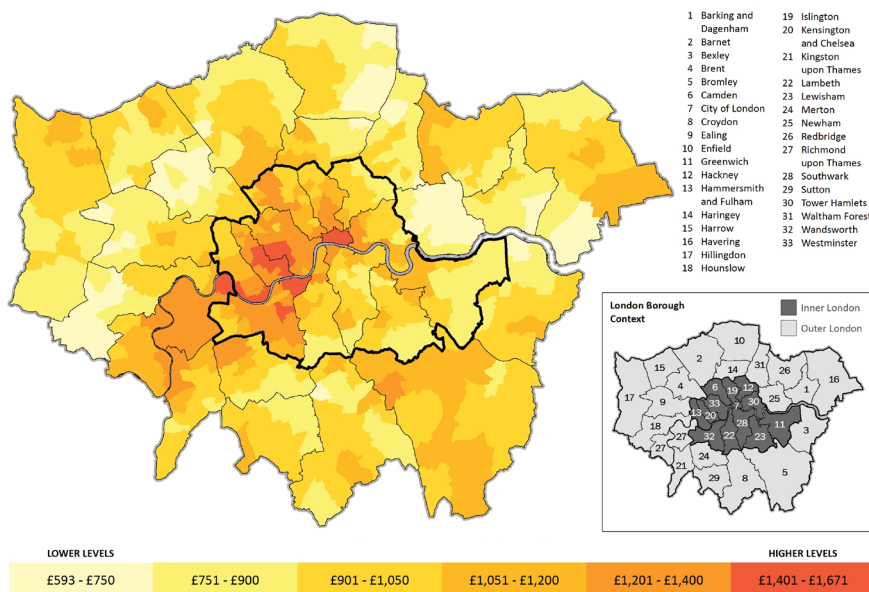
- Intermediate affordable housing product (Rent to Buy)
- Benchmark LLR levels at a third of average local household incomes
- 3 year minimum tenancies
- LLR must be at least 20% below assessed market rent for that unit

Eligibility

- Renting in London
- Max household income of £60,000 and
- Unable to currently buy a home in their local area

¹ YouGov (2016) <https://yougov.co.uk/news/2016/11/09/what-do-londoners-most-and-least-about-living-lond/>

Figure 1 : London Living Rent by ward for a two-bedroom flat



Source : Lichfields analysis of Greater London Authority data





We...need more renting options to help middle earners, which is why I have established the London Living Rent.

A City for all Londoners – The Mayor of London, Sadiq Khan (2016)

How to interpret the map

This map shows only neighbouring wards in different boroughs to highlight the disparity in LLR levels. Where the ward area is green, the London Living Rent is lower when compared to an adjacent ward in a different borough (shown in red). Darker shades indicate larger differences in the level of London Living Rent a scheme can charge, showing the arbitrary nature of the distortions.

Arbitrary borders and market distortions

The London Living Rent is calculated and set at ward level, where it would equate to one third of the ward's estimated average household income and would be capped at 80% of the assessed local private market rent level. It is important to note that administrative boundaries, such as those for boroughs and wards, are crucial to this analysis as they are arbitrary in terms of incomes and property values. We expect this fact to create distortions in all of those locations where two neighbouring wards (that can be in the same, or in different boroughs) are in reality identifiable as a single neighbourhood, since their London Living Rent would be based on different estimates of household incomes (calculated at borough level) and private market rent (calculated at ward level).

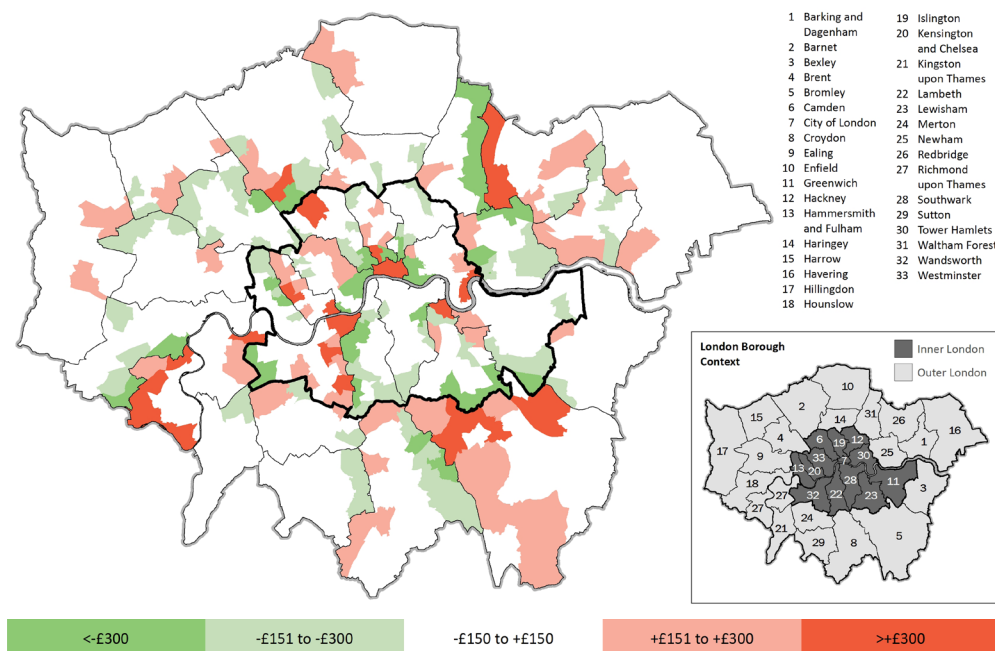
As Figure 2 shows, the difference in the London Living Rent 'level' in neighbouring wards in different boroughs can be significant. For example, the London Living Rent for a two-bedroom flat in Stockwell (Lambeth) is £998 per month, while in Queenstown (Wandsworth), it is £1,497 – a difference of around £500 per month. Similar

differences appear throughout London, in places such as: Woodside (Croydon) and Kelsey and Eden Park (Bromley); in Little Ilford (Newham) and Wanstead (Redbridge); and in King's Cross (Camden) and Clerkenwell (Islington).

The disparities, however, aren't found all across London – some neighbouring wards in different boroughs are similar in terms of income, house price and rent levels (the variables affecting the London Living Rent calculation). For example, Lady Margaret (Ealing) and Yeading (Hillingdon), as well as St. Pancras and Somers Town (Camden) and Caledonian (Islington), each have differences of under £10 – albeit at different overall London Living Rent levels of £750 and £1,100 per month, respectively.

If the difference is significant, it may well influence development decisions across the capital. For example, a potential investor may look to invest in the ward that has the higher London Living Rent level, instead of the neighbouring ward in a different borough – even though it could be argued that the two wards are seen as essentially the same place by residents.

Figure 2 : London Living Rent level showing rents for every ward that neighbours a ward in a different borough



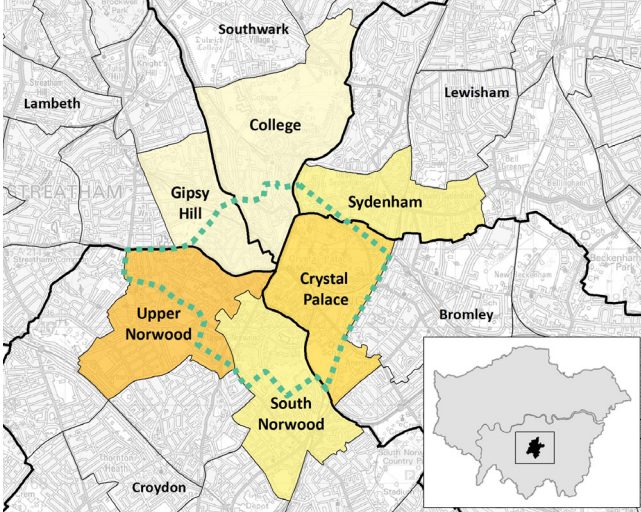
Source : Lichfields analysis of Greater London Authority data



We know that fixing London's housing crisis won't happen overnight, and we need to do everything we can to help Londoners who are struggling to pay their rents.

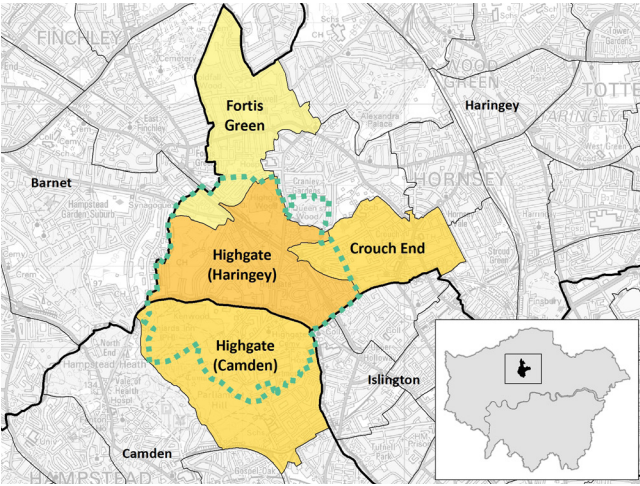
The Mayor of London, Sadiq Khan

² The Neighbourhood Plan area also includes a small section of the Haringey ward of Muswell Hill but this has been omitted from the analysis as it only includes a wood – Queens Wood.

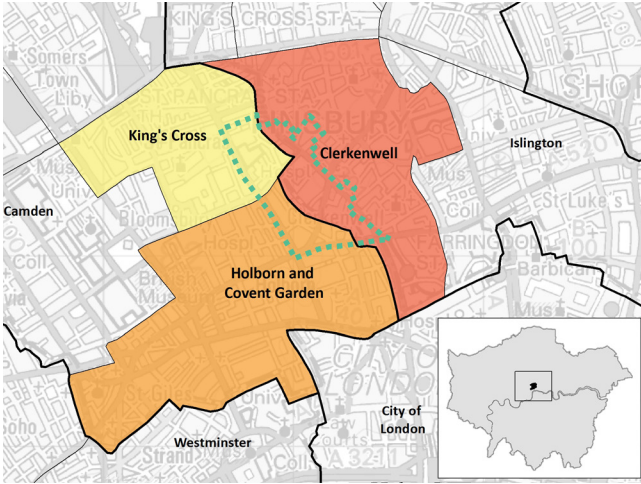


Crystal Palace and Upper Norwood Neighbourhood Area
No. of boroughs: 5
No. of wards: 6
 One of the best examples of administrative boundaries that don't fully reflect local areas is the "cross-border community" of Crystal Palace and Upper Norwood Neighbourhood Area, that spans six wards in five different boroughs. The London Living Rent for a 2-bedroom flat here ranges from £848 (College, Southwark) to £1,107 a month (Upper Norwood, Croydon).

Highgate Neighbourhood Area
No. of boroughs: 2
No. of wards: 4
 Covering a large area of 510 hectares, the Highgate Neighbourhood Area overlaps four different wards in the two boroughs of Camden and Haringey. London Living Rent levels for a 2-bedroom flat vary between £982 (Fortis Green, Haringey) and £1,125 a month (Highgate, Haringey).²



Mount Pleasant Neighbourhood Area
No. of boroughs: 2
No. of wards: 3
 Despite covering a relatively small area, the Mount Pleasant Neighbourhood Area exhibits one of the starkest differences in London Living Rent levels. A 2-bedroom flat would cost £928 a month in King's Cross (Camden), while the rent would amount to £1,384 a month in Clerkenwell (Islington).



..... Neighbourhood Plan area

Source : Lichfields analysis of Greater London Authority data

The London Living Rent is designed to address concerns about worsening housing affordability, but the discount it offers on private market rent is uneven across London.

As Figure 3 shows, the majority of wards (364 of 635) will see a London Living Rent level higher than 70% of the estimated market rent – 57% of all wards are in the top two bands. Furthermore, only 6% of wards would charge a London Living Rent of less than half the estimated market rent. These statistics show that London Living Rent is at the higher-end of the definition of intermediate housing.

However, these statistics are skewed by the number and weight of wards in Outer London. Our analysis highlights how in almost 40% of Outer London wards, the London Living Rent would be capped at 80% – as per the policy criteria – similar to existing affordable rent products (although the eligibility criteria for affordable housing will

be different). By comparison, only 12% of Inner London wards would see their London Living Rent capped at 80%. On average, the London Living Rent would equate to 62% of private market rents in Inner London wards and 76% in Outer London wards.

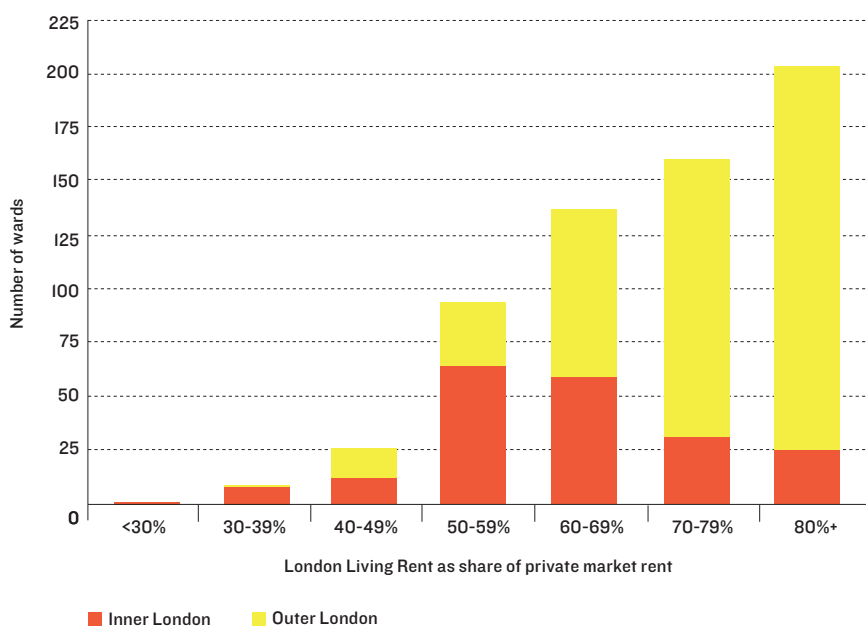
This analysis shows two key findings. First, the London Living Rent appears to be at the top-end of intermediate housing products – and extremely close to the maximum level of affordable rent – when we look at all wards across London. Secondly, however, the policy is designed to offer an intermediate housing product that has different criteria to affordable housing i.e. one that is open to slightly higher earners who are still priced out of the capital. As housing unaffordability is of greater concern within Inner London, it is clear that London Living Rent works better – in terms of the price comparison to market levels – within these inner wards.



Londoners know that fixing the housing crisis will be a marathon and not a sprint

The Mayor of London, Sadiq Khan

Figure 3 : Number of wards within bands of London Living Rent's share of private market rent level



Source : Lichfields analysis of Valuation Office Agency, Land Registry, and Greater London Authority data

Methodology
Private market rent levels at the ward level were calculated following an approach akin to that of the GLA for London Living Rent. To reflect local conditions, private market rent levels at the borough level from the Valuation Office Agency were varied by ward using a ratio of house price values – a proxy for valuation – at the ward level compared to the borough level. The London Living Rent level provided by the GLA at ward level was then compared to our estimate of the private market rent level. By definition, affordable housing is less than 80% of market rent, with social rent roughly a third of private rent.

Contact Us

London
Matthew Spry
matthew.spry@lichfields.uk
020 7837 4477

Bristol
Andrew Cockett
andrew.cockett@lichfields.uk
0117 403 1980

Cardiff
Gareth Williams
gareth.williams@lichfields.uk
029 2043 5880

Edinburgh
Nicola Woodward
nicola.woodward@lichfields.uk
0131 285 0670

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Leeds
Justin Gartland
justin.gartland@lichfields.uk
0113 397 1397

Manchester
Michael Watts
michael.watts@lichfields.uk
0161 837 6130

Newcastle
Michael Hepburn
michael.hepburn@lichfields.uk
0191 261 5685

Thames Valley
Daniel Lampard
daniel.lampard@lichfields.uk
0118 334 1920