

MENDING THE LADDER RESPONDING TO THE AFFORDABILITY CRISIS IN LONDON AND THE SOUTH EAST

EXECUTIVE SUMMARY
JUNE 2017



Catalyst Housing Affordability Analysis

Making homes affordable

42% of households in London and the South East cannot sustainably afford to pay even a lower quartile market rent in their local authority area. It is becoming increasingly difficult to sustainably afford a market rent or save for homeownership, which is slipping further out of reach for many.

Original research by Catalyst analyses 485,379 households living in the Private Rented Sector (PRS) across 25 local authority areas. The model we have created allows us to drill into significant detail to better understand the housing markets in these authorities and the needs of specific household groups.

For Catalyst this understanding of the market is key to the direction of our business and sustaining our social purpose. On the basis that housing costs should be no more than 45% of household income we identify the gaps in the housing market: the products needed to allow people at different incomes and life stages to afford housing, save for a deposit and move up the housing ladder to home ownership.

Our core business remains delivering affordable housing to support those in housing need. However, our research shows that those living in the PRS and aiming for home ownership have their own specific housing need which is not met by the market. Our aim therefore is to create and deliver products which form part of a ladder of housing solutions for a range of income levels.

In this report we focus on three products and ideas:

- **Affordable shared living** – a growing part of the private sector where Catalyst is now playing a role.
- **Rented housing for middle-income earners** – delivering more housing at the Mayor of London's 'London Living Rent' and analysing other models to assist households onto the property ladder.
- **Income-based rent** – a new flexible rent-setting model that Catalyst is exploring.

We want to provide for all of the market to sustain our goal of being an innovative development partner and renowned mixed-tenure place maker.



Our research

PRS

Catalyst's affordability standard

To enable us to consistently test affordability across tenures we have developed an affordability standard based 'cap' of no more than 45% of net household income to be spent on housing costs, and a living standard 'floor' to ensure all households have sufficient income for their basic needs. Our Minimum Income Standard (MIS) is unique and tougher than both the Joseph Rowntree Foundation and Trust for London models, only allowing for 'essential' living costs.

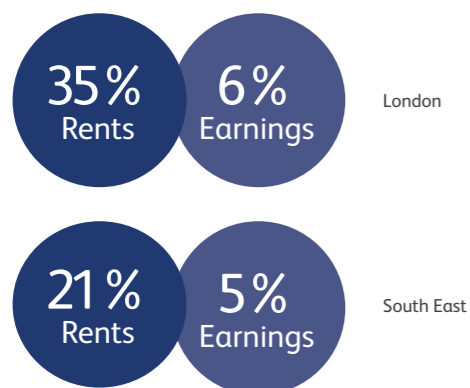
What we found

28% of households in London now live in PRS and this figure is increasing. As the pressure on the PRS increases, rents are rising significantly as well. The substantial rent rises in the private sector contrast sharply with the growth in earnings in similar periods (see Figure 1).

As a result, 42% of households cannot sustainably afford to pay even a lower quartile market rent in their local authority area. This is 49% for all households in London and 28% for households in the South East.

In addition, there are a significant number of households for whom a social rent is unaffordable according to our standards. These trends are leading to a rise in homelessness across the areas we researched; this trend is even more acute over the last 12 months.

Figure 1
Increase in rents & earnings 2011-16



Source: (VOA/ONS)

Homeownership

Overall trend

The English Housing Survey shows that over the past two decades the age of first time buyers has increased significantly with the proportion of 35+ year-olds increasing from 17% to 30%.

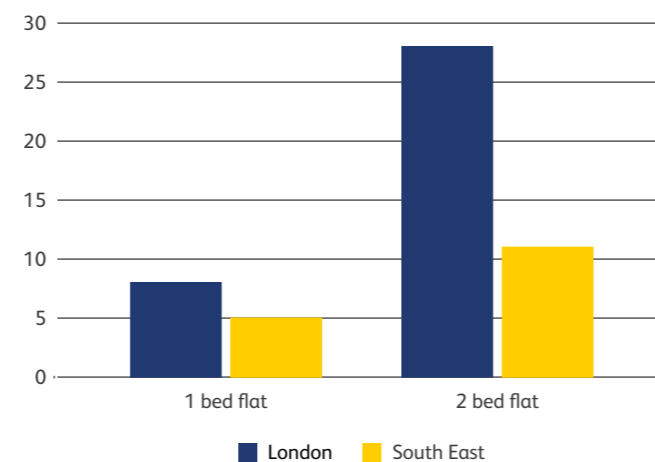
Over the same period, the proportion of first time buyers in the top two fifths of all earners has increased from 62% to 72%. At the same time, the percentage of first-time buyers needing a gift or loan from family or friends increased from 20.5% to 27%, and similarly those needing an inheritance from 3% to 10%. Homeownership is at its lowest level for thirty years.

What we found

Rising market rents have made saving for a deposit increasingly difficult. Research conducted by the Bank of England shows that 27% of households living in the PRS do not save anything each month, with the remainder saving £225 on average.

Based on average values across our area of operation, and not factoring in house price increases, it would take eight to 29 years to build up enough savings to buy a lower quartile value property in London and five to 11 years in the South East (Figure 2).

Figure 2
Years of savings needed to buy



Current low-cost homeownership products offer substantial support to households locked out of outright sale, both in terms of savings needed and housing costs. On a savings level of £2,500, just over half of households living in the South East could buy a lower quartile property through Shared Ownership.

Solutions

Affordable shared living

We know that there are a significant number of singles who cannot afford to pay a market rent according to our standard – about 48%. We are proposing a Shared Living concept to provide these singles with a vital and genuinely affordable step on the housing ladder. We are devising regeneration schemes which include shared living so that this product can be delivered alongside existing affordable tenures.

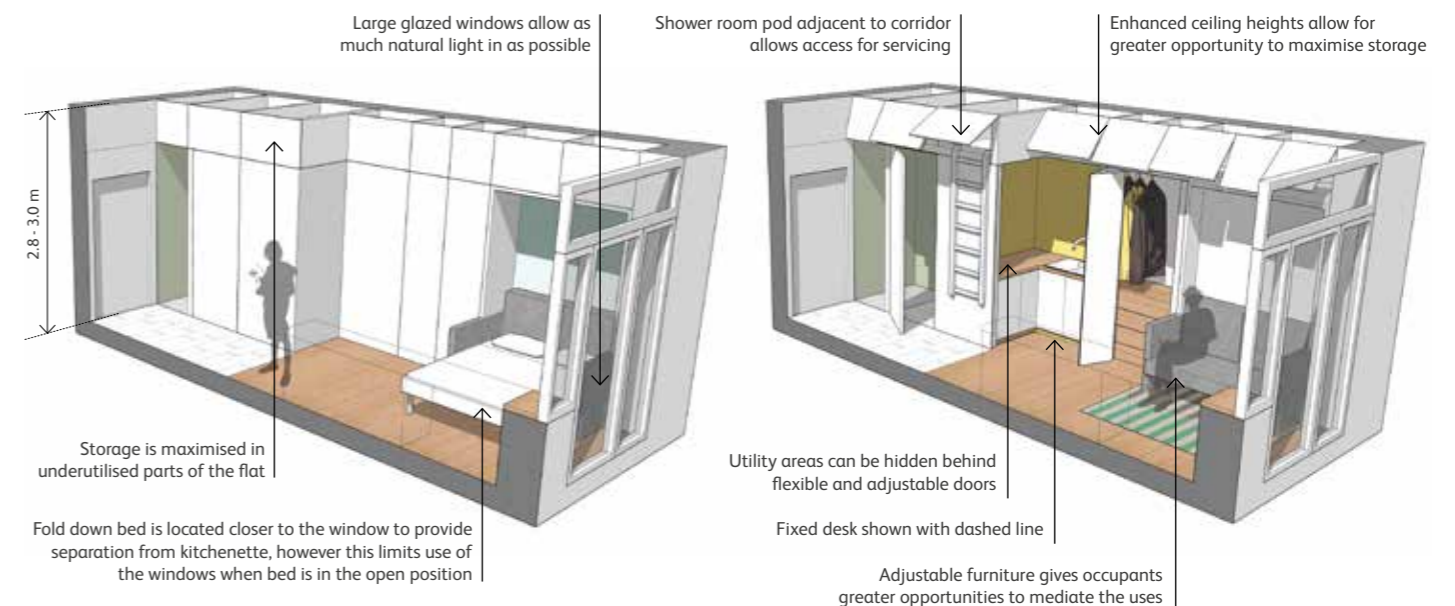
Central to the Shared Living concept is combining a sense of privacy with a sense of community by providing individual well-designed en-suite accommodation with an array of communal spaces such as gyms, cinemas, lounge facilities and kitchens.

Rented housing for middle-income earners

We know that the key inhibitor to homeownership is the ability to save up for a deposit. We need solutions to assist households with saving. Over the last six months, various products that aim to do this have been launched and debated.

- In London, the Mayor set out more details of his 'London Living Rent' proposal that offers affordable rents to households on average incomes, enabling them to save for a deposit.
- The National Housing Federation have proposed a 'buy as you go' concept allowing tenants to build up equity as part of their rent payments.

Figure 3
Catalyst designs for shared living apartments



- In January 2017, the Government released additional funding as part of its affordable homes programme, which includes funding for Rent-to-Buy homes. This product offers a 20% discount on the local market rent.

Catalyst supports the development of homes at London Living Rent and we are also exploring other models as above to assist households onto the property ladder.

Income-based rent

We are developing an Income-Based Rent product at Catalyst, which sets the rent according to the household's ability to pay, with a cap of 80% of market at first let. Whilst it is tailored to a household's individual circumstances, it is also flexible for when circumstances change at annual rent reviews.

The ability to provide for a variety of income types in a development allows us to improve financial performance in comparison to traditional sub-market rent products whilst also creating a mixed community. It would therefore allow us to build greater numbers of much needed homes in the areas in which we operate. Over the coming years we will work to develop this concept ensuring that we learn and develop from the experience of others and feed into wider sector debates.

We need radical solutions. As part of our social purpose Catalyst believes that we need to support housing solutions for a range of income levels and circumstances to ensure we truly create a functioning housing ladder for all parts of society.



About Catalyst

Catalyst provides more than 21,000 homes in London and the South East, through a wide range of rental and home ownership opportunities.

We aim to be a catalyst for change and improvement wherever we work, pursuing better homes, better service and a better future for our customers. We are also an award-winning developer, working in a responsible and sustainable way to build new homes and communities and regenerate neighbourhoods.

We have been at the forefront of housing for more than 80 years, constantly adapting and evolving our services to meet customers' changing requirements. Today, we provide a wide range of housing solutions and community development initiatives, working closely with residents and partners to meet local needs.

This research has been finely granulated giving us the ability to show the results across household, property and product types across all 25 local authority areas analysed. If you would like a more detailed, local analysis, please contact the New Product Development team at new.products@chg.org.uk.



Catalyst development at St Bernard's Gate, Ealing



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