

# The Peabody Index

Tracking the financial experiences of London's social housing tenants

Scott Corfe



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## ABOUT THE AUTHOR

Scott Corfe joined the SMF as Chief Economist in 2017. Before joining, he was Head of Macroeconomics and a Director at the economics consultancy Cebr, where he led much of the consultancy's thought leadership and public policy research. His expert insights are frequently sought after in publications including the Financial Times, the Sunday Times, the Guardian and the Daily Telegraph. Scott has appeared on BBC News, Sky News, Radio 4 and a range of other broadcast media.

Scott was voted one of the top three forecasters of UK GDP by Focus Economics in 2016.

## EXECUTIVE SUMMARY

This report, commissioned by Peabody, provides new insights into the lives of individuals living in social housing in London – in particular, with respect to their living standards and financial situation. It draws on data from a wide range of official sources to track and analyse developments in incomes, savings and living costs.

The key findings of the report are:

- **Real incomes for social housing tenants in London are lower than a year ago.** The latest datapoints in the Peabody Index show that average real household disposable incomes among social housing tenants fell between mid-2017 and March 2018, as incomes struggled failed to keep up with increases in the cost of living over this time period.

While real incomes ticked up in April, driven by more rapid employee earnings growth and declines in inflation, this has not been enough to offset the negative effects of the recent squeeze on real incomes. The average household disposable income for social housing tenants in London stood at £406 per week in April 2018, 1.1% lower than a year ago, and down from £413 in July 2017 (expressed in April 2018 prices – that is, adjusting for inflation). On an annualised basis, this amounts to a decline in real household disposable incomes of about £389 between July 2017 and April 2018.

- **Households in London have been much more affected than other regions by welfare cuts in recent years.** Analysis of Department for Work and Pensions data on aggregate benefits expenditure by region shows that London households saw the least growth of any region between the 2013/14 and 2016/17 fiscal years. Furthermore, London households have been relatively more affected than other regions by both the underoccupancy penalty (‘bedroom tax’) and the benefits cap.
- **On the other hand, incomes of social housing tenants in the capital have been supported by rising levels of employment.** Analysis of data in the ONS Labour Force Survey suggests that the proportion of economically active<sup>1</sup> social housing tenants in paid employment in London increased from 78% to 88% between Q1 2008 and Q1 2018. The proportion that were unemployed fell from 20% to 11% over this time period, with the remaining balance of economically active tenants either undertaking unpaid family work (such as care) or in government employment or training schemes.
- **The income gap between social housing households and other households in London has widened since 2011.** In August 2011, social housing households had an annual disposable income on average about £20,100 lower than other London households. In our latest data, covering April 2018, the income gap stood at about £27,110. In percentage terms the income gap widened from 51.8% to 56.2% over this time period. This reflects the fact that welfare restraint has curtailed income growth for a higher proportion of social housing tenants, leading to a widening income gap with the rest of the capital.

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<sup>1</sup> That is, those that are either working or looking for work. Economically inactive tenants, such as those with some disabilities, the retired and those below working age are excluded from the analysis.

- **About two fifths (41%) of social housing tenants in London had no savings or investments in 2017.** This is significantly higher than the 17% of all London households reported to have no savings or investments. Across the UK as a whole, 21% of households reported having no savings or investments (excluding housing and pensions) in 2017.
- Housing and commuting costs in the private sector are highly unaffordable across much of the of the capital, highlighting the need for social housing. There is no borough in the capital where someone with a gross income of £19,500<sup>2</sup> can privately rent and commute into travelcard Zone 1 at combined costs of less than 80% of disposable income (based on lower quartile private rents for each borough). There are several London boroughs in the centre and West of the capital where combined rent and commuting costs exceed 100% of disposable income.

#### Summary of key data for social housing tenants in London

	Latest data	Level/rate	Change compared with six months (October 2017)/two quarters (Q3 2017) ago	Change compared with a year ago (April 2017/Q1 2017)
Real household disposable income of London social housing tenants, April 2018 prices	Apr-18	£21,087 per year	↓ (-£85 annualised)	↓ (-£244 annualised)
Household income shortfall of social housing tenants compared with other London households	Apr-18	£27,110	↑ (+£1,037)	↑ (+£1,518)
Inflation for social housing tenants in London	Apr-18	1.8%	↓ (-0.5 percentage points)	↑ (+0.2 percentage points)
Unemployment rate*	Q1 2018	10.9%	↓ (-1.3 percentage points)	↓ (-3.1 percentage points)

\* % of economically active social housing tenants in London. Excludes economically inactive tenants such as retired individuals and those that are unable to work due to disability.

<sup>2</sup> 25<sup>th</sup> percentile employee earnings in London according to the 2017 ONS Annual Survey of Hours and Earnings

## CHAPTER 1: Introduction

This report, commissioned by Peabody, provides new insights into the lives of individuals living in social housing in London – in particular, with respect to their living standards and financial situation.

A significant proportion of the capital's residents rely on social housing to provide affordable accommodation, given the high degree of unaffordability in much of the private housing market. Social housing enables many lower income households to remain in the capital and contribute to London's community and economy.

This report paints a mixed picture for the financial situation of the capital's social housing residents. On the one hand, recent years have seen a significant increase in the proportion of tenants in employment – something which has provided support to average incomes and which is to be welcomed. As well as the financial benefits associated with employment, there is a substantial body of academic evidence highlighting the positive impacts of being in work for health and wellbeing.

On the other hand, offsetting the gains to average incomes from higher levels of employment, is the impact of fiscal austerity and benefits cuts on household finances. Residents in the capital have been much more affected than other parts of the UK by a range of welfare reforms in recent years, such as the benefits cap and the 'bedroom tax'.

Another part of the financial picture is growth in the cost of living – inflation – and its impact on the living standards of social housing tenants. While households benefited from a period of very low inflation between 2014 and 2016, higher price growth since the Brexit referendum led to a renewed squeeze on household incomes. The latest data in the Peabody Index, which tracks trends in disposable incomes among social housing tenants, shows incomes are lower than a year ago. Furthermore, analysis of Bank of England survey data suggests that about two fifths of social housing tenants in London have no savings or investments which they can draw on in the event of an emergency.

As well as examining trends in incomes, this report also assesses the economic need for social housing in the capital and the difficult trade-offs households currently face in trying to find somewhere affordable to live, work and support a family. We present new research examining housing and commuting costs in the capital, and the implications of these expenses for workers in a range of occupations, and for individuals with a range of housing requirements. We present a series of housing affordability heatmaps which highlight the difficulties faced by workers on modest incomes in finding somewhere affordable to live and work – and which demonstrate the need for social housing in the absence of affordable alternatives in the private sector.

The structure of the report is as follows:

- Chapter 2 examines trends in disposable incomes in London, presenting data from the 'Peabody Index' which tracks incomes among social housing tenants.
- Chapter 3 examines wealth and savings among London residents, with a particular focus on the savings buffer of individuals in social housing.
- Chapter 4 presents new analysis of housing and commuting affordability in the capital.

## CHAPTER 2: The Peabody Index

This chapter presents the findings of new analysis of household incomes in London, particularly with respect to relatively lower income residents living in social housing.

Our headline Peabody Index tracks the average real (inflation-adjusted) household disposable incomes of the capital’s social housing tenants, exploring the extent to which they are changing in response to developments in welfare policy, the labour market and the cost of living. By disposable income, we mean income net of taxes. “Income” includes earnings from employment, investment, pensions & annuities, and social security benefits.

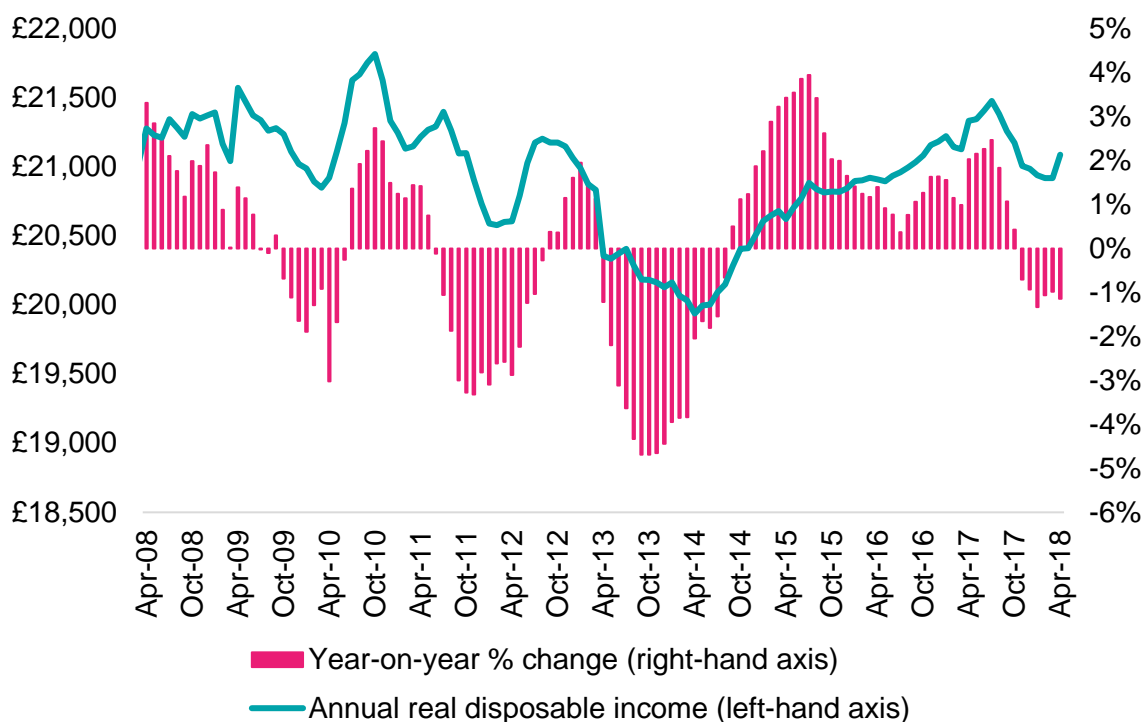
To provide a point of comparison, we also explore trends in household incomes across London as a whole, to explore the extent to which the incomes of social housing tenants are catching up with or falling further behind others living in the capital.

The Index is based on analysis of a wide range of datasets, including the ONS Living Costs and Food Survey, ONS Family Resources Survey, ONS labour market and inflation statistics, DWP benefits caseload statistics and rental data from the Greater London Authority. A methodological note is included in the appendix of this report.

### Trends over time

Although this is the first Peabody Index publication, we have compiled a ten-year back history of trends in household incomes among social housing tenants, to provide a point of comparison. Income is expressed in April 2018 prices, to adjust for inflation.

**Figure 1 Peabody Index – average real annual disposable income of social housing households in London (April 2018 prices)**



Source: SMF analysis based on data from the ONS Living Costs and Food Survey, ONS inflation bulletins. ONS Labour Force Survey and GLA data on social housing rents.



The latest datapoints in the Peabody Index show that average real household disposable incomes among social housing tenants fell between mid-2017 and March 2018, as incomes struggled failed to keep up with increases in the cost of living over this time period.

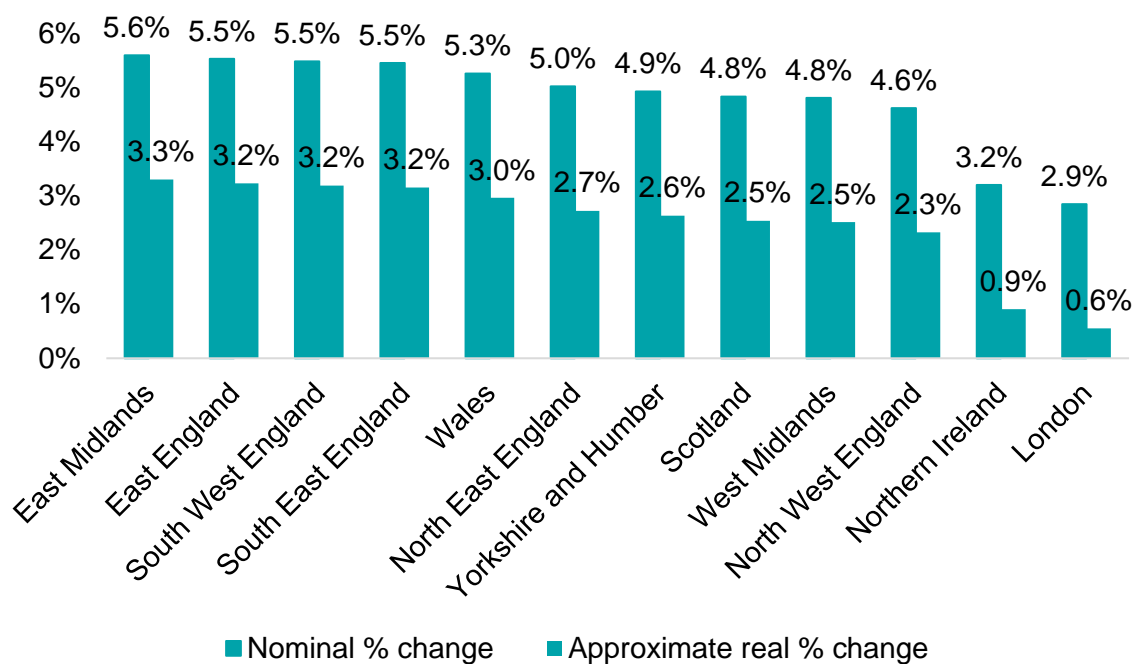
While real incomes ticked up in April, driven by more rapid employee earnings growth and declines in inflation, this has not been enough to offset the negative effects of the recent squeeze on real incomes. The average household disposable income for social housing tenants in London stood at £406 per week in April 2018, 1.1% lower than a year ago, and down from £413 in July 2017 (expressed in April 2018 prices – that is, adjusting for inflation). On an annualised basis, this amounts to a decline in real household disposable incomes of about £389 between July 2017 and April 2018.

We note some significant swings in income growth among households in social housing in recent years. Most noteworthy perhaps are the marked downturn in average real disposable incomes in 2013, the subsequent recovery from 2014 and the recent turning point which saw disposable incomes declining again. These trends reflect a range of economic and policy factors.

### Impact of benefits changes

The downturn in average incomes for social housing tenants in 2013 was driven by a decline in the average social security payments received by these households. Restraint in welfare continues to curb income growth and London has been affected more than other parts of the UK. Analysis of Department for Work and Pensions data on aggregate benefits expenditure by region shows that London households saw the least growth in benefits expenditure of any region between the 2013/14 and 2016/17 fiscal years – as Figure 2 illustrates.

**Figure 2 Percentage change in aggregate benefits expenditure, by region, 2013/14 – 2016/17 fiscal year**



Source: Department for Work and Pensions, SMF analysis. Estimate of real % change in benefits expenditure based on deducting UK-wide CPI inflation from the nominal % change in benefits expenditure.

In part the regional differences in Figure 2 reflect the fact that the State Pension accounts for a smaller proportion of the welfare bill in London than it does outside of the capital because London has a younger population. The State Pension is protected from fiscal austerity by the ‘triple lock’ which sees it rise by the highest of CPI inflation, employee earnings growth or 2.5% each year. As such, the burden of fiscal austerity has largely fallen on working age households.

But this is not the only factor explaining why London has been most affected by welfare restraint; when considering the reforms to working age benefits that have taken place in recent years, the capital has been disproportionately affected.

Two benefits cuts, in particular, stand out in terms of their disproportionate impact on London households: the benefits cap and the underoccupancy penalty (the ‘bedroom tax’). The benefits cap places a limit on the total amount of benefits income a household can receive. The underoccupancy penalty entails individuals having their housing benefits reduced if the socially rented property they are living in is judged to have more bedrooms than is necessary.

With respect to the underoccupancy penalty, government impact assessments suggested that 80,000 households in London would be affected by this change: equal to approximately 22% of total socially renting housing benefit claimants in London. Furthermore, the average weekly reduction in housing benefit in London was estimated to be £21 per week – higher than in any other UK region<sup>3</sup>.

With respect to the benefits cap which came into effect in 2013, 49% of affected households were estimated to be living in Greater London. Average losses to households from the benefits cap were estimated to stand at £93 per week<sup>4</sup>.

### Impact of labour market developments

Although benefits changes have constrained household incomes for social housing tenants, this has been offset by rising income from employment. There has been a significant increase in the proportion of social housing tenants in London that are in work in recent years – whether that be working for someone else or in self-employment.

Analysis of data in the ONS Labour Force Survey suggests that the proportion of economically active<sup>5</sup> social housing tenants in paid employment in London increased from 78% to 88% between Q1 2008 and Q1 2018. The proportion that were unemployed fell from 20% to 11% over this time period, with the remaining balance of economically active tenants either undertaking unpaid family work (such as care) or in government employment or training schemes.

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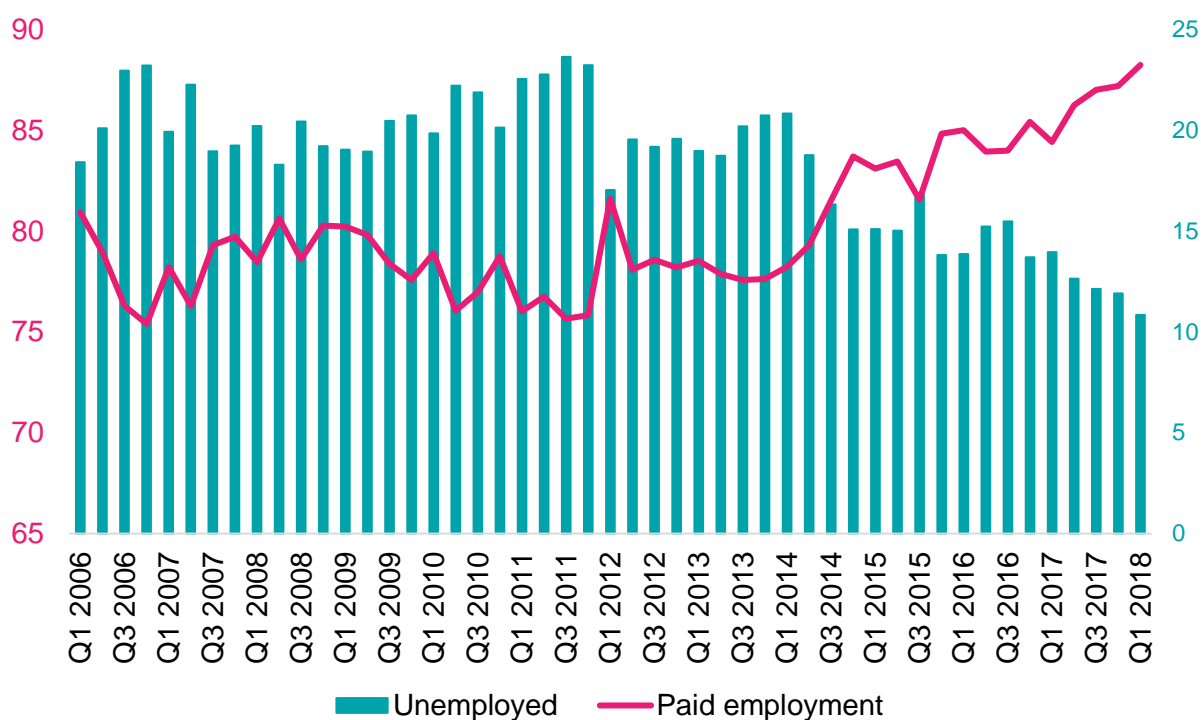
<sup>3</sup>

[https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/220179/social-sector-housing-under-occupation-wr2011-ia.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/220179/social-sector-housing-under-occupation-wr2011-ia.pdf)

<sup>4</sup> [https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/220178/benefit-cap-wr2011-ia.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/220178/benefit-cap-wr2011-ia.pdf)

<sup>5</sup> That is, those that are either working or looking for work. Economically inactive tenants, such as those with some disabilities, the retired and those below working age are excluded from the analysis.

**Figure 3 Proportion of economically active social housing tenants in London in paid employment (left-hand axis) and proportion unemployed (right-hand axis), %**



Source: ONS, SMF analysis

While rising levels of employment have had a positive impact on household incomes, there has been a significant debate in recent years about the quality of the jobs that have been created since the financial crisis. For example, there has been much discussion about growth in the number of “zero hours” job contracts in the economy, which offer employees no guarantee of working hours and income. Similarly, concern has been raised about jobs in the “gig economy” – such as Uber drivers and Deliveroo workers. Arguably, for some workers, these jobs offer the worst aspects of being an employee and of being self-employed – the income uncertainty of an entrepreneur and the relative lack of freedom of an employee. Using official data, it is difficult to pass judgment on the quality of jobs being taken up by London’s social housing tenants. We would expect some similar trends to the nationwide picture, with some workers experiencing issues related to job quality and lack of income certainty. Recent SMF research has highlighted a number of challenges faced by lower income self-employed workers, include a lack of pension saving and training opportunities<sup>6</sup>.

### Impact of inflation

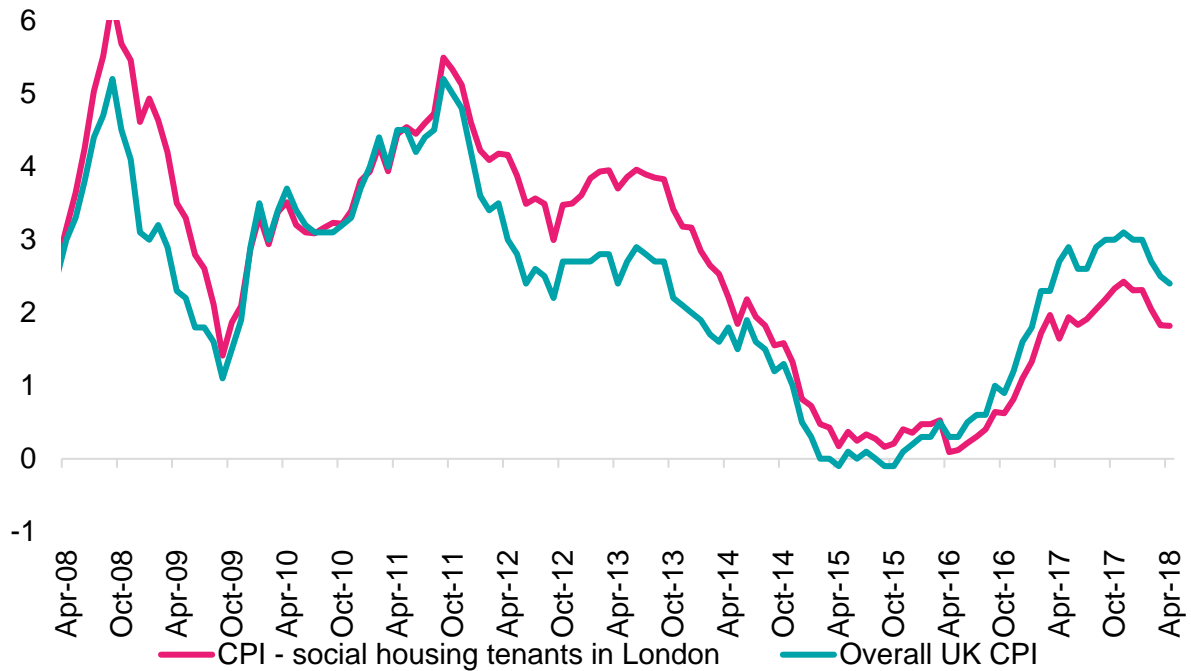
The recent decline in real incomes for social housing tenants in London comes despite the fact that cost of living inflation for this group is currently below that experienced across the UK as a whole. In part, this reflects the impact of the July 2015 Budget, during which the then-Chancellor George Osborne announced a 1% per year reduction in social

<sup>6</sup> SMF (2016), “Tough Gig: Tackling low paid self employment in London & the UK”

housing rents for a four-year period. This has curtailed cost of living inflation for social housing tenants who do not have all of their rent covered by housing benefit.

Figure 4 below shows our estimate of cost of living inflation for social housing tenants in London - the year-on-year percentage change in the cost of living for this group, based on typical spending patterns for these households. To provide a point of comparison, the graph also includes headline consumer price index (CPI) inflation for the UK as a whole.

**Figure 4 Estimated cost of living inflation, London social housing tenants versus UK CPI, %**



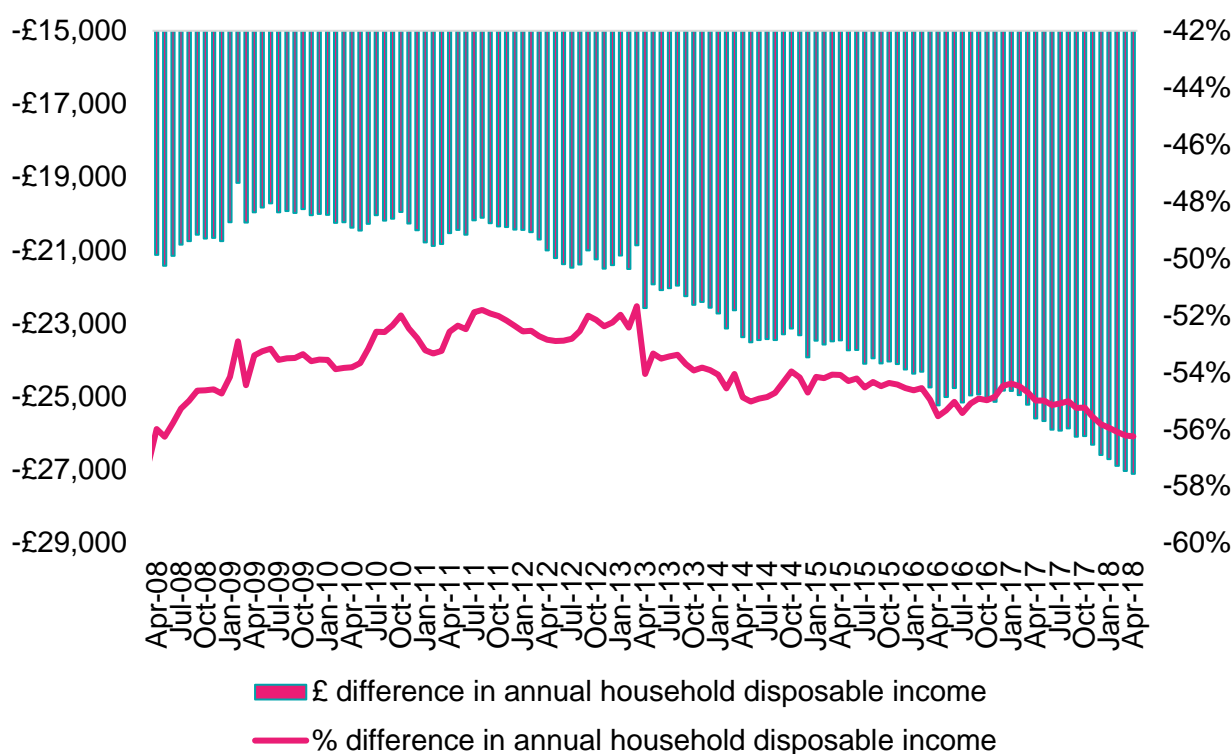
Source: ONS, SMF analysis

## Comparisons across groups – are social housing tenants catching up or falling behind?

Another area of interest is the extent to which income differences across households in London are changing over time – is the income gap between social housing residents and other London households widening or narrowing?

Our analysis of trends over the past ten years suggests that the income gap between social housing households and other London households has widened since 2011. In August 2011, social housing households had an annual disposable income on average about £20,100 lower than other London households. In our latest data, covering April 2018, the income gap stood at about £27,110. As Figure 5 shows, in percentage terms the income gap widened from 51.8% to 56.2% over this time period. This reflects the fact that welfare restraint has curtailed income growth for a higher proportion of social housing tenants, leading to a widening income gap with the rest of the capital.

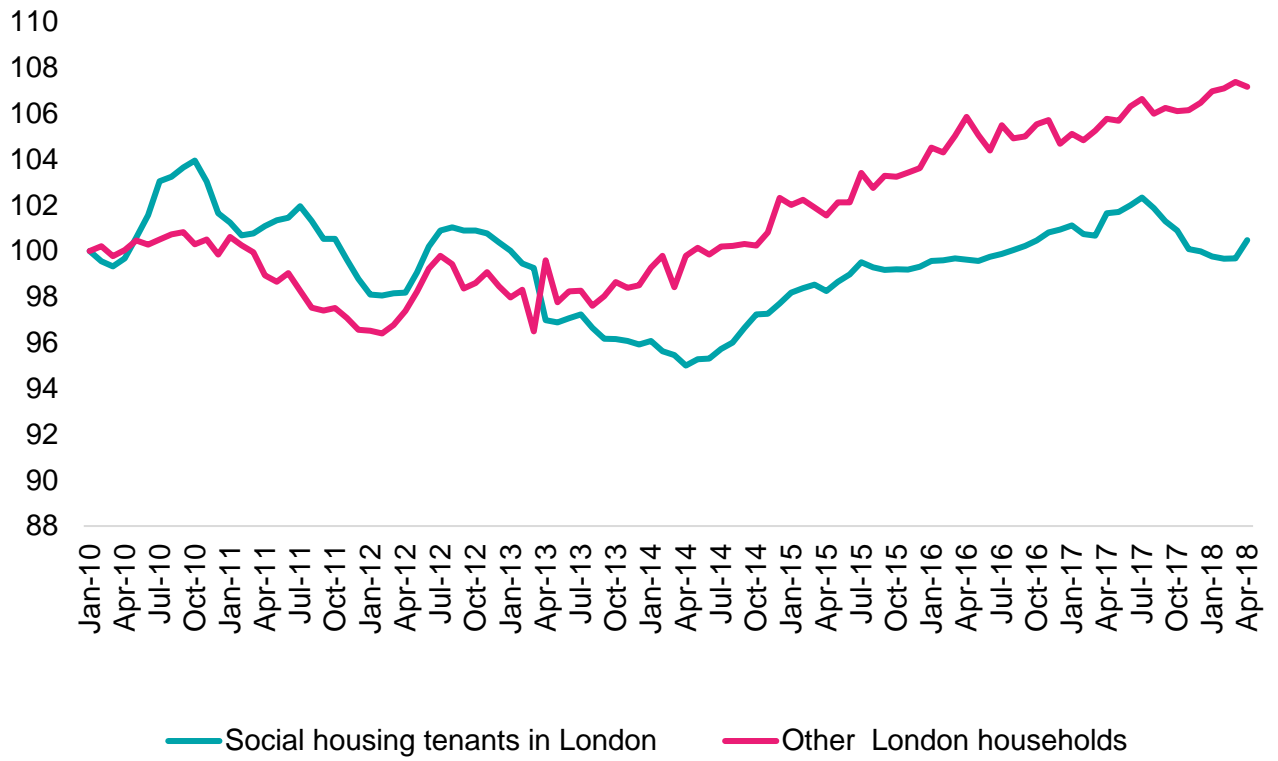
**Figure 5: Difference between average annual disposable income for London social housing tenants, and average household disposable incomes for other London households.**



Source: SMF analysis

The disparity in incomes between social housing tenants and other London households has potentially significant implications for equity and social cohesion in the capital. We note that, while the percentage difference in incomes remains slightly lower than seen just prior to the 2008/09 economic downturn, the trend since 2013 has been one of a widened income disparity between social housing tenants and the rest of the capital, both in pound terms and in percentage terms. This is highlighted in Figure 6, which shows trends in real incomes for social housing tenants and other households in London, expressed as indices.

Figure 6: Index of real household disposable incomes, January 2010 = 100



Source: SMF analysis. based on data from the ONS Living Costs and Food Survey, ONS inflation bulletins. ONS Labour Force Survey and GLA data on social housing rents.

## CHAPTER 3: Wealth and savings

Pressures on living standards – whether that be from high housing and commuting costs, or other sources – can often translate into low rates of saving as well as increased levels of debt as households use credit to cope with living expenses. Our analysis of Bank of England data suggests that a significant proportion of social housing tenants in London lack a savings buffer which they could draw upon in the event of a financial emergency. This leaves them exposed to financial shocks such as unexpected repair costs or the loss of a job.

### Findings from the latest Bank of England NMG survey

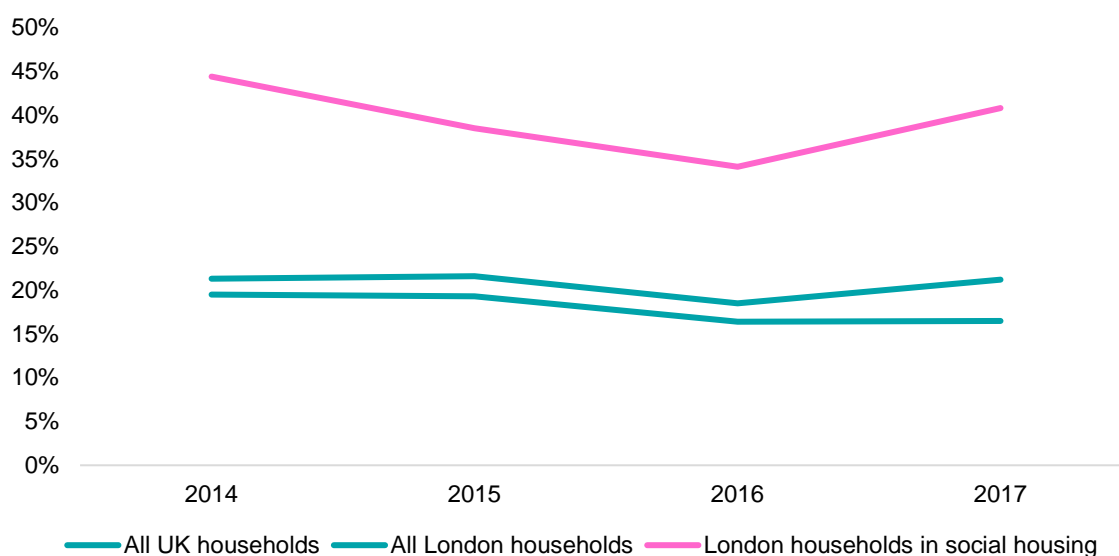
One key source of information on the financial situation of UK households is the Bank of England's 'NMG' survey – an annual survey tracking a wide range of financial indicators. The Bank of England provides public access to the raw survey data, which allows us to segment and analyse its findings – including an assessment of financial trends across regions and different types of housing tenure.

One financial indicator tracked in the survey is the total value of savings and investments held by individuals (excluding housing and pensions). We can thus examine the proportion of households that report holding no savings or investments, split by tenure.

Our analysis of the data suggests that about two fifths (41%) of social housing tenants in London held no savings or investments in 2017, significantly higher than the 17% of all London households reported to have no savings or investments. Across the UK as a whole, 21% of households reported having no savings or investments in 2017.

As Figure 7 shows, the proportion of social housing tenants in London reporting to have no savings or investments increased between 2016 and 2017, from 34% to 41%. With the available data, it is hard to pinpoint the cause of this, though it may be a reflection of the renewed squeeze of disposable incomes discussed in Chapter 2.

**Figure 7 Proportion of households with no savings or investments (excluding pensions and housing)**



Source: Bank of England, SMF analysis

## CHAPTER 4: The cost of living and working in London

As well as pressures on household incomes, living standards in London are influenced heavily by the changing cost of living. Rising housing costs have forced many in the capital to relocate within the city, or to leave London altogether in search of cheaper accommodation.

Often, finding more affordable accommodation entails moving further away from the city centre, and measures such as the benefits cap have potentially led to individuals locating to cheaper areas on the periphery of the capital or further afield<sup>7</sup>. But the financial savings from doing so are sometimes significantly offset by higher transport costs. For example, an individual with a job in the centre of London (in travelcard zone 1) currently has to pay £223.50 for a monthly Oyster card season ticket if travelling in from zone 5. This compares with £131 for someone travelling in from Zone 2 – a difference in travel costs of £1,110 over the course of a year.

As well as distance from the centre, another trade-off many individuals make to reduce their housing costs is to compromise on space. For example, an individual or couple may choose to rent a room in shared accommodation, or to rent a studio flat rather than a flat with a separate bedroom. Yet there are clearly limits on the extent to which individuals and families can reasonably compromise on space, particularly when it comes to larger family units. Nevertheless, analysis in this chapter suggests many workers in the capital are unlikely to be able to afford anything more than a room in shared accommodation in the private sector.

The analysis in this chapter examines the extent to which privately and socially rented accommodation in the capital is “affordable”. The research draws on earnings data in the 2017 ONS Annual Survey of Hours and Earnings, 2017 rental data from the Valuation Office Agency and Greater London Authority, and transport cost data from Transport for London. A methodology note is included in the appendix of this report.

### Affordability of housing and commuting costs

This analysis focuses on workers on relatively low incomes in the capital. Our benchmark is affordability for an employee in the 25<sup>th</sup> percentile of the income distribution in London – which entails a gross annual salary of about £19,500<sup>8</sup>. We assume this employee works in travelcard zone 1 of the capital.

The heatmaps overleaf highlight the substantial unaffordability issues faced by such a worker in trying to find affordable accommodation in the private rental sector. They map lower quartile (25<sup>th</sup> percentile) private rents and mean social rents, as a proportion of the disposable income of our benchmark worker. Once commuting costs into central London are considered in the analysis, there is no part of the capital where someone with a gross income of £19,500 can privately rent and commute at combined costs of less than 80% of disposable income, and there are several London boroughs in the centre and West of

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<sup>7</sup> See, for example, London Assembly (April 2014), “Assessing the consequences of welfare reform”, which finds evidence of an increasing concentration of housing benefits claimants in Outer London.

<sup>8</sup> 2017 ONS Annual Survey of Hours and Earnings

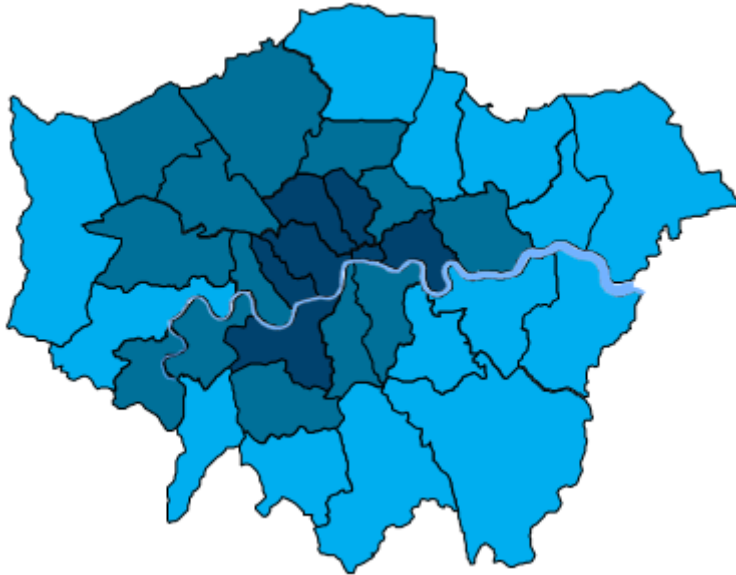


the capital where combined rent and commuting costs exceed 100% of disposable income.

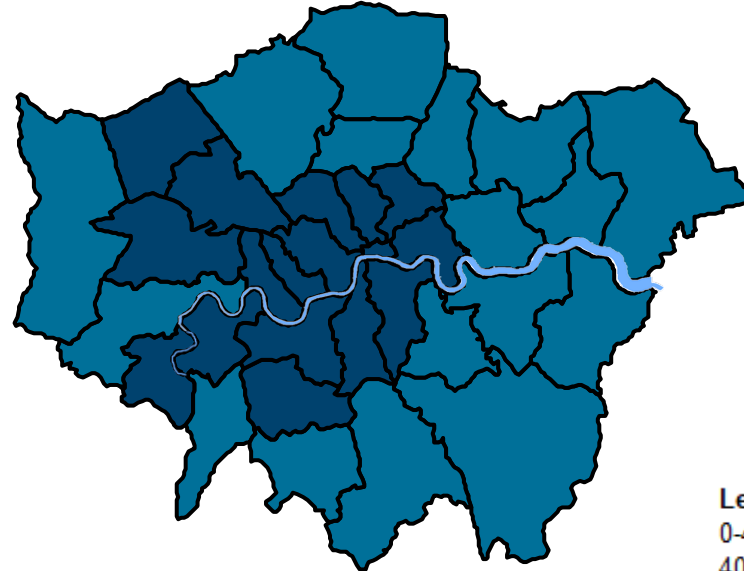
In contrast, those looking to socially rent in the capital face much more affordable housing costs. As Table 1 shows, there are several boroughs where combined housing and commuting costs for our benchmark worker are less than 50% of disposable income. Furthermore, there are areas of relative affordability in both Inner London and Outer London, reducing the need for individuals to locate further from work in order to live affordably. The relative unaffordability in the private housing market, and the relative affordability of social housing, highlights the need for accommodation of this tenure for lower income individuals in London. Similarly, the analysis highlights the need for government support, in terms of benefits, to help lower earners cope with housing costs.

Figure 8: Rent and commuting costs as % of disposable income. Lower quartile private rents, mean social rents and lower quartile employee earnings

Private rents (excluding commuting costs)



Private rents (plus commuting costs)



Social rents (excluding commuting costs)



Social rents (plus commuting costs)



Legend

- 0-40%
- 40-60%
- 60-80%
- 80-100%
- >100%



**Table 1 Rent and commuting costs as a % of disposable income. Lower quartile private rents, mean social rents, and lower quartile employee earnings**

	Social renting (excluding commuting costs)	Social renting (including commuting costs)	Private renting (excluding commuting costs)	Private renting (including commuting costs)
City of London	39.9	45.8	124.3	130.2
Barking and Dagenham	40.5	56.7	72.6	88.8
Barnet	41.0	57.2	83.3	99.6
Bexley	35.4	52.8	65.3	82.7
Brent	42.1	55.8	87.1	100.8
Bromley	36.8	54.2	70.1	87.4
Camden	42.6	53.8	103.5	114.7
Croydon	39.1	56.5	65.3	82.7
Ealing	41.6	57.8	87.1	103.3
Enfield	39.4	56.8	76.2	93.6
Greenwich	37.1	50.8	79.9	93.5
Hackney	38.6	48.2	98.0	107.5
Hammersmith and Fulham	40.9	50.4	97.5	107.0
Haringey	38.0	49.1	83.5	94.6
Harrow	42.2	59.6	83.5	100.9
Havering	38.0	55.4	66.1	83.4
Hillingdon	39.6	57.0	69.0	86.3
Hounslow	39.4	56.8	79.1	96.5
Islington	39.9	51.0	103.8	115.0
Kensington and Chelsea	39.6	49.1	144.7	154.2
Kingston	41.3	58.6	79.9	97.2
Lambeth	37.3	48.5	94.4	105.5
Lewisham	34.8	48.4	79.9	93.5
Merton	36.2	49.9	87.1	100.8
Newham	44.0	55.1	87.1	98.3

Redbridge	41.3	55.0	72.6	86.3
Richmond	38.6	56.0	87.1	104.5
Southwark	38.5	49.7	91.3	102.4
Sutton	37.7	53.9	67.1	83.4
Tower Hamlets	39.6	49.1	102.2	111.7
Waltham Forest	38.4	52.1	79.9	93.5
Wandsworth	41.3	52.4	101.6	112.8
Westminster	40.9	46.8	125.8	131.7

Source: SMF analysis. based on private rent data from the Valuation Office Agency, social rent data from the Greater London Authority and earnings data from the ONS Annual Survey of Hours and Earnings

### Affordability by type of accommodation

The analysis shown above examined affordability across all types of accommodation in London. However, clearly, the needs of individuals and families will differ greatly depending on their personal circumstances. In particular, space and bedroom requirements are determined by the number of adults and children living in a household.

With this in mind, we have examined living and commuting costs for different sizes of accommodation, in each London borough. This is displayed in a series of heatmaps overleaf. The analysis here focuses on private rental costs.

Even in the case of renting a room in shared accommodation, there are just six London boroughs – Greenwich, Hackney, Redbridge, Haringey, Waltham Forest and Newham – where combined private housing and commuting costs are less than 50% of disposable income for our benchmark worker on £19,500 travelling in to travelcard zone 1. The most expensive borough to rent a room and commute into zone 1 is Richmond-upon-Thames, at 65% of disposable income. Although rents in Richmond-upon-Thames are typically cheaper than Kensington & Chelsea, this is more than offset by higher commuting costs to the city centre.

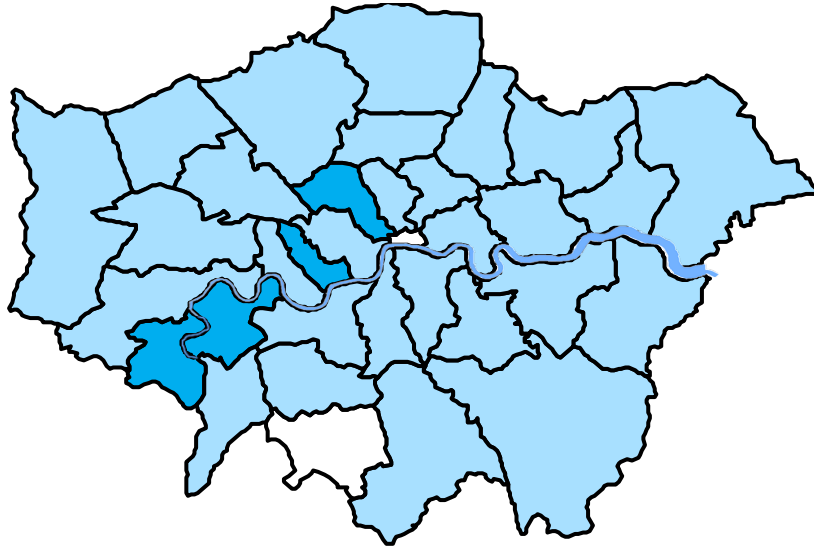
Privately renting a two-bedroom apartment, and commuting, is unaffordable and accounts for over 100% of disposable income for our benchmark worker in a majority of London boroughs. Of course, many individuals living in accommodation of this size have more than one individual with income, though there are clearly cases where a one-earner household may require multiple bedrooms. For example, this is the case with a single parent household.

Ultimately, the analysis suggests that it is extremely difficult for an individual on a relatively low income to be able to privately rent anything other than a room “affordably” in the capital, without access to additional government benefits. Even renting a studio apartment in the private sector would leave our benchmark worker facing combined commuting and housing costs in excess of 60% of disposable income in all London boroughs.

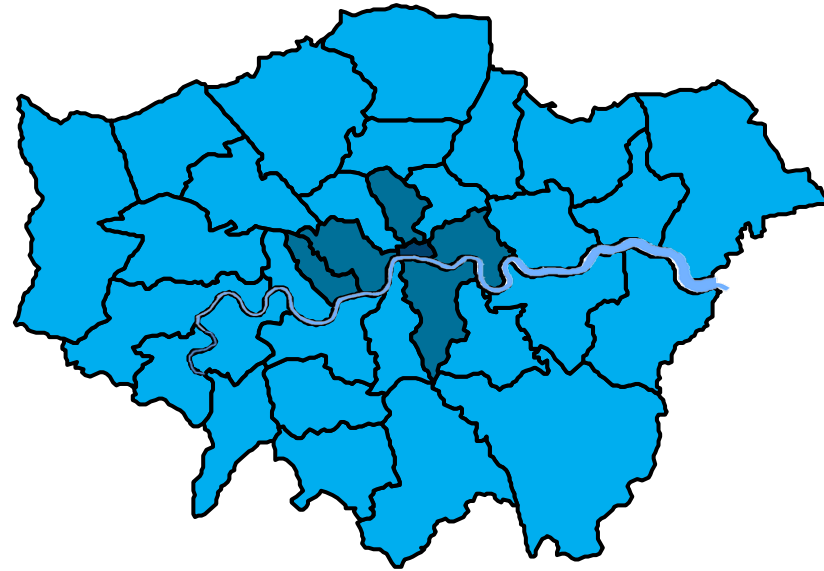
Figure 9: Private rent and commuting costs as % of disposable income.  
Lower quartile rents, and lower quartile employee earnings

THE PEABODY INDEX

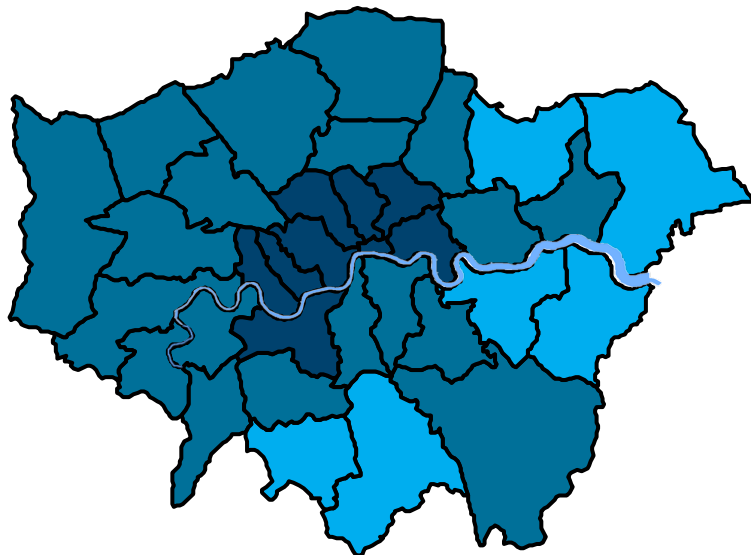
Room in shared accommodation



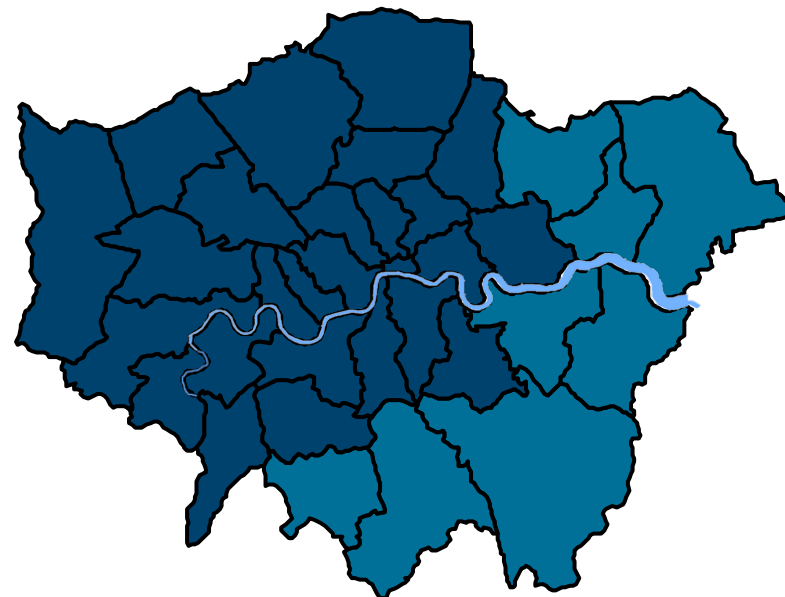
Studio flat



One bedroom flat

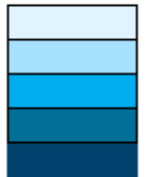


Two bedroom flat



Legend

- 0-40%
- 40-60%
- 60-80%
- 80-100%
- >100%



Source: SMF analysis

**Table 2 Private rent and commuting costs as a % of disposable income. Lower quartile rents, and lower quartile employee earnings**

	Room	Studio	1 bedroom	2 bedroom	3 bedroom	4+ bedroom
City of London	No data	116.0	125.4	155.3	No data	No data
Barking and Dagenham	52.5	70.7	80.1	96.1	110.6	132.4
Barnet	54.0	72.5	88.8	107.0	134.2	167.9
Bexley	50.0	66.4	71.8	86.3	103.0	119.0
Brent	50.0	71.7	93.5	111.7	133.4	158.8
Bromley	57.3	68.2	82.7	97.2	111.7	144.4
Camden	63.1	79.9	110.2	137.5	181.0	226.6
Croydon	51.9	66.4	79.1	97.2	111.7	133.5
Ealing	56.7	76.0	96.3	110.6	128.7	163.7
Enfield	50.0	71.8	86.3	106.1	125.9	147.7
Greenwich	42.7	68.1	79.0	93.5	108.0	129.8
Hackney	45.8	74.8	100.8	118.0	151.1	201.2
Hammersmith and Fulham	56.7	76.5	100.3	125.6	166.8	242.3
Haringey	49.3	69.2	91.0	109.2	128.2	155.8
Harrow	57.3	71.8	86.3	108.1	126.3	148.0
Havering	59.1	64.6	75.4	89.6	104.5	126.3
Hillingdon	52.9	68.2	82.7	100.9	117.2	140.8
Hounslow	57.3	68.2	88.2	104.5	119.0	144.4
Islington	58.3	80.3	108.6	130.9	164.2	201.5
Kensington and Chelsea	64.0	88.1	133.9	190.4	316.2	481.4
Kingston	53.7	75.4	90.0	108.1	126.3	162.6
Lambeth	51.1	72.9	96.4	112.8	141.8	185.4
Lewisham	53.6	71.7	86.3	100.8	117.1	155.2
Merton	53.6	71.7	89.9	108.0	124.4	166.1
Newham	47.4	69.2	85.2	103.7	120.0	138.2
Redbridge	46.3	67.0	78.3	95.3	117.1	140.7

Richmond	64.6	77.3	93.6	115.4	135.3	198.9
Southwark	52.9	80.0	94.6	112.8	134.6	177.8
Sutton	No data	68.9	79.7	96.1	117.5	148.7
Tower Hamlets	53.6	91.3	103.9	125.7	154.7	191.5
Waltham Forest	49.5	68.1	82.6	100.8	118.9	144.3
Wandsworth	54.7	78.8	101.9	120.0	149.3	199.9
Westminster	56.4	94.0	122.3	155.3	203.3	289.0

Source: SMF analysis based on private rent data from the Valuation Office Agency, social rent data from the Greater London Authority and earnings data from the ONS Annual Survey of Hours and Earnings

### Affordability by occupation

The analysis above has examined affordability of housing for a “typical” lower earner in the capital. We now examine housing affordability across different types of occupation. In this report, we focus on workers in a range of key public and social service occupations.

An area of concern is the impact of high housing costs on the ability of London to attract and retain workers in a range of key public service occupations. This includes care workers, teachers, nurses and police officers, among others. A 2017 survey of 1,000 members of UNISON, the trade union for public services workers, showed that almost two thirds (62%) of workers wanted to leave the capital because of the cost of housing. The figure rises to 87% for health workers living in the private rented sector<sup>9</sup>.

Drawing on data in the ONS Annual Survey of Hours and Earnings, we have examined housing and commuting affordability for workers in the education, health, residential care and social work sectors in London. We examine workers on the median salaries in these industries, and we consider lower quartile private rents. As with the preceding analysis we consider the case of someone working in central London (zone 1), with associated commuting costs. While jobs in health, education and care are more geographically spread out across the capital than many other types of employment, there is still a need for workers in these industries within central/inner London. Therefore, it is important to consider such transport costs.

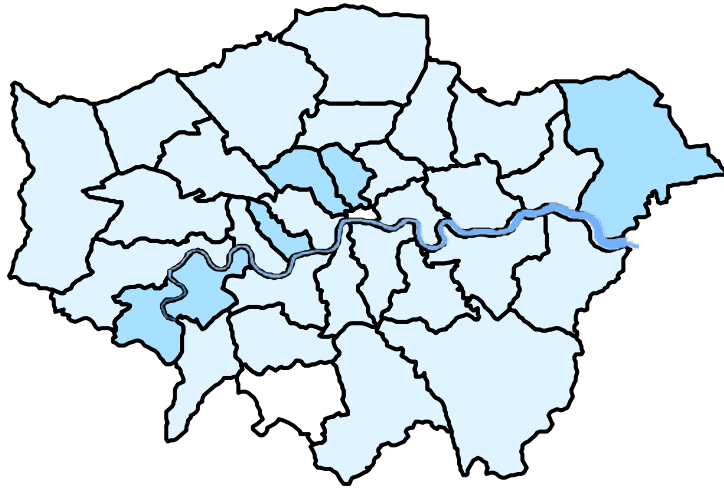
Individuals working in residential and social care face the greatest housing affordability challenges, reflecting the fact that they have the lowest median gross salaries of the groups we have examined – both at about £18,500. For these groups, renting a room is the only way of keeping combined housing and commuting costs at less than 60% of disposable income.

Even among education workers, with a median salary of about £30,000, is housing relatively unaffordable. Only in one borough – Bexley – do combined housing and commuting costs account for less than 50% of disposable income for this group of workers in the case of a one bedroom flat.

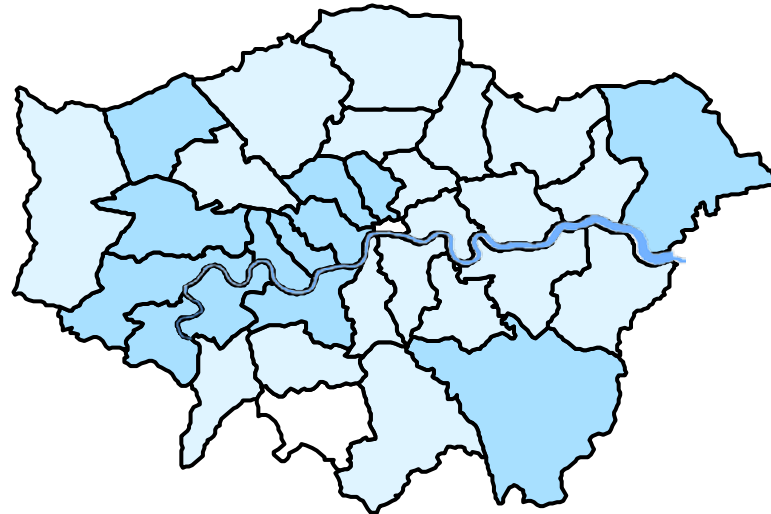
<sup>9</sup> <https://www.unison.org.uk/news/press-release/2017/11/rising-housing-costs-london/>

Figure 10: Private room rent and commuting costs as a % of disposable income. Lower quartile rents, median income for industry

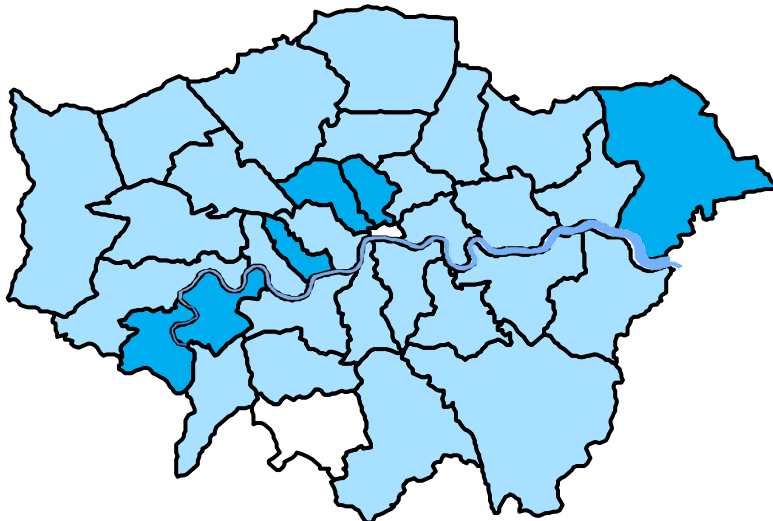
Education workers



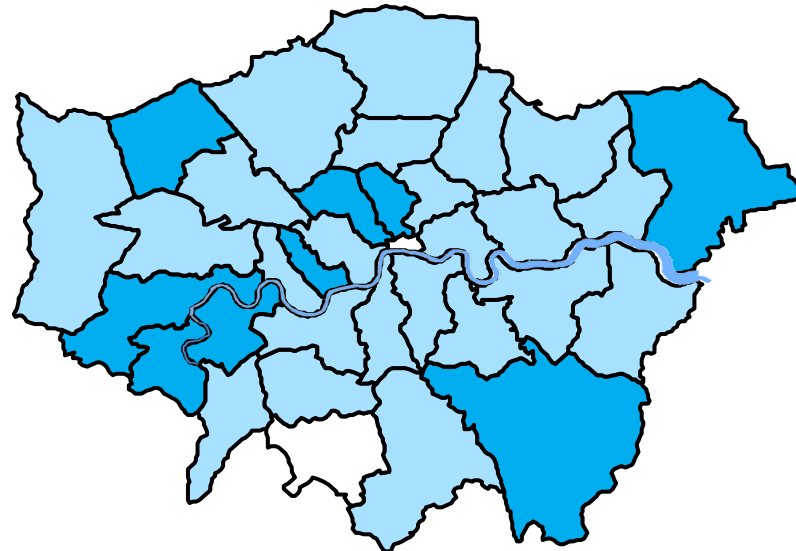
Health workers



Residential care workers



Social workers



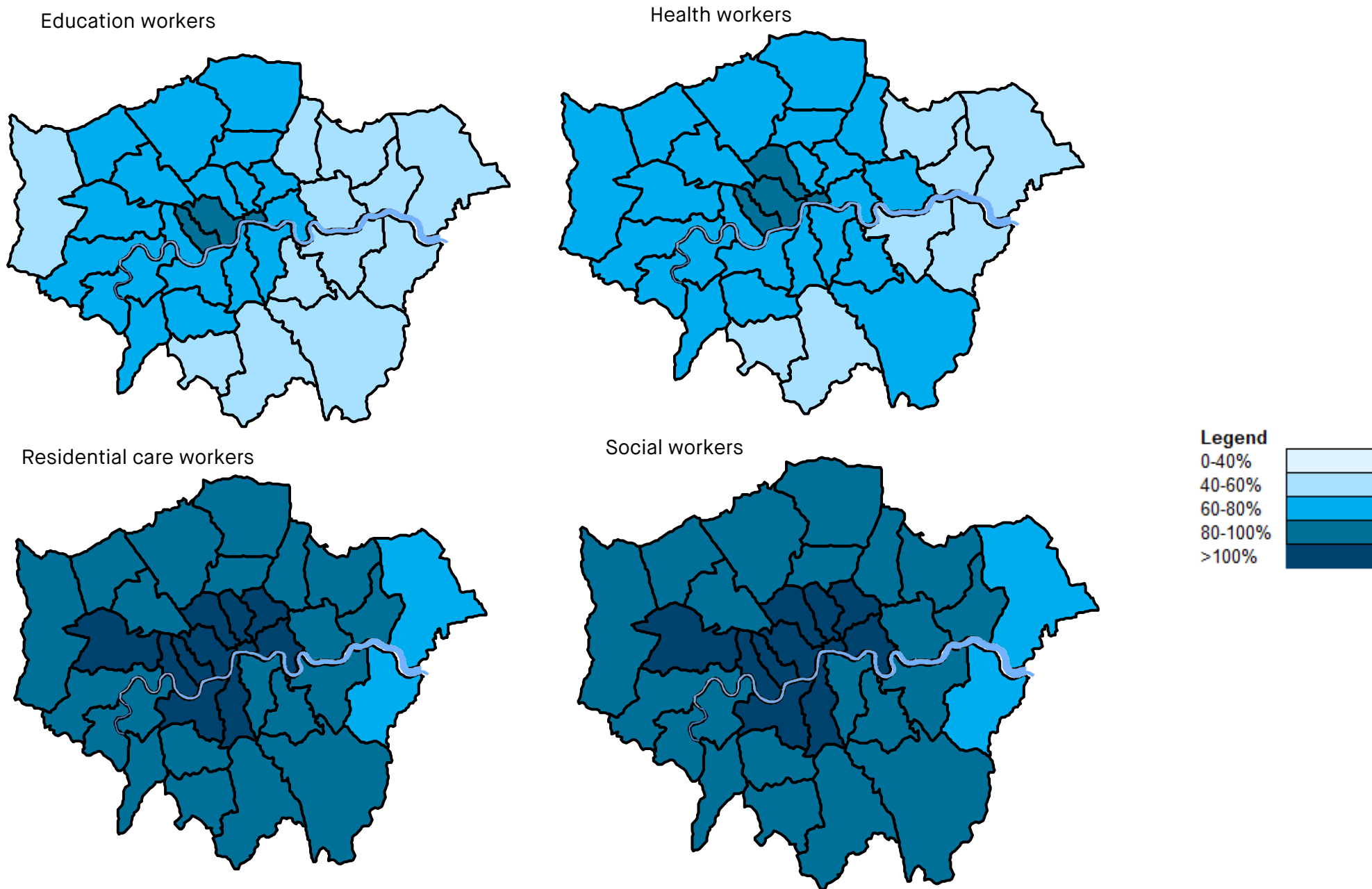
Legend

- 0-40%
- 40-60%
- 60-80%
- 80-100%
- >100%





Figure 11: Private one bedroom flat rent and commuting costs as a % of disposable income. Lower quartile rents, median income for industry



## Conclusions

The capital's housing market remains challenging, especially for those on lower incomes that are reliant on the private rental sector. For a significant proportion of the capital's population, including those in key public service occupations such as care, it is impossible to afford much more than a room in shared accommodation – and even this can account for a substantial share of an individual's income. Moving further away may lead to lower housing costs, but higher transport costs offset some of the financial gains from doing so.

In the current, dysfunctional housing market in London and other parts of the UK, there is a clear need for social housing provision – such as those provided by housing associations and local authorities – as well as financial support from the government. For many, particularly those with significant space requirements (such as those with children), finding housing by other means is not possible.

## Appendix: Research methodology

### The Peabody Index

The Peabody index measures the disposable (net of tax) income of social housing households in London. It is adjusted for inflation – that is, it is expressed in real terms.

We use data in the 2015/16 ONS Living Costs and Food Survey as a basepoint for incomes of social housing households in London. This provides information on the sources of income for households, including income from:

- Wages
- Self-employment
- Investments
- Annuities and pensions
- Social security benefits

We have then backcast and forecast disposable incomes using a range of more timely datasets:

- Income from wages and self-employment are assumed to grow in line with the ONS “average weekly earnings” series published in its monthly labour market statistics. We account for variation in employment levels using data in the quarterly Labour Force Survey – that is, we adjust for social housing tenants moving in and out of the labour market.
- Income from investments accounts for a very small proportion of total gross income for social housing households in London – just £3 per week in 2015/16. Given the prolonged period of very low interest rates and the economic downturn preceding this, we assume that investment income has not changed significantly over the past ten years.
- Income from annuities and pensions is assumed to grow in line with the retail price index measure of inflation.
- Income from social security benefits is determined by benefits projections and regional caseload data produced by the Department for Work and Pensions.

To produce an inflation-adjusted measure of disposable incomes, we have produced a “consumer price index” measure which reflects the spending patterns of social housing households in London. That is, we have produced a reweighted CPI based on expenditure data contained in the ONS Living Costs and Food Survey. While we assume the price of most goods and services, such as food and energy, grows in line with the UK as a whole, we have used Greater London Authority (GLA) data on social housing rents to adjust the “housing costs” element of the CPI. That is, we adjust for the fact that growth in rental prices is likely to be significantly different to the UK as a whole, for social housing tenants in London.

### Housing and commuting affordability

Our analysis of housing and commuting affordability draws on a number of datasets:

- ONS Annual Survey of Hours and Earnings data on employee earnings in London, segmented by industry, occupation and points on the income distribution.
- Valuation Office Agency data on private rents by London borough.

- GLA data on social rents.
- Transport for London data on transport costs and travelcard zones.

With the exception of social rents (where we only have data on mean rents), we have considered lower quartile (25<sup>th</sup> percentile) rents in our analysis of housing costs. This is to reflect the fact that lower income workers are likely to seek and use lower-than-average cost accommodation.

Our analysis of commuting costs is based on an individual travelling in to travelcard zone 1. For individuals living in zone 1, we assume that they travel to work by bus, given that this is the cheaper option. For those travelling into work from zones 2 onwards, we assume that they travel to work by tube or overground rail. This is to reflect the fact that bus travel from further afield is often time consuming and not feasible for individuals from this perspective.

Our cost of commuting calculations assume that individuals travel into zone 1 from the highest travelcard zone in the borough in which they live. For example, for an individual living in a borough that falls in travelcard zones 1 to 2, our calculations assume they purchase a zone 1-2 monthly railcard. The basis for doing this is that we would expect lower quartile rents in a borough to disproportionately fall in the higher travelcard zones further from the city centre.