The missing rung: London's housing squeeze

KATIE EVANS AND BEN RICHARDS

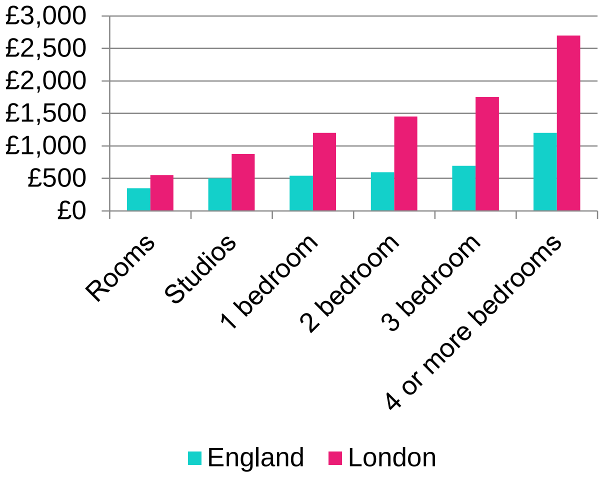
April 2016

THE HOUSING AFFORDABILITY GAP

We all know that life in the capital is expensive. Generally, wages are higher in the capital too. But do London workers earn enough to pay their higher housing bills? Looking at average weekly pay, you would think the answer is yes. The median employee in London earns £574.40 a week, more than a third more than the UK average (£425.80).[1]

But this extra pay is quickly hoovered up by higher London house prices. The average home in London is now worth £530,368, more than twice as much as the average across England and Wales (£190,275).[2] This affordability gap has widened substantially over the last decade: London house prices have nearly doubled in the last ten years while across England as a whole the average price rise was 45.4%.[3]

Figure 1: Median monthly private rent by accommodation type



Source: Valuations Office Agency, Private Rental Market Statistics Q3 2015, SMF analysis

Flats with separate bedrooms are at least twice as expensive to rent in London as across England as a whole as shown in Figure 1. Moreover, private rents are rising faster in London than elsewhere – up by more than a third (35.3%) in the decade to January 2016, compared to a 23.0% increase across the country as a whole.[4] Social rents are also higher - £458 per month, on average, rising to £466 in Inner London, compared to £372 across England as a whole.[5] The housing affordability gap doesn't just stop people buying a home of their own, it also makes it harder to achieve the ambitions that go alongside this: living independently, moving in with a partner or starting a family.

NATIONAL LIVING WAGE NEGLIGIBLE

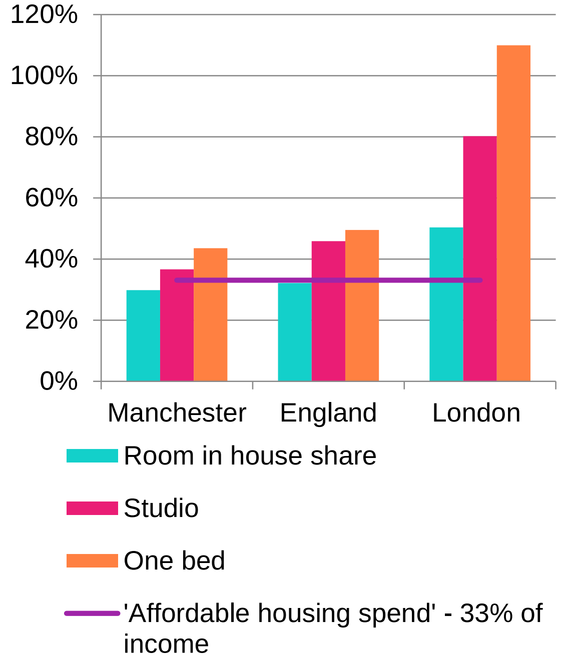
High housing costs mean that efforts to boost low pay have little impact in London. The National Living Wage, introduced last month, gives every minimum wage worker aged 25 and over a 50p per hour wage increase. But there's no special mark up for those living in London – where housing costs are so much higher. Although some firms are paying the more generous London Living Wage, set by the Living Wage Foundation, many low-wage employees in London will not receive any recognition of the higher costs they face living in the Capital.

A Londoner on the National Living Wage, paying £550 per month for a room in a house share, is earning exactly the same amount as a Mancunian[6], paying 40.9% less for housing.[7] As a result, housing eats up at least half of the income of a Londoner working full time on the National Living Wage.

A full-time worker on the National Living Wage in Manchester could comfortably afford a room in a house share spending 29.8% of their income on rent. But for a Londoner on the same wage even this most budget-friendly option would swallow up more than half (50.4%) of their income, as illustrated in Figure 2. To rent a one bed flat would, on average, cost more than the entire salary of a Londoner working full time at the National Living Wage.[8]

High housing costs leave Londoners trapped in shared accommodation, unable to afford to live independently even in a studio flat.

Figure 2: Median monthly private rent for different types of accommodation as a proportion of full-time National Living Wage, by location



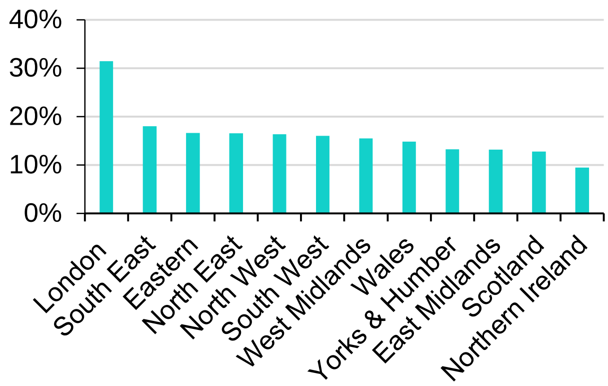
Source: SMF analysis, Valuation Office Agency, Private Rental Market Statistics, Q3 2015. Affordable housing spend defined as 1/3 income.

For a person working full-time on National Living wage, an affordable housing spend (33% of income) is about £364 a month.[9] While in Manchester this would pay for a full month's accommodation in a house share (34 days) or studio (28 days), in London it would pay for just 20 days rent of a room in a house share, and only nine days in a one bed property.[10]

BEYOND GENERATION RENT

London's housing costs are so high it isn't just those on the minimum wage who struggle. Despite higher wages, London's high housing costs mean affordability is a common concern. Nearly a third (31.4%) of London households spend more than a third of their income on housing, compared to 15.9% across the rest of England, as illustrated in Figure 3.

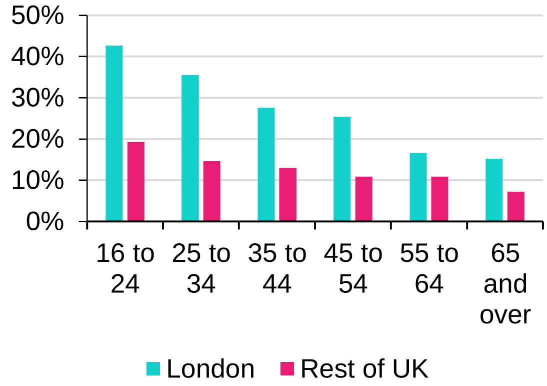
Figure 3: Proportion of households spending more than 1/3 of their net income on housing costs, by region



Source: SMF analysis of Family Resources Survey 2013/14[11]

Households who rent privately are particularly badly affected: six in ten households renting privately in London spend more than a third of their income on rent.[12] That means a significant proportion of the population: half (50.0%) of Londoners rent compared to 33.4% of households in the rest of the England.[13]

Figure 4: Proportion of all adults in households spending more than 1/3 of net income on housing costs, by age



Source: SMF analysis of Family Resources Survey 2013/14[14]

The housing affordability gap is also hitting young Londoners particularly hard. Four in ten 16 to 24 year olds (42.7%) and 35.5% of 25-34 year olds are spending more than a third of their income on housing. Even when we look specifically at adults in employment, who should have higher incomes, a third of young people (under 35) are paying more than they can afford for housing.[15] The risk is that high housing costs mean this generation is delaying adulthood – living in shared houses, scrimping to save for a deposit and delaying starting a family.

COUNTING THE COST

These housing pressures will inevitably have an impact on London's workforce. Figures from the Office for National Statistics suggest that London suffered a net outflow of 41,000 people aged 30-50 in the year to June 2014 alone.[16]

Anecdotal analysis has long suggested that London businesses are feeling the pain of high house prices in their wage bills. To test this, we have carried out new statistical analysis of the Family Resources Survey, a national database of information about income and expenditure and official source of National Statistics. Unfortunately, this robust new data work does not make comforting reading: the scale of London's housing affordability crisis means workers across all sectors are affected.

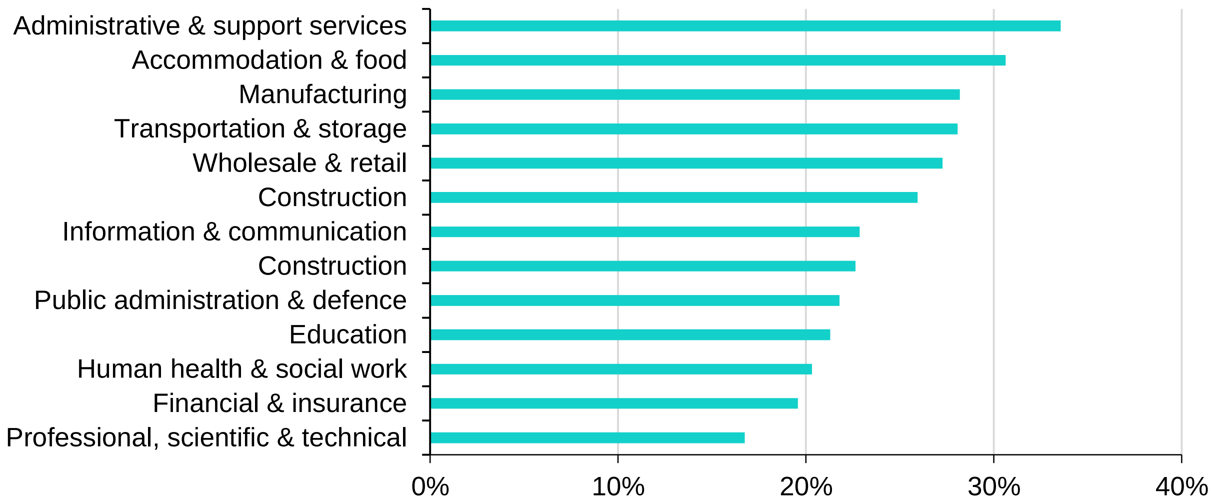
We may have expected that Londoners in elementary occupations like general labourers, cleaners and security guards would often find housing unaffordable.

But we also find that a fifth of London-based professionals (20.1%) fall into the housing affordability gap. Nearly a quarter of managers (23.1%) struggle with housing costs too.

Figure 5: Proportion of adults in London households spending more than 1/3 of net income on housing costs, by occupation

Source: SMF analysis of Family Resources Survey 2013/14 & 2012/13, those in employment only.[17]

Figure 6: Proportion of London workers in households with high housing costs, by sector



Source: SMF analysis of Family Resources Survey 2013/14 & 2012/13, those in employment only.[1]

Sector-by-sector analysis shows that even high-paid industries have substantial proportions of workers in the housing affordability gap, as illustrated in Figure 6.

One in five City workers (19.6%) are spending more than a third of their income on housing. So are one in six (16.7%) of those working in professional industries like consultancy and law. Although workers in the financial services industry typically earn more than £1,000 a week in London,[18] the bottom 25% of workers in the sector earn around £700 a week before tax, meaning rent can still be a stretch. Median pay for professionals, including lawyers, vets and accountants, is substantially lower, at £728 a week before tax. And for workers starting out in this sector or in lower skilled roles, earnings are much lower. The bottom quartile of workers in the professional services sector earn around £515 a week – around the same as median earnings in London for those in education or health and social work[19]. While there's no denying that these sectors are well paid, meeting London's high housing costs are still a struggle for some.

London's housing affordability crisis doesn't just threaten the administrative staff, cleaners, and caterers which every firm relies on, but also the young professionals at the heart of London's biggest industries.

BRIDGING THE HOUSING AFFORDABILITY GAP

London property prices may be stuttering, but with demand continuing to grow and supply increasing only slowly, high housing costs are likely to trouble the capital's workforce for many years to come. If employers needed to compensate for high housing costs and ensure that workers don't need to spend more than a third of their income on housing, how big an increase in the wage bill would we be looking at?

To answer this, we looked at how much households in the affordability gap are spending on rent, and calculated how much more they would need to be paid (net of taxes) for this to fall to an affordable third of their income.

We find that there are 1.06 million households in London falling into the housing affordability gap and spending more than a third of their income on housing. The median household in this group would need an extra £759 a month to make their current housing bill affordable. Aggregated across the city, this suggests that the London housing affordability gap adds up to £1.15 billion a month.[20]

The capital's employers would be crippled by an additional wage bill of that size. So, rather than inspiring higher pay, Londoners will continue to face the cost of the housing crisis in one of two ways: depressed consumer spending and lower saving. Households spending more than a third of their income on housing either won't have as much to spend elsewhere – particularly on the shopping, restaurants, bars and entertainment which make London so dynamic. Alternatively, they may continue to spend by cutting back on saving and taking on debt. Neither is a good outcome.

CONCLUSIONS

The analysis presented here shows that housing affordability is a pervasive issue, affecting at least one in three Londoners, including those in professions we would usually think of as high-paid. For those at the bottom of the income distribution earning the National Living Wage, housing in the capital is almost inevitably unaffordable. The best these workers can afford is a room in a house share, as high housing costs make it impossible for young people, even professionals, to live independently and establish a family. Between the unhappiness this creates and the pressure it places on employers, housing must be a priority for London's next Mayor.

METHODOLOGY

The original analysis presented in this report is based on data from the Family Resources Survey (FRS), a representative survey of private UK households. FRS data are officially designated by the UK Statistics Authority as National Statistics.

A household is defined in this report as having unaffordable or high housing costs if it spends more than one third of its total net income, including benefits (such as housing benefit) but after the deduction of taxes (including National Insurance) on housing costs. Net household income is used because this indicates the income actually available to the household, and housing costs are usually incurred at the household level. Housing costs include: rent, water charges, mortgage interest, structural insurance premiums, ground rent, and service charges. They do not include mortgage capital repayments, since these could be considered to be an investment rather than a housing expense. If mortgage capital repayments were included the proportion of households shown in this analysis to have unaffordable housing costs would rise.

The analysis of the Family Resources Survey presented in this report is either at the individual or household level. Unaffordable housing costs are considered to be the property of a household; when analysis is shown at the individual level (for example a breakdown of workers by employment sector) the individual is considered to have high housing costs if they live in a household in which more than a third of net household income is spent on housing costs.

BRIEFING KINDLY SUPPORTED BY

LONDON
FIFTY THOUSAND HOMES

ENDNOTES

[1] Annual Survey of Hours and Earnings, gross earnings, table 5.1a, all employee jobs, 2015
[2] Land Registry, House Price Index, February 2016, nominal terms.
[3] SMF analysis, Office for National Statistics Mix-adjusted quarterly house price index. The average price of London dwellings increased by 95.1% over the 10 years to the end of 2015, while across England average price growth was just 45.4%.
[4] SMF analysis of ONS index of private rents, April 2016.
[5]Figures refer to 2014/15, most recent data available. England figure from Local Authority Average Weekly Rents, DCLG table 702. DCLG ceased to provided regional level data after 2010/11 so London figures were estimated by the SMF using local authority level data from the same source.
[6] Throughout this report we contrast the experience of a National Living Wage worker in London and in Manchester. Greater Manchester was selected for comparison as a large city with a suitably large sample size in the Valuation Office Agency private rental data set.
[7] Valuations Office Agency, Private Rental Market Statistics, Q3 2015, Table 2.1.Median room rent in Greater Manchester is £325 a month.
[8] SMF analysis, Private Rental Market Statistic Q3 2015, Valuation Office Agency.
[9] Defined as a third of income.
[10] SMF analysis, Valuations Office Agency, Private Rental Market Statistics Q3 2015.
[11] Department for Work and Pensions, National Centre for Social Research, Office for National Statistics. Social and Vital Statistics Division. (2016). Family Resources Survey, 2013-2014. [data collection]. 2nd Edition. UK Data Service. SN: 7753, http://dx.doi.org/10.5255/UKDA-SN-7753-2.
[12] SMF analysis of Family Resources Survey 2013/14, Department for Work and Pensions, National Centre for Social Research, Office for National Statistics. Social and Vital Statistics Division. (2016). Family Resources Survey, 2013-2014. [data collection]. 2nd Edition. UK Data Service. SN: 7753, http://dx.doi.org/10.5255/UKDA-SN-7753-2.
[13] SMF analysis of Annual Population Survey, Housing tenure of households, 2014.
[14] Department for Work and Pensions, National Centre for Social Research, Office for National Statistics. Social and Vital Statistics Division. (2016). Family Resources Survey,

2013-2014. [data collection]. 2nd Edition. UK Data Service. SN: 7753, http://dx.doi.org/10.5255/UKDA-SN-7753-2.
[15] SMF analysis of Family Resources survey 2013/14. Department for Work and Pensions, National Centre for Social Research, Office for National Statistics. Social and Vital Statistics Division. (2016). Family Resources Survey, 2013-2014. [data collection]. 2nd Edition. UK Data Service. SN: 7753, http://dx.doi.org/10.5255/UKDA-SN-7753-2.
[16] Office for National Statistics, Internal migration, England and Wales: Year ending June 2014
[17] Department for Work and Pensions, National Centre for Social Research, Office for National Statistics. Social and Vital Statistics Division. (2016). Family Resources Survey, 2013-2014. [data collection]. 2nd Edition. UK Data Service. SN: 7753, http://dx.doi.org/10.5255/UKDA-SN-7753-2.
[18] Annual Survey of Hours and Earnings, gross earnings, table 5.1a, all employee jobs, 2015.
[19] Ibid
[20] Mean housing affordability gap in London was £245.58 a week in 2013/14, this is indexed to 2016 prices using CPI inflation and multiplied by number of Londoners in the housing affordability gap. This is a conservative estimate, as it does not consider the additional National Insurance Contributions and income tax that would be incurred if wages were increased so that housing costs are a third of net pay. We do not estimate these as they could be subject to change. Equally, some of this bill may be met by increases in housing benefit rather than increased wages from employment. As this is politically determined, we do not model the potential ways in which this gap could be bridged here.