



The Business Case for Affordable Housing

July 2016



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London, July 2016

Foreword

London is a vibrant, competitive and influential city. Whether it is the millions of tourists drawn to a city steeped in history, a premier destination for business, or the access to global opportunities that everyday Londoners are afforded, our capital is one of the most diverse and exciting cities in the world.

Our world-city status cannot be taken for granted however. As we emerge from the EU referendum, it is vital that as well as securing the best deal for Londoners in future negotiations, the Mayor of London also continues to focus on delivering key promises for the city. A growing city requires robust and efficient infrastructure including a sufficient supply of affordable housing. However with London's population increasing by two tube carriages each week, we have fallen behind on some of the essential necessities required to match this pace of growth.

Tackling our housing shortage makes both economic and business sense. Not only will housing investment be a shot in the arm for our domestic economy, but it will also help to address business confidence. Businesses of all sizes and sectors have made it clear that both housing cost and availability is negatively impacting on their ability to recruit and retain staff. This impact is most telling in the recruitment and retention of entry-level staff in London. These workers specifically are the backbone of the capital's success story, making it vital that we build the homes required to house and retain that talent.

The CBI is delighted to partner with Peabody on the launch of this report, which highlights clearly the business case for affordable housing. To become more prosperous, more sustainable and more vibrant than we are today, action must be taken now to tackle our housing shortage. Businesses play a powerful role in the growth and prosperity of the UK economy and firms are ready to play their part in supporting and growing London. We must ensure that the new Mayoral team also play its role, and the findings of this report will be key in helping us make the case for housing to support employees across the capital.



Lucy Haynes

Lucy Haynes, London Director, CBI

Affordable housing has been an essential part of London's infrastructure since the estates built with the donations of Victorian philanthropists such as George Peabody during the nineteenth century.

Providing homes for London's nurses, teachers, social care workers, cleaners and bus drivers, in places where they can access employment opportunities is fundamental to the running of the city, and to enabling one of the largest economies in the world to continue flourishing.

We also need housing that's affordable for people further up the income scale. Without it, there are serious consequences for attracting the entrepreneurs and young professionals who have traditionally fuelled London's growth, creativity and innovation.

Housing London's growing population will be a huge challenge. As we enter a time of change brought about by the EU referendum results, it is even more important that we invest in London's future growth and prosperity.

The CEBR analysis in this report makes a compelling case. The figure that stands out for me is £15 billion - the contribution to London's economy in 2015 made by the residents of London's social housing.

London is gambling with its future if the city becomes too expensive to house the people making it a first-class capital. It is essential that we see the provision of affordable housing as part of the solution to the housing crisis, and fundamental to London's prosperity.



A handwritten signature in black ink that reads "R W Kerslake".

Lord Bob Kerslake, Chair, Peabody

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Summary and Key Findings

In 2015, nearly one in five of all nursing posts in London were vacant; the national average is one in ten.¹ A similar staff shortage is troubling the London Ambulance Service, leading them to recruit additional paramedics from Australia and New Zealand.² The construction industry has been reporting a shortage of skilled workers ever since the sector bounced back after 2007/08.³ Although the reasons for staffing issues are varied, high London housing costs go some way to explaining the problem. In a recent survey of CBI members, over half (57%) said housing costs and availability are negatively impacting on the recruitment of entry level staff, while the retention of top talent is currently the top issue for firms in the capital. With eighty percent of CBI firms surveyed pessimistic about housing affordability over the next one to three years, current recruitment and retention difficulties are likely to worsen.⁴

Investment in London's affordable housing is vital for the capital's success to continue. This report shows that without affordable housing we risk losing the people our analysis shows are doing important jobs which keep the city running and contribute £15bn to the economy. We also risk losing the people who are growth creators further up the income scale. People are being priced out right up the income scale.

Around one third of London's shift workers – such as those working in caring professions, or cleaners – as well as 'blue-light' workers such as police and ambulance drivers, currently live in London's social housing. On low incomes, working antisocial hours, it is already very difficult for them to afford to live in London. The boroughs where rental costs are the most affordable – such as Barking and Dagenham – are seeing rents increase more quickly than other parts of London, and it is likely that London will soon run out of 'affordable boroughs' altogether.

Already a salary of £59,000 – almost double the current median salary – is needed to afford the rent on a flat in Inner London boroughs. At the same time, social housing, which provides an affordable option for low income households, is being lost and the capital is not building enough new homes.

¹ Royal College of Nursing (2016) London Safe Staffing Review 2015, available at: <https://www.rcn.org.uk/news-and-events/news/london-safe-staffing-review-of-2015>

² Reported in the Guardian newspaper (2015), available at: <https://www.theguardian.com/society/2015/mar/12/australian-paramedics-wanted-to-meet-london-ambulance-service-shortage>

³ AECOM (2015) London Contractors Survey, available at: http://www.aecom.com/content/wp-content/uploads/2016/02/LondonContractorsSurvey_Dec2015.pdf

Also reported in the Financial Times (2015), available at: <https://on.ft.com/1Kob5zm>

⁴ CBI London Business Survey, September 2015, available at: <http://news.cbi.org.uk/news/capital-s-firms-to-next-mayor-transport-and-housing-must-improve-cbi-cbre/cbi-cbre-london-business-survey/>

Key findings from the research show that:

- Residents living in social housing contributed £15 billion to London's economy in 2015
- One third of London's police officers and ambulance staff are living in social housing
- The average monthly rent for a one-bedroom flat in Inner London is over 100% of the median pay of 6 out of 10 common elementary jobs, such as cleaners and security staff
- Only three London boroughs are affordable (below 40% of net income) for people earning the average salary.

Keeping the lights on: how residents of affordable housing help London run

Last year, residents in social housing contributed £15.3bn to the economy. Of this almost £2 billion was generated in the construction industry alone (about 10% of the industry's output).

This includes one third of London's police officers and ambulance staff, and one third of workers in care-related jobs. They are people on lower incomes performing vital work looking after vulnerable people, and helping other Londoners to do their jobs.

31% of London workers in 'elementary' jobs – security staff, cleaners, postal workers, kitchen assistants, bar and waiting staff - live in social housing. With early starts or late finishes, these people need to be able to get to work easily and because they earn lower wages, they cannot always afford to commute long distances.

Social housing residents in London include:



Economic contribution of social housing residents: methodology

We first identified the main occupations that social housing residents work in, before estimating their direct economic contribution to London. On the basis of the sum of earnings of social housing residents, we can calculate their approximate gross value added (aGVA) and set this in relation to total aGVA by industry in London.

aGVA is a commonly used indicator of economic activity in different sectors and regions within a country. There are several ways of calculating aGVA which will yield the same result. The method used in this report identifies aGVA in the following way:

$$aGVA = \text{Earnings before interest and tax} + \text{Employee Costs} + \text{Depreciation} + \text{Amortisation}$$

We firstly calculated the total labour cost of social housing residents in work for each industry, adjusted for the fact that they are more likely to work in lower paid occupations than individuals in other tenures. Their median income (£25,900) is significantly lower than residents in the private rented sector (£32,200) or homeowners (£32,800).

From the Annual Business Survey, national data on both aGVA and total labour costs per industry are available. Exploring the ratio between these two measures on the national level allows us to infer the contribution to aGVA that is due to the economic activity of Household Reference Persons (i.e. the highest earner in each household) in social housing based on their total labour cost for each industry.

It is important to note that this analysis only relates to the main earner in each household, and does not include the economic benefits provided by caring for relatives, or the contribution of other working household members. The analysis is therefore likely to underestimate the actual contribution of all social housing residents.

Without affordable housing we risk losing the people doing the essential jobs which keep the city running. That's because the divide between the salaries earned by those in elementary occupations and housing costs is increasing. We found that both Inner and Outer London are now unaffordable for people working in core jobs like cleaners, catering assistants and care workers. In fact, almost all of Inner and Outer London is now unaffordable for nurses, taxi drivers, chefs and teaching assistants. Nurses on the median pay for their profession will be short £385 per month to pay their rent at an affordable level, even to live in cheaper Outer London. They have no chance of paying rent in Inner London, where they would be short £1,385 every month to pay an affordable level of rent.

For six out of 10 of the most common elementary jobs in London, average rents are more than 100% of their salaries. People in jobs that keep the city running stand no chance of being able to pay their rent.

How affordable housing supports people in work

Brett, Peabody resident

A resident of the Chequer Street estate in Islington, Brett, 23, was until recently on a zero-hours contract, working as crew at events.



“It was very stressful not knowing how much money you would get coming in each month.”

With help from Peabody's employment service, Brett applied for an apprenticeship with property maintenance company, T Brown Group. He started as a gas and plumbing apprentice in November 2015, joining a company which maintains thousands of properties across London.

In three years, he will complete the apprenticeship, having learnt on the job as well as taking a professional qualification. Living in genuinely affordable housing in London has enabled Brett to undertake the apprenticeship. He can look forward to a successful career in the capital.

Priced out: the challenges for young professionals

The affordability issue is a serious problem for the people who keep the city running like cleaners and catering assistants. But it's also becoming a problem further up the income scale. We risk losing growth creators in sectors from technology to finance. House prices in London rose by 47% between 2010 and 2015 (compared with 24% across England as whole). Median rents have increased by 22% over the same period. Over the same time period wages have failed to keep up, increasing by only 7%.

Taking the average (median) earnings in London and comparing it to average rents, our analysis shows that only three boroughs (see map below) are affordable for people renting a one-bedroom flat. Households with more than one income fare better in London, but not by much. If you want to rent a two-bedroom flat on a dual income, just seven of London's boroughs are affordable – Bromley, Sutton, Redbridge, Croydon, Havering, Bexley, Barking and Dagenham.

Where can you rent a one bedroom flat on an average income?



In fact, you'd need to earn at least £59,000 a year to genuinely afford average rents in Inner London boroughs – almost £30,000 above the average salary. High housing costs risk reducing the pool of available workers, as well as increasing staff turnover rates, which is likely to negatively impact on productivity.

There is also evidence of the impact of longer commuting times on staff wellbeing and productivity. Average commuting times in London have increased in the past 10 years – as much as a 40% increase in the outer London Borough of Hounslow. Research by the Department for Transport found that when commuters attach a monetary value to the time they lose on their commute, an increase of only 10 minutes is the equivalent of almost £1,000 a year.⁵ In addition, there is a significant increase in costs the longer the commute is. For example, a monthly London travel card for zone 1 and 2 costs £124.50 but rises to £323.40 to include all 9 zones.

⁵ Department for Transport (2015) Provision of market research values of travel time savings and reliability

The ONS has found that commuters report lower levels of happiness and higher anxiety on average than non-commuters.⁶

Deloitte steps in to help staff

Deloitte is a major professional services firm with over 6,000 employees based in London. Deloitte was founded in London and recognises the importance of London as a global centre for financial and professional services. The firm has recognised the cost and quality of rental accommodation as a key challenge in attracting and retaining the best talent from the UK and overseas, to continue to strengthen London's position in the global economy.

Deloitte hire around 600 graduates and 120 "Bright Starts" (an apprenticeship programme) a year in London. Accessing quality affordable rental accommodation is a key challenge for their staff.

Anecdotal evidence from each successive intake suggests the challenge of finding somewhere suitable to live is getting harder. In 2014 a survey of the firm's graduates revealed that 86% of graduates joining would like help from the firm to find suitable shared accommodation, which has led the firm to take action. The survey also indicated that over 70% of new recruits were living in rented accommodation. 5% of the graduates surveyed reported they were not only sharing a flat, but forced to share a bedroom in order to afford their rent. Other employees have found that suitable accommodation is in such high demand that they do not have the chance to inspect the property before it is taken off the market. One young employee has had to move three times in the past two years because of affordability problems she and her flatmates have faced.

Deloitte's view is that although London will continue to attract people, the reality is that an increasing number of people will not be able to easily settle in the city. Deloitte's ambition is to grow talent in London and help create the professionals of the future. Access to good quality, stable and safe housing is seen as vital for Deloitte to ensure the workforce has both a good working and living environment to enjoy and thrive.

Deloitte is therefore using its Real Estate consulting practice to identify new residential developments to help its graduates find high quality rental accommodation in London. The firm, through its relationships with large private rented sector landlords is helping to connect landlords with hundreds of new starters coming to the city. Deloitte screen the accommodation to ensure it is suitable for their employees and seeks to secure favourable terms, such as longer-term tenancies, set rent rises, lower upfront costs, and access to free superfast broadband. Further incentives have also been made available, such as rent free periods and extended reservation periods.

The firm has stepped in to support its employees and can see the value of helping with housing while the current market offer leaves numerous Londoners with limited options, exposing tenants to an unpredictable landlords' market.

⁶ ONS (2014) Commuting and Personal Wellbeing, available at: <http://webarchive.nationalarchives.gov.uk/20160105160709/http://www.ons.gov.uk/ons/rel/wellbeing/measuring-national-well-being/commuting-and-personal-well-being--2014/art-commuting-and-personal-well-being.html>

The number of residents commuting from Outer London to the inner city areas increased from 33% in 2001 to 42% in 2011. Our analysis of ONS data shows that the proportion of higher skilled workers making up the population of Inner London boroughs has been increasing since 2005, at the expense of lower skilled workers. In 2005 lower skilled workers made up 43% of the population of inner London; this is now only 36%.

This is partly driven by a lack of affordable homes in the boroughs where people are working. For example, in Hackney there has been a considerable shift in the occupational profile of the population in the last 10 years. The proportion of residents working in elementary occupations, skilled trade occupations and process, plant and machine operatives shrank by 10%; whereas the share of managers, directors and senior officials and professional occupations has grown by 11%.

While the regeneration and economic vitalisation of boroughs is to be welcomed, a commitment to affordable housing would mean maintaining a mix of people and help ensure people performing jobs vital to the city's wellbeing can continue.

High living costs also mean that people might leave London altogether. When people want to settle down, buy a house or even just move out of shared accommodation, they are finding that London is simply too expensive. ONS internal migration figures show that people have been leaving London consistently for several years. The latest available data shows 283,065 people left the city for other parts of the UK in the year ending June 2015. Despite the fact that many young people still move into the capital from the UK, for the same time period London had the highest net internal migration outflow of the whole country at 77,534.⁷ Another recent piece of research found that in 2015 more Londoners bought property outside the city than at any point since 2007.⁸

Much of London's growth comes from internal domestic migration of young people moving to the city from other parts of the UK to live, work and study. As the GLA's London Strategic Housing Market Assessment notes, migration flows into London contain very high proportions of people aged twenty to thirty – the peak age for moving to London is 25. Flows away from London contain a high proportion of children and older people, as Londoners move away from the city to seek cheaper retirement homes or larger homes in which to raise a family. This results in a median age of 34 in London compared with 40 for the rest of the UK.⁹ Whilst attracted by London's buoyant labour market, reputable education institutions, and diverse

⁷ ONS (2016) Internal Migration, England and Wales: Year ending June 2015

⁸ Hamptons International (2015) Largest number of Londoners leaving the capital for eight years, available at: <https://www.hamptons.co.uk/news-research/press-releases/dec-26-2015/>

⁹ ONS, Region and Country Profiles, 2013.

cultural offer, this age group finds itself at a marked disadvantage in the housing market, with rapidly rising house prices and competition to rent properties close to places of work.

Leaving London in order to start a family

When Shabnam and Dom had their first baby, Anara, they realised they'd need to move to a new home. Living in a flat in Stratford, they wanted more space for their new daughter to play as she grew up. They were also thinking about their future – they wanted more children and would struggle in their flat.



The family were happy living in London. During her pregnancy and on maternity leave, Shabnam had grown a support network of other mums who she could rely on for help and support.

But when they looked for a new, bigger home, they found they couldn't afford it. Even looking further and further out from London, they were still priced out. Both were earning above the average London salary, Shabnam working at a local authority and Dom working for Talk Talk. Like many Londoners, their salaries were taken up paying housing costs and it was impossible to save money for a big enough deposit for a house in London.

The family ended up leaving London to buy a house in Northampton. Dom was able to keep his job in London, but now spends four hours commuting every day. Making the decision to leave London, friends and the support network they had built up was difficult. The couple had to sacrifice their London life in order to settle down and have the family life they wanted. Since moving to Northampton they've had a second baby, Micah, something which would have been almost impossible had they stayed in London.

Conclusion

Affordability in the capital is paramount to maintaining London's status as a hub for technology, finance, and the arts and sciences. As the city becomes less affordable for ordinary people, the more we risk losing what makes it unique. Not only will the city struggle to run effectively, but we also risk losing the people who are powering economic growth, creating a world-class cultural experience and the lively communities that make the city a great place to live and visit.

We need to recognise:

- A broader definition of 'key worker', to represent the jobs which keep London's lights on, from nurses and police officers to care workers and cleaners.
- The changing political and economic climate, particularly following the result of the EU referendum, which accentuates the need for investment in London's infrastructure – affordable housing is at the heart of this.
- Attracting and retaining talent to the capital is vital – especially entry-level staff in London. These workers are the backbone of the capital's success story.

If we want London's future to be as prosperous as its past, both economically and culturally, then we need to make a commitment to the role affordable housing plays in the capital.