

## Background Paper

### Introduction

Affordable housing was originally designed to provide for eligible households whose needs are not met by the market. It includes both homes to rent and to buy, with shared ownership being viewed as the most effective way of giving Londoners on a modest income a chance to take their first steps in home ownership. However, it would be useful to examine whether in London existing shared ownership arrangements represent an efficient use of public money in pursuit of this goal.

#### *Terms of reference*

The purpose of the Committee's investigation is to:

- Define the state of London's Affordable Home Ownership market;
- Review the Mayor's *First Steps* programme as well as the current model of shared ownership being promoted in London; and
- Examine the future of affordable home ownership in London in light of current economic trends, considering whether there are other models to support home ownership.

### Background

#### *Home ownership in decline*

Home ownership is an increasingly difficult goal for a growing number of Londoners; owner occupation in London has been declining since the early 1990s. A key reason for this decline has been the significant increase in the price of property in London in tandem with falling real earnings. House prices grew by almost a fifth in the 12 months to September 2014 (19 per cent), more than double the growth in the country as a whole (8 per cent). In some parts of London it may now be the case that 80 per cent of new build houses in London are only affordable to 20 per cent of the population.

#### *The market for affordable home ownership*

There is mounting evidence that the affordable home ownership market in London is failing in certain key ways.

Affordable homes are generally purchased under specialised "Part Own/Part Rent" shared ownership schemes or through the use of equity loans. Since 2008, eligibility for these schemes in London has been established using income thresholds. These are increased each year by inflation and currently stand at a gross household income of no more than £66,000 per annum for a one or two bedroom home, or no more than £80,000 per annum for a family sized home (three or more bedrooms).

While basic eligibility requirements for affordable home ownership have been set in London by the GLA, boroughs may also place restrictions on the type of people who can apply for affordable homes, either on a borough-wide basis or through planning conditions. Whether a London-wide market actually exists may therefore be in question.

The rapid pace of house price growth in London means that new supply of affordable ownership homes quickly moves out of reach for many Londoners. It also means that homes are being developed using public subsidy and marketed as affordable even though they sell for well above the average London price, because what is 'affordable' is an increasingly small share in that property's value.

Moreover, a major study from Cambridge University reports a failure in the secondary market for affordable homes for purchase. Several reasons have been identified, including:

- The cost of 'staircasing' (buyers who wish to increase the proportion of the property they own have to pay additional costs for surveyors and valuers at each stage increase, discouraging small steps up);
- The difficulty in selling on the intermediate housing market, as properties will not only have the original conditions of sale attached, but may have gained new restrictions depending on the level of equity the seller has created; and
- The lack of affordable housing to move on to in the open market.

#### *The Mayor's role in promoting affordable home ownership*

It is nonetheless the case that home ownership remains the aspiration of a majority of Britons, including Londoners, and the Mayor has made increasing the level of affordable home ownership a key priority in his Housing Strategy. To do this, he has concentrated significant funding in promoting shared ownership as the best option for low and middle income workers in London.

In 2013, the Mayor published his Housing Covenant, which outlines his plan to make the affordable housing market work better for London by:

- Increasing housing supply;
- Providing homes for working Londoners;
- Streamlining the market - making it simpler to supply and purchase intermediate homes and improving choice and mobility; and
- Offering additional funding to foster innovation and additional housing supply.

*First Steps* is the Mayor's key programme for the provision and promotion of pan-London affordable housing. First launched in 2008, the programme was initially centred on a website portal which offered buyers advice and guidance as well as allowing them to examine properties and the various financial packages on offer. In 2012, the Mayor announced that the *First Steps* programme would be expanded to include:

- Separating the financial product from the property to enable customers to ensure that they find the most appropriate financial package to support themselves into home ownership, without having this dictated by the particular home they purchase;
- Improving the secondary intermediate market to reduce the number of homes that leak out of the sector and to enable those who are already in intermediate housing to move within the sector to better meet their housing needs and improve their choices;
- Ensuring that intermediate homes are available to a wide range of Londoners, and that there are not restrictive planning conditions or other encumbrances that unreasonably prevent potential customers from accessing these opportunities; and

- Re-configuring the *First Steps* agents service by removing unnecessary duplication for both customers and providers, and providing an enhanced, private sector funded, web-enabled service.

In February 2013 the Mayor unveiled the first phase of a new fund - of up to £100 million - to stimulate new building activity, new products and new housing supply. The first phase funding will see 27 organisations sharing £78 million to build 3,000 new homes across London, supporting around 6,000 jobs in construction.

The Mayor has set a target for *First Steps* to assist 50,000 Londoners to gain a foothold on the property ladder by 2016.

## **Key issues for the investigation**

During the investigation the Housing Committee will seek to answer the following key questions

- **How well-developed is the affordable home ownership market in London?**
- **Is the market in shared ownership working?**
- **How successful has *First Steps* been in promoting and improving affordable home ownership?**
- **Who actually benefits from the *First Steps* programme?**
- **Are there alternative models of affordable home ownership which would operate well in London?**

### *Details of the investigation*

The Committee will gather views and information for this investigation via two formal meetings on the mornings of Tuesday 2 December 2014 and Tuesday 20 January 2015. The first meeting will focus on the market for, and models of, affordable home ownership, while the second will focus on the *First Steps* programme.

After the Committee has gathered views and information, it will publish its findings and recommendations. This is likely to be in Spring 2015.

## **How to contribute to the investigation**

The Housing Committee welcomes written views and information to inform its investigation. Written submissions should aim to address the questions outlined above.

Please send written submissions by **12 January 2015** to the Housing Committee, London Assembly, City Hall, The Queen's Walk, London SE1 2AA, or email: [housingcommittee@london.gov.uk](mailto:housingcommittee@london.gov.uk).

## **About the Housing Committee**

The Housing Committee holds the Mayor to account for delivering more affordable homes in London, improving the quality of existing housing, meeting Londoners' housing needs and promoting opportunities for mobility across the capital. It pays particular attention to how the Mayor's housing strategy is being implemented and how the Mayor is delivering on his promise to provide 54,500 new affordable homes by 2015.

The Committee's membership and details of its work are available on its [webpage](#).