CORE RENTERS IN LONDON'S NEW-BUILD MARKET AND THE FUTURE OF THE LONDON ECONOMY.

A report by Professor Michael Ball, Henley Business School, University of Reading from Get Living London.

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ABOUT THIS REPORT.

Get Living London, the new residential owner and rental management company, commissioned Professor Michael Ball, Professor of Urban and Property Economics at Henley Business School, University of Reading, to define the core residential rental market in London, its demand for housing and the economic impact of not delivering high quality homes for this group.

This report has been written and published as a thought leadership piece highlighting issues, interconnections and trends in a key part of the UK's property market. It is targeted at investors, policy makers, industry specialists and a general readership in order to promote debate and understanding. It is not intended for use directly in either market forecasting or for investment decision purposes, where specialist advice should be sought.

FOREWORD.

London is the economic powerhouse of the UK economy, a dynamic global city that attracts talent, trade and tourism from around the world. However, it suffers from a significant housing shortage that has the potential to hamper its economic growth.

At Get Living London, we have placed considerable emphasis on understanding the wants and needs of London's renters. With this in mind, we commissioned Professor Michael Ball of the University of Reading to investigate; who are the core renters of new-build homes in London and how will the dynamics of this group impact the future of London's economy?

It is of critical importance to Get Living London, a major investor in the London private rented sector and owner of East Village the former 2012 London Olympic Games athletes' village, that the London economy continues to benefit from growth and the ability to attract talented people.

Notably, this report identifies a group of London renters that are young, mobile and suitably affluent to require good quality, usually modern, accommodation. The provision of homes to this group is critical to London's economic prospects, indeed this report calculates that failure to deliver sufficient housing to this cohort could result in a missed opportunity for the Capital's economy of around £85 billion.

Earlier studies we commissioned identified the huge opportunity for large-scale institutional investment in the private rental sector and this report reinforces the demand-side element of this opportunity. There is a large and growing population of potential renters in London who are demanding high-quality homes.

I hope that you enjoy this latest addition to our thought leadership series, which reinforces our commitment to providing insights into the private rented sector in London and the UK.

Derek Gorman

Derek Gorman.
Chief Executive, Get Living London.

EXECUTIVE SUMMARY.

1. A quarter of Londoners now rent privately and the demand for accommodation continues to grow apace. Although not all are likely to rent newly built property, this report examines those who are most likely to rent new homes; to draw out the important links between housing and the future health of the London economy; and to highlight that a lack of new housing supply in London is imposing serious constraints on its, and the UK's, economic growth.
2. The growth of private renting in London is partly a consequence of high housing costs and population pressures. However, the nature of London's economy encourages renting because of the importance within it of large numbers of relatively young, highly skilled, mobile people.
3. Those aged between 20 and 40 represent over 40% of inner London's population compared to just over a quarter in England as a whole, according to the latest Census. That age group is growing in importance across London and is much more likely to rent privately than any other.
4. London's economy acts as a magnet for younger people out to make their way in life. Younger adults are more likely to stay in London if born there; while millions of others are attracted to work and to live in the city: both from the rest of the UK and from abroad. Those in-migrants typically become private renters for a number of years.
5. 'Core' renters of new accommodation are members of London's growing and increasingly affluent job markets, who are in their mid-20s to mid-30s working in what are generally termed 'professional' jobs. They are the more affluent, mobile, childless; and live as singles or are sharing with another person. This core group is expected to grow rapidly over the next decade or so, as a London workforce, increasingly professional in character, expands.
6. There are other important sub-groups interested in renting new homes, such as median, or higher-income, people with children who value mobility and central locations. Yet, they remain niche markets in comparison to the core group.
7. Significant numbers of better-off households now rent in London. A quarter of those with more than £1,000 weekly income rent privately.
8. Offsetting the influx of people are movers out of London, typically at somewhat older ages than in-movers. Most go to the rest of the UK, especially the South East, but others head abroad.
9. In-movers and out-movers roughly balance out (with a small net outflow), so what is currently happening to London's existing population itself is actually the main driver of change. The population of London is expanding principally because the birth rate is relatively high, fewer people are leaving the city, and people are living longer. Overseas immigration surged in the mid-2000s but has fallen markedly since then. Out-moves to the rest of the UK have also declined in recent years; reflecting housing shortages in the areas surrounding London as well as a commuting issues and a growing attractiveness of London as a place to live.

10. Overall housing supply is well below requirements and only responds weakly to price rises, if at all. Housebuilding reached a peak a number of years before the onset of the financial crisis, reflecting the difficulties of building houses in London even when demand is booming. With the onset of the crisis, private housebuilding fell by half and private sector output is still operating at only three-quarters of pre-crisis levels.

11. Planning policies keep land supply particularly tight and tend to go against the grain of the market. It is difficult to know how the policy impasse is going to be resolved. Planners accuse housebuilders and developers of hoarding land; while housebuilders argue that insufficient housing land exists and that much in planning statements is unviable.

12. Commuting to locations outside of London helps to ameliorate demand pressures in the Capital. Yet, despite this, it cannot be regarded as a potential solution to London's growing housing shortages. Current planning policies in the commuter belt and growing physical and financial constraints on commuting may well see it continue to decline in relative importance in the provision of housing for those that work in London. This marks London out from virtually any other world city. Younger people in particular are turning their backs on long-distance commuting and opting to rent closer to work instead.

13. London stands apart from the rest of the sluggish, post-financial crisis, UK economy. Well over a quarter of a million extra jobs have been created since 2007 and London household incomes had risen to 30% above the UK level by 2010. This strong labour market performance has obviously had major implications for London's housing market and helps to explain recent pressure on prices and rents.

14. There is long-term growth in the real incomes in the London economy, driven by a combination of regular pay rises for specific jobs and the gradual shift towards higher paid employment. This has key implications for the housing market, because rising incomes lead to roughly proportionate increases in housing demand, and, in aggregate, they have a greater impact on raising demand in London's housing market than do demographic factors. As incomes rise, consumers aspire to better quality accommodation in desirable locations.

15. Employment is forecast to continue to expand rapidly over the next decade or so but the likelihood is that the increases will be curtailed by a lack of housing. That will put off people from living in London, helping to intensify labour shortages. It will simultaneously raise labour costs, which will discourage firms from creating jobs or staying in London.

EXECUTIVE SUMMARY. *cont...*

16. In the past, London has been able to absorb large increases in employment despite mediocre new housing supply. However, the argument here is that the old strategies of 'sweating' the existing housing stock and relying on long-distance commuting are becoming less likely to satisfy the housing requirements of an expanding professional workforce in the future. Instead, the onus will be more focused on new construction.

17. Future employment growth is forecast to centre on professionals in their 20 and 30s. That labour market dynamic will have a major impact on the housing market with tens of thousands of extra, relatively affluent people each year searching for homes. Such people represent part of the core demand for newly built rented accommodation in London. They have the characteristics that generate a high propensity to live in the private rented sector; an ability to pay for better-quality, well-located properties; and are likely to view new homes as an attractive option.

18. However, forecast housebuilding is likely to constrain actual employment growth; with almost half of the extra expected professional workers in London unlikely to find homes. So, housing shortages will mean that many potential jobs will not materialise.

19. The cumulative economic effect of the likely loss of employment arising from housing shortages is considerable. Each year more than £1 billion will be lost in potential extra economic output from professional workers in the London economy. Furthermore, once created those new jobs then become part of existing employment so that year on year the missing economic activity grows and grows. Up to 2025 overall, £85 billion in lost output will have occurred.

20. These broad estimates highlight the fact that private market housing shortages are not simply an issue for those wanting to live in London but a major economic problem that should be of national concern.

21. For many, rising house prices and rents are a sign of virility and the strength of the London economy. Unfortunately, instead, they are a sign of a malaise that will gradually price people and businesses out. A radical change is needed to increase housing land supply throughout the London area and its hinterlands, while more public expenditure is required to link it all together into a place that is both rewarding and worthwhile to live in. Without them, by the 2020s, if not earlier, London is likely to become known as a place that is too expensive to do business in.

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INTRODUCTION.

A quarter of Londoners rent privately and the demand for accommodation continues to grow apace. A wide range of people rent but who are those most likely to live in newly built property? What are their incomes and lifestyles? How many of them are there going to be in the future? These questions are of vital concern to investors, developers and policy makers alike. They will be examined by looking at what are termed here 'core renters': members of London's growing and increasingly affluent job markets, who are in their mid-20s to mid-30s working in what are generally termed 'professional' jobs.

This core group of renters is forecast to grow significantly over the next decade or so, because London's position as a global city will continue to expand employment opportunities for them. In fact, it will be argued here that there is a symbiotic relationship between new-build homes for rent and London's economy; in a similar way to the well-known interlinkages of economic growth, job creation, construction and performance in the commercial real estate sector.

It is the dynamics of the Capital's economy that drive the demand for new rented homes. Similarly, it is the existence of accommodation for a growing, high value-added workforce that helps to sustain the dynamic of the London economy. However, because of supply limitations, a mounting constraint on London's future economic growth potential is an increasing lack of suitable accommodation for the people that push the economy forward.

There is a considerable risk that a cumulative £85bn or more of potential output will be lost to the UK economy by 2025 because new London professional job creation will only be around half the rate of what it could be, due to a lack of new homes. This makes it one of the most pressing 'foundations of future economic growth' problems; ranking it above such high profile issues as Heathrow and HS2. London is an exemplar of the need for policies to be put in place to break the ever tightening knot of chronic housing shortages and resultant threat of soaring labour costs in the future.

This view of London's housing problems contrasts with a more classic 'planning' approach to the Capital's housing that focuses predominantly on population growth, household formation, and affordability issues for lower income groups; with only token acknowledgement given to the economy. However, the cart should not be put before the horse. Population and household numbers increase, and people's living standards can only be lifted, on the back of a strong economy.

There is consequently not a dichotomy between the standard debate on London's housing and the one here; rather this report puts emphasis on distinct dimensions. Even so, the conclusions reached and their policy implications differ with respect to housebuilding. The analysis here suggests that far more weight needs to be put on providing new market-based accommodation to house a growing labour force, especially the creation of homes to rent. To have any hope of achieving that aim requires a questioning of the huge constraints on land supply that currently exist in the places where people want to live.

“A MOUNTING CONSTRAINT ON LONDON’S FUTURE ECONOMIC GROWTH POTENTIAL IS AN INCREASING LACK OF SUITABLE ACCOMMODATION FOR THE PEOPLE THAT PUSH THE ECONOMY FORWARD.

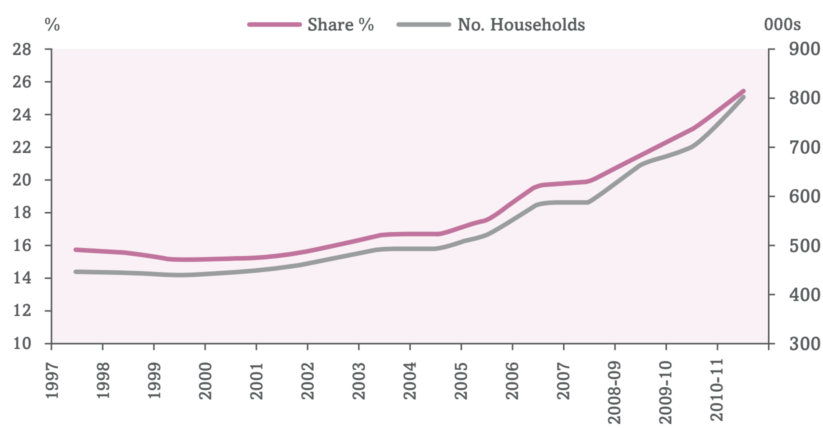
THERE IS A CONSIDERABLE RISK THAT A CUMULATIVE £85BN OR MORE OF POTENTIAL OUTPUT WILL BE LOST TO THE UK ECONOMY BY 2025...”

SECTION 1.
LONDON'S CORE RENTERS.

THE GROWTH OF PRIVATE RENTING IS LINKED TO THE EVER-CHANGING LONDON ECONOMY.

London has the largest concentration of private renting in UK and the number of properties has doubled in the past 20 years, so that now around a quarter of households are private renters[1] (Figure 1). This is in marked contrast to the percentage of households across London who are owner occupiers with mortgages, which has now fallen below the 30% mark.

FIGURE 1. *% of London households renting privately, 1997 to 2010-11.*



Source: EHS.

Several interrelated factors help to explain the recent growth of private renting in London. On the demand side, the high cost of housing encourages renting but, in addition, the characteristics of London's labour force is influential as well. Put the other way round, the London economy thrives and grows in part because of the existence of a large, expanding, and generally well-performing private rented sector. On the supply side, the creation of a free market two decades ago, when Assured Shorthold Tenancies (ASTs) were created, helped to rebalance the tenure mix in London from a situation where over-regulation had artificially pushed market-based renting to low levels. The prospect of good returns in an unshackled market has encouraged tens of thousands to invest in London property and has driven expansion of the sector. Renting has changed the economics of living in London for many, especially for younger people; because it is no longer necessary to have the wherewithal for a downpayment on a home to have a good career and a pleasant lifestyle.

The main demographic drivers of the increase in renting are London's rapid population growth and age profile. Mobility is also central, with high levels of migration into (and out of) London from the rest of the UK and abroad – currently over 60% of London's renters were born outside of the UK, according to the GLA[2]. But, as noted in the introduction, demographics should not be seen in isolation but rather related to the economic and social characteristics of the city, especially to its housing and labour markets. Taken together they explain the types of tenants that rental investors may expect and highlight key changes in the profile of London's renters.

Households opt for renting for a variety of reasons, some related to the problems of owning and others

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[1] Renters in this report will refer to those in the private rented sector rather than include the social sector unless otherwise stated. [2] Housing in London. Evidence base for London Housing Strategy, 2012, GLA. This foreign born share of renters has been inflated by the surge of immigration following expansion of the European Union in the 2000s and, so, it may decline in the future.

to the benefits of renting. On the one hand, the sharp rise in house prices during the boom, combined with more recent credit constraints limit entry to homeownership for younger buyers. On the other hand, many Londoners – particularly the younger ones – do not wish to rush into owning, which requires a high rate of pre-purchase savings and significant transaction costs and post-purchase expenditure. Instead, they prefer lifestyles made possible by renting and the opportunities it offers to live in more expensive locations than they could afford to purchase in. Furthermore, mobility is much easier with renting's low transaction costs and ease of moving. Those coming into the city benefit from the flexibility of renting; as do existing renters who on average move every year or two.

Though continued growth in renting is certain, its precise future share of London's housing is uncertain. That depends on a complex set of factors, such as the future strength of earnings, credit constraints, the growth in house prices and their levels relative to rents, the scale of inward migration to London, age profiles, and future policy towards social housing amongst other influences. However, what is clear is that future demand will be strong, with much of the increase coming from better-off 'professional' workers, as explored below.

WHO ARE 'CORE' NEW-BUILD PRIVATE RENTERS IN LONDON?

The majority of London's rental properties are found in the existing housing stock amongst the median and lower priced neighbourhoods spread across inner and outer areas. This pattern of supply reflects the general pattern of demand in the face of the city's high housing costs.[3]

New-build adds only a relatively small amount to the existing rental stock, but it generally trades at a premium because of its location and quality. In consequence, simply examining the general profile of renters does not give a complete description of those likely to want to live in new or recently built property. Such residents are more likely to be found amongst the median to upper income groups of professional workers.

The national profile of renters.
For England as a whole, by far the most common group within the private rented sector can be characterised as younger, childless adults, who work full-time and are living as singles or in couples (BOX 1).

BOX 1. CHARACTERISTICS OF PEOPLE LIVING IN PRIVATE RENTED ACCOMMODATION IN ENGLAND.

- *Younger adults.*
  51% of private tenants are aged below 35; three-quarters are aged below 45.
- *Mainly childless, 1 or 2 person households.*
  67% are 1 or 2 person households; two-thirds of renters have no children.
- *Mainly in employment.*
  70% work full-time.
- *Generally mobile.*
  36% have lived in their accommodation for less than a year; 72% for less than 3 years.

Source: English Housing Survey.

[3] M. Ball Renting in London: The Coming Boom, Cluttons, 2011.

SECTION 1.
LONDON'S CORE RENTERS. *cont...*

Younger age profile.
These characteristics are reinforced in London because of the city's generally younger age profile. The differences in ages are notable. In England, 27% of the population is aged between 20 and 40; whereas in London, it is 36%. In inner London this rises to 43%. So, comparatively, there are tens of thousands more younger adults per million population in London than in England, and the UK as a whole; with the greatest difference in the core renter 25 to 35 age group (Figure 2). This helps to make London more of a renter city than the rest of the UK, especially in inner areas.

London's overall population structure is gradually shifting towards younger adults. Recent Census data shows a 14% growth over the decade to 2011 in the number of those aged between 15 and 64. Moreover, that growth was concentrated amongst those aged under 40.[4] In part, this trend is due to large-scale overseas immigration, as immigrants tend to be younger than resident populations. Even so, it is primarily attributable to the fact that London has become a relatively more attractive place for younger, highly qualified, adults to work and live; irrespective of where those young adults have come from.

An expanding, internationally-oriented, young, highly skilled labour force draws in the types of economic activity where such people thrive, so there is a mutually reinforcing feedback effect influencing the structure of the population and economic activities. For example, boosted by additional younger people, extra consumption activities evolve – restaurants, cafes, etc. – which then make London an increasingly attractive place for them. A large and expanding private rented sector focused on providing accommodation for this group is part of this self-reinforcing growth process.

Migration and mobility.
The Capital's share of younger adults is to a degree self-generated as the characteristic is passed down as people grow up and have children themselves. But the most significant factor is the economy, which acts as a magnet for younger people out to make their way in life. This means that younger adults are more likely to stay in London if born there; while millions of others are attracted to work and to live in the city, both from the rest of the UK and from abroad. Those in-migrants typically become private renters – for a number of years, if not longer.

Offsetting this influx, people also move out of London, typically at somewhat older ages than in-movers. Most go to the rest of the UK, especially the South East, but others head abroad. So, amongst London's exports are people who have grown older and more skilled: having often built up significant human capital in its industries, its educational establishments, or both. Many moves out of London to the rest of the UK are also shifts in tenure. People frequently change a rented home in London for an owner occupied one elsewhere. This reduces moves from renting to owning within the city itself.

As annual migration out of London is generally somewhat greater than in-migration, this takes some of the pressure off the housing market (Figure 3). However, despite the volume of migration, much of it balances out. In fact, there is a net marginal annual loss of population from London, of around 9,000 people a year.[5] This is due to an excess of outward migration to the UK regions, particularly the surrounding areas, over moves into the Capital.

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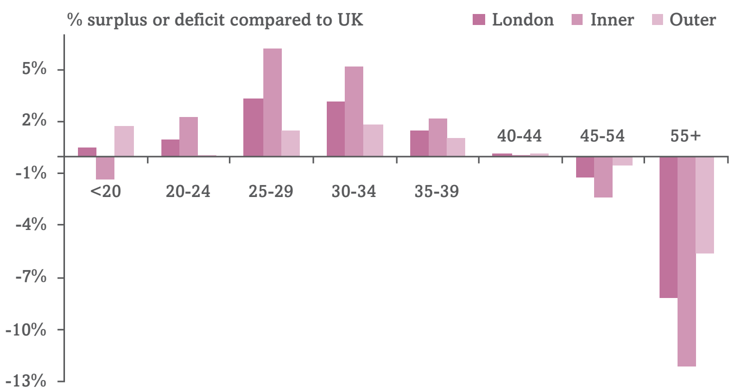
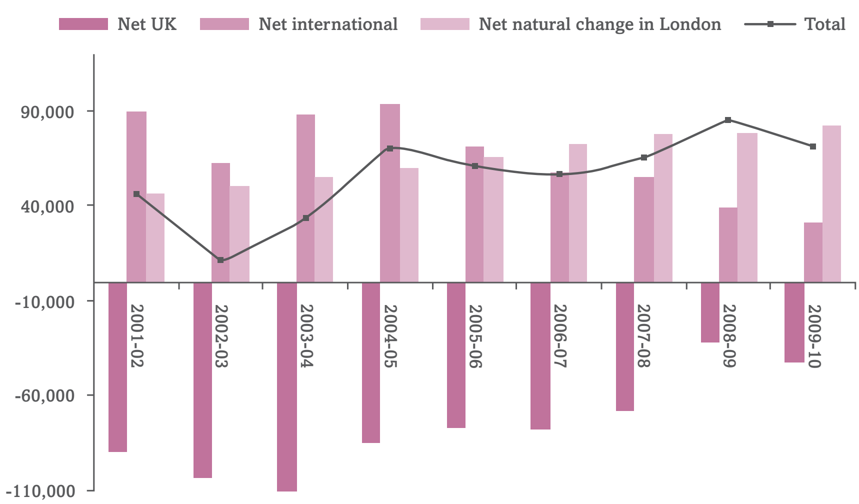
[4] http://www.ons.gov.uk/ons/dcp171778_270487.pdf. [5] 2005/6 to 2009/10 average. Housing in London. Evidence base for London Housing Strategy, 2011, GLA.

FIGURE 2. *London's age cohorts compared to the UK's.*



Source: Estimated from Census 2011 data.

FIGURE 3. *Contributions to London's population growth from migration & natural change (2001/2 -2009/10).*



Source: Estimated from Census 2011 data.

This means that housing availability in the metropolitan hinterland is a significant influence on the state of the metropolis' housing market. However, the scale of the surplus moves out shrank over the course of the 2000s (Figure 3); due in part to mounting housing shortages in those adjacent areas. Since the mid-2000s, net immigration from abroad also declined substantially (Figure 3). This kept the overall balance of moves in and out of London roughly the same over the period. Even so, this key safety valve for London's housing market has been weakening; a trend that is likely to continue.

Over time, many people move into and out of London rather than spend all of their lives there. Yet, most of London's population growth and, more specifically, moves in the private rented sector are from those already living there.

London renters frequently change home, as they do elsewhere in the UK. They have a wider choice of accommodation and a younger age profile and, consequently, may well do so more frequently than in the rest of the UK. Many of those contemplating renting a newly built property will be living and renting in London already.

SECTION 1.
LONDON'S CORE RENTERS. *cont...*

They will doubtless be well versed in its urban geography, transportation systems and neighbourhood statuses.

In addition, they will often possess city-wide knowledge of house prices and rents. They are sharp consumers in a savvy market.

Income differences lead to a varied rental market.
Table 1 shows the distribution of incomes across the different housing tenures in London. Unsurprisingly, there are concentrations of lower income groups in outright homeownership (primarily amongst the elderly) and in social renting (amongst the elderly again but also younger age groups). There is another group of low-income households living in private renting, typically supported by the state.

It comes as no surprise that the majority of better-off households are homeowners. There are approximately three-quarters of a million owner occupiers in London with weekly incomes of £1,000 or more; roughly three-quarters of whom have a mortgage.

However, there are a large number of better-off people that prefer to rent, given their circumstances and conditions in the housing market. There are almost 200,000 households with £1,000+ weekly incomes who are private renters. They may represent only a small percentage of all London's households, at 6%, but renters of new-build are likely to be overwhelmingly drawn from them. They are willing to pay the highest rents, with survey data showing that they spend, on average, 55% more on weekly rent than does the £500-999 weekly income cohort.[6]

Amongst those around the middle household income level,[7] in the £500-999 per week band, there is virtually an even split between those buying with a mortgage and renting privately (290,000 households in this group rent privately). People at this income level are also an important catchment for newly-built rental, especially towards the top end of that income range.

The core group of renters for new-build, in summary, are relatively young people in the 25 to 35 age band who are affluent, mobile, and childless, and live as singles or are sharing with another person. There are other important sub-groups, such as the more affluent people with children in the family who value mobility and central locations.[8] Yet, they remain niche markets in comparison to the core group.

TABLE 1. *Distribution of household incomes in London by tenure, 2010-11.*

WEEKLY INCOME	Owned outright	Owned outright	Social rented	Private rented
Less than £400	41%	12%	63%	27%
£400-549	11%	7%	18%	14%
£500-999	23%	30%	16%	35%
£1,000+	25%	51%	3%	24%
Total	100%	100%	100%	100%

Source: ONS.

6 Family Resources Survey, ONS. 7 Average weekly household income in 2010 was £732, GLA. 8 M. Ball Renting in London: The Coming Boom, Cluttons, 2011.

“THE CORE GROUP OF RENTERS FOR NEW-BUILD, IN SUMMARY, ARE RELATIVELY YOUNG PEOPLE IN THE 25 TO 35 AGE BAND WHO ARE AFFLUENT, MOBILE, AND CHILDLESS...”

SECTION 2. LONDON'S HOUSING SHORTAGE.

HOUSING SUPPLY IS CONSTRAINED.

New housebuilding in London is woefully failing to meet demand. In consequence, prices and rents continue to rise. This squeezes people into smaller and poorer quality accommodation; dissuades others from coming to live in the city; persuades more to rent than to buy; and encourages yet more to leave the city for other places in the UK or abroad. In this way, housing demand and supply are balanced and the market clears but outcomes for both individuals and London's economy would be far more satisfactory if additional housing was available.

Housebuilding reached a peak a number of years before the onset of the financial crisis, reflecting the difficulties of building houses in London even when demand is booming. With the onset of the crisis, private housebuilding fell by half before beginning to recover a year later. However, private sector output is still operating at only three-quarters of pre-crisis levels.

Overall supply is well below requirements and only responds weakly to price rises, if at all. Private housebuilding in London has averaged fewer than 12,000 homes a year since the early 1990s; with only a weak upwards trend, despite surging house prices (Figure 4). The most recent quarterly data show no sign of serious improvement. (For 2012: Private starts: 10,120, completions: 12,270; Social starts: 4,250, completions: 8,390). [9] This level is far below potential demand and the amount needed to stabilise real prices and rents.

Total housebuilding was influenced by a major increase in public expenditure on social housing in the 2000s. However, public expenditure cutbacks and a new funding regime bring the future scale of this into question. Furthermore, gross new social housing unfortunately does not represent pure additions to London's housing stock, because it competes for scarce land with the private sector and, thereby, crowds out new private homes. The same dynamics work in a similar way for private, subsidised 'affordable' schemes. By taking up limited land supply, they make other housing less affordable.

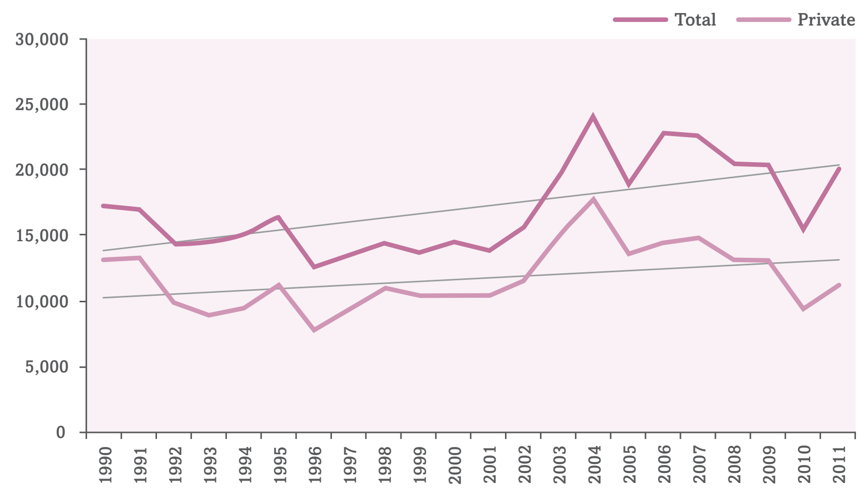
Inevitably in a major city like London, competition for land is strong and location specific. Construction is also expensive as new dwellings have to be fashioned in an already densely built up area; often on land that was previously used for industrial or transportation uses with high conversion costs.

However, planning policies keep land supply particularly tight; go against the grain of the market; are insensitive to cost considerations and to journey-to-work patterns; with politics driven by visions, imperatives and NIMBY fear. The long-term aim has been to focus most new building in specific areas. Such locations are all brownfield; often expensive to develop; and lack physical and social infrastructure. They can be a long way from places where demand is focused, while land supply is severely constrained in those high demand areas.

To illustrate, the Thames Gateway area is planned to generate almost 40% of all future housing. Meanwhile, the Green Belt makes most potential suburban development impossible. Broad swathes of London's historic neighbourhoods are designated as conservation areas where new-building is allowed only in exceptional circumstances.

[9] DCLG data.

FIGURE 4. *Housebuilding in London 1990-2012.*



Note. Completions. Straight lines represent linear trends. Source: DCLG.

Developments also take a long time in the planning process, even when eventually permitted. Land taxation and affordable housing requirements also continue to threaten the viability of development proposals.[10]

The GLA's overall planning policy is to increase housebuilding to average 32,200 homes a year, with a push for even more if possible. Quite how this is going to be achieved is hard to see. This is especially the case as a restrictive planning policy stance remains, as articulated in the London Plan:

"… the LP identifies housing capacity and seeks to accommodate this growth in a sustainable way – taking account of its social and economic implications as well as its potential environmental impact, not least by accommodating it without encroaching on protected green spaces, and within London's own boundaries."[11]

It is difficult to know how the policy impasse is going to be resolved. Planners accuse housebuilders and developers of hoarding land; while housebuilders with more justification argue that insufficient housing land exists and that much in planning statements is unviable.

Major issues revolve around poor infrastructure; building constraints and costs; and the difficulty of creating viable, attractive, successful neighbourhoods out of places where they did not previously exist. Equally importantly, many households are unwilling to live in the places designated for new homes – or, at least, disinclined to pay high prices/rents in them - so that development in those locations is frequently unviable. The suburban and urban locations where far more people would be happy to live, in contrast, are designated as out of bounds for all but a limited amount of new building.

[10] M. Ball The Housebuilding Industry. Promoting Recovery in Housing Supply, DCLG, 2010.
[11] Housing. Supplementary planning guidance, London Plan 2011, Implementation framework, GLA, Nov. 2012, p3.

SECTION 2.
LONDON'S HOUSING SHORTAGE. *cont...*

LONG-DISTANCE COMMUTING UNDER PRESSURE.

Commuting into and out of London amounts to more than a million journeys a day: with a net 430,000 inward flow to jobs in the City, West End and elsewhere. However, constraints are rising and this is encouraging more to rent in London than to opt for a home beyond the Green Belt.

The constraints can be seen in the near constant flows of cross-GLA boundary commuters over the past decade or so, despite considerable increases in London employment.[12] Moreover, there is some evidence that younger people were commuting less and older people more. There was a marked fall in the number of people aged 16 to 24 using central London rail termini in the decade up to 2010. There was also some decline for the main 22 to 44 commuting age group, but rises amongst older ages.[13] This pattern mirrors tenure change, with more people in their 20s and 30s now opting to rent in London than to trek to an outer suburban location as owner occupiers.

Commuting is constrained by a variety of factors. The Green Belt itself and the South East's urban pattern add to the distances and costs commuters face. Good transport routes are also channelled into limited arteries. Congestion and overcrowding are already high; yet travel by all modes is expected to grow by 12% by 2020, with rail trips up by a third.[14] Some additional capacity is coming on-stream with more to follow; notably Crossrail. Yet, increased large-scale investment is required to cope with rising travel demand and, given public policy constraints, it is unlikely to materialise at a sufficient scale to sustain the major increases in commuting necessary to have a significant impact on London's future housing shortages.

Commuters face over-crowding, long journeys and expensive fares. The compensations of larger and more affordable housing for the long journeys to work are increasingly attenuated as well. Housing supply constraints are high in the traditional commuter locations outside of the Greater London boundary, with NIMBY-ism rife and considerable local political resistance to further building.

These supply-side constraints limit the relatively cheaper house prices that are typical at greater distances from the centre of a large metropolitan area. This restricts the gains in affordability that can be made by commuting out to more distant locations. The weakened price incentive acts as a deterrent to this lifestyle option for those that work in London.

It is undoubtedly true that commuting and moves to locations outside of London help to ameliorate demand pressures in the Capital. Yet, despite this, they cannot be regarded as a potential solution to London's growing housing shortages, as visionaries a century ago once hoped they would be.

Current planning policies and growing physical and financial constraints on commuting may well see suburbanisation continue to decline in relative importance in the provision of housing of those that work in London. This marks London out from virtually any other world city and the policies and politics that create this situation are unlikely to change in the near future (Box 2).

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[12] 2000-2009 averages. [13] Central London Termini: Analysing passengers' onward travel patterns, TfL. [14] The Mayor's Rail Vision, TfL, 2012.

Amongst other things, deterioration in the attractions of commuting are pushing younger professional workers to focus even more on accommodation in the well-located, quality neighbourhoods of London and to search out suitable rented accommodation within them in the face of the lack of attractive opportunities elsewhere. Their preferences point in that direction as well. Such locations offer the potential for a work-leisure balance not swallowed up by commuting and the possibility of enjoying the cosmopolitan attractions of big city life without the need to scrape and save for homeownership.

BOX 2. URBAN GROWTH DENIED.

Normally, in the face of surges in growth, cities:

- Expand outwards
- Many existing neighbourhoods become more dense reflecting higher land values
- Governments spend more on infrastructure to accommodate growth
- Building booms take place

These processes operate very weakly in London:

- Because of planning, housing, and public expenditure policies

Outcomes:

- Demand focuses on existing areas
- Property prices rise sharply, especially in more desirable locations

> "MOREOVER, THERE IS SOME EVIDENCE THAT YOUNGER PEOPLE WERE COMMUTING LESS AND OLDER PEOPLE MORE."

SECTION 3. THE THREAT TO LONDON'S ECONOMIC GROWTH.

LONDON'S DYNAMIC ECONOMY IS DRIVING JOBS GROWTH AND HOUSING DEMAND.

London is noted as a global city. Business flows across the world in a wide range of activities and the labour-force, similarly, is highly international in character. These features drive its residential markets.

London's economic strengths are fundamentally based in its size, infrastructure and workforce skills. Together they generate substantial agglomeration economies that have grown apace in recent decades. They facilitate diversification benefits, so that if problems arise in one sector others tend to expand or emerge. Even when a major sector, like financial services, takes a knock the economy rapidly recovers. That helps to sustain a high trend rate of economic growth. Moreover, as a global centre of trading and knowledge, London's fortunes are linked to the world economy as well as to those of the rest of the UK.

These economic advantages derive from a series of interlinked networks of markets where business is high value added, competitive, innovative and flexible in nature. Those markets range across finance, culture and the media, ICT and higher-grade business services. Consumer-oriented businesses are also extensive in the highest income location in Europe; with particular strengths in retail, leisure activities, higher education, and health. Government and the public sector add further to the employment mix.

Productivity per capita is almost a third higher than in the rest of the UK,[15] and incomes reflect that situation. London has also increased its share of national output from 18.5% in 1997 to 21.1% in 2011.[16] Much of this higher productivity is founded on the skills base of the workforce; with over 40% having degree level qualifications or higher. The skills base is further raised through the acquisition of business experience subsequent to formal educational training, often while working in London.

Strong recent economic performance.
London stands apart from the rest of the sluggish, post-financial crisis, UK economy.[17] Its growth rate was more-or-less double that of the UK's between 2007 and 2011. Businesses have expanded, with the number of firms up 12% over the period and employment growth has been strong, with a 15% increase in jobs.

There was a temporary drop in employment in the immediate aftermath of the financial crisis. Yet jobs growth renewed quickly after 2009 (Figure 5). The recent increase in employment has been focused on private sector jobs in professional and technical activities, information, communications and construction.

Well over a quarter of a million extra jobs have been created since 2007.[18] In such an economic environment, real incomes were hardly squeezed in the years after 2007. This contrasts with the rest of the UK, so that London household incomes had risen to 30% above the UK level by 2010.[19] This strong labour market performance has obviously had major implications for London's housing market and helps to explain recent pressure on prices and rents.

Moreover, while London's employment is concentrated in central areas, almost three-quarters of it is spread throughout the rest of the city. (40% of the population lives in the inner London boroughs and 60% in outer ones.)

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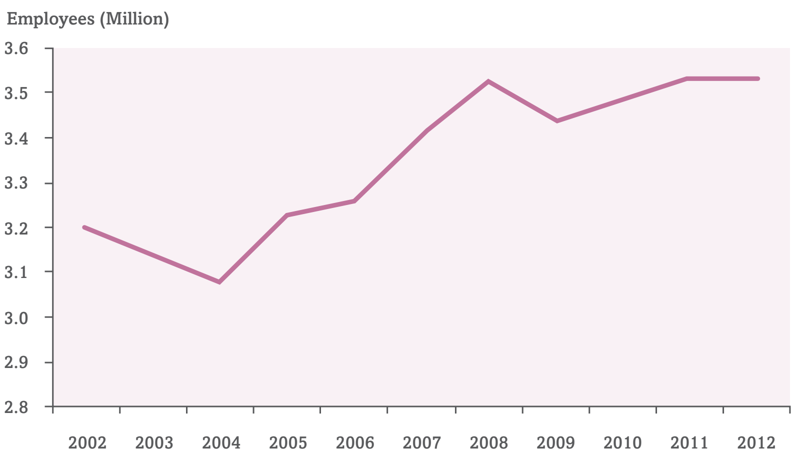
[15] 2011 ONS data, measured per hour worked. [16] ONS. [17] 'London's economy has outperformed other regions since 2007', ONS, March, 2013.
[18] 267,000 between September 2007 and September 2012. Source: ONS. [19] Household income per head, ONS.

FIGURE 5. *Jobs growth in London 2002-2012.*



Source: ONS.

The complex spatial jobs distribution and associated commuting help to even out the demand for housing throughout the urban area. Furthermore, both jobs and homes spill over into the commuter towns beyond the Green Belt that share in the agglomeration benefits of the metropolitan region.

Employment growth is forecast to continue to be strong.

Recent forecasts suggest that jobs growth in London will pick up over the next decade. For example, Oxford Economics predicts an extra 400,000 jobs by 2020; with an average of 67,000 a year between 2015 and 2020. Earnings will also grow, with nominal wages rising by an average of 4% a year.[20]

Many of the new jobs are being created in higher value-added and higher earnings activities. Key sectors likely to experience growth include professional, administrative and support services.[21] Expected declines in public sector jobs will be strongly outweighed by the growth in private sector ones. Therefore, not only is there overall jobs growth but also a gradual shift in employment towards higher-earning activities. While London continues to have much low-paid employment, it is this rise in higher-level jobs that is the motor of its economy.

Future employment growth is consequently forecast to centre on professionals in their 20 and 30s. That labour market dynamic will clearly have a major impact on the housing market with tens of thousands of extra, relatively affluent people each year searching for homes.

Such people will represent part of the core demand for newly built rented accommodation in London. They have the characteristics, previously outlined, that generate a high propensity to live in the private rented sector; an ability to pay for better-quality, well-located and well managed properties; and are likely to view newly built homes as an attractive option.

Rising living standards add to housing demand.

The longer term evolution in real incomes is a combination of regular pay rises for specific jobs and the gradual shift towards higher paid employment in the London economy.

[20] The Economic Outlook for London, Oxford Economics for City of London Corporation, April, 2013. [21] Economic Outlook for London, ibid.

SECTION 3. THE THREAT TO LONDON'S ECONOMIC GROWTH. *cont...*

This dual mix of factors has key implications for the housing market, because rising incomes lead to a roughly proportionate increase in housing demand.

The impact of seemingly modest income changes over time is huge. For example, a feasible 2% annual real increase in earnings plus a further annual 0.5% 'shift' effect of the movement to a higher paid employment structure would raise London's aggregate real housing demand from those in employment and their families by over a quarter during the next decade.

So, it is not only population and demographics that are driving London's housing market. There is also a significant impetus from higher incomes. Rising living standards point to the fact that housing is not simply a numbers game. As incomes rise, consumers aspire to better quality accommodation in desirable locations.

Housing demand tends to be under-estimated by ignoring the economy. Forecasts of housing demand used in the planning system and in general discussion tend to centre on demographic forecasts.[22] Official household projections indicate that household numbers in London may rise by 36,000 a year over the time horizon to 2033.[23] While this is helpful in gauging demand pressures, the estimates are extrapolations of previous population trends and sensitive to assumptions. Moreover, they only tell part of the story as the economic dimension is downplayed.

Three economic factors are of key importance in the medium-term.

1. The aforementioned labour market effects and increases in incomes.
2. The existence of chronic resource shortages – i) limits to public expenditure on infrastructure and 'place-making' and ii) the artificially-induced lack of housing land.
3. The market mechanism, which creates market-clearing prices and rents so that housing demand is matched with the available supply.

Housing shortages in London are resolved not by planning but unfortunately by people being priced out of the market. They have to accept worse quality or live elsewhere. This process does not solely affect lower-income groups but reverberates throughout the whole range of the market.

HOUSING SHORTAGES THREATEN JOBS AND GROWTH.

Housing demand reducing mechanisms also work in another negative way. This time the pressure is felt indirectly in the effects of high cost of housing on raising the price of labour and, thereby, crowding out jobs. In this way, the housing market threatens the feasibility of the jobs growth highlighted in employment forecasts. Extra employment is forecast to be way above new housing supply and that cannot realistically happen.

A strong growth in employment creates a need for much new accommodation, particularly in the private rental market, for the employees to live in. Unfortunately, the likely prospect is that insufficient new housing will be

[22] See, for example, Housing. Supplementary planning guidance, London Plan 2011, Implementation framework, GLA, Nov. 2012; Changes to affordable housing in London and implications for delivery, B. Harrison, J. Wilson and J. Johnson, Future of London/JRF. [23] DCLG household projections.

forthcoming. This will have profound effects not only on these people directly but also the London housing market as a whole and the strength of the Capital's economy.

Housing shortages threaten the international competitiveness of London as a place to do business. As noted earlier, firms are attracted to London in part because of the availability of a large, highly-skilled, flexible workforce that they can profitably utilise. Yet, people will become increasingly reluctant to work in London unless their incomes enable them to pay for good quality accommodation. This will push up wages and lower employment.

So, labour costs for firms rise in consequence of housing shortages and skilled labour shortages grow. As enterprises have to pay ever higher salaries to compensate for the costs of living in London and face a tighter labour market, the profitability of doing business declines, so that firms are less willing to expand or to set up. Existing firms may contemplate wholesale moves to other locations. In the case of global activities, businesses will drift away from London and the UK altogether to more economically attractive urban locations. Productivity growth is also diminished as the potential of agglomeration economies cannot be fully realised. There may also be tipping points: for example, when the networks that underpin activities become weakened, a wholesale departure of an industrial sector may ensue.

The internationalised affluent professional London workforce is highly mobile. Increasing numbers of them have no sentimental or family attachments to London and will not live there unless they can achieve a good mix of income, living costs and lifestyle. Growing housing costs and shortages threaten London as the optimal choice for them, especially when other global locations can offer a better option.

Worsening equality.

The housing constraint also makes the Capital more unequal, as middle income groups are squeezed out and gradually only the richer and the poorer live in it. The latter do so by crowding up and accepting low housing quality, though that may be partly offset by re-distributive state subsidies. However, such subsidies add to tax burdens and to the housing costs of the unsubsidised by taking scarce land, which may make the urban area even less competitive.

NEW-BUILD IS LIKELY TO PLAY AN INCREASING ROLE IN RAISING HOUSING SUPPLY IN THE FUTURE.

Estimating housing demand and supply in a housing market like London's is problematic, but the scale of the deficit is so great that the magnitude of the issue is readily apparent.

A useful way to approach the issue is to focus on overall housing demand and the stock of homes available to live in. Demographics and economics will determine the level of demand. Matching that to the current size of the stock will demonstrate how well that demand is likely to be met. The supply-side is the binding constraint, so excess demand will be choked off by higher prices and rents. Demand is a flow with some leaving the city or passing away and being replaced by others, while all those remaining adjust their housing expenditure based on their resources, aspirations, circumstances and the cost of accommodation. Several groups will be sheltered from these pressures: those able to obtain social housing or state financial support; and owner occupiers, whose housing costs are affected by the scale of their own housing wealth.

SECTION 3. THE THREAT TO LONDON'S ECONOMIC GROWTH. *cont...*

A changing housing stock.
The housing stock itself is in a state of flux. There are additions through new-building and sub-divisions; extensions to existing property; and transfers from other uses. Losses also occur through deterioration, demolition, and transfers of use. The impact of these changes in any one year is quite small but over time has significant effects.

London has coped in the past couple of decades with considerable rises in living standards and a much greater population through relatively modest additional residential building by making far more intensive use of its existing housing stock, through upgrades and sub-divisions. However, there are reasons to suspect that this stock upgrade route to coping with extra demand, particularly for those on median to higher incomes, is becoming more difficult. Much of the best of the nineteenth century stock has already been upgraded and neighbourhoods transformed; the low hanging fruit (to use the cliché) have been picked. In addition, widespread conservation measures now limit what can be done. Like commuting to the outer suburbs, this previously highly successful way of handling extra demand may well be able to contribute less in the future than it did in the past.

Housing the elderly.
Another changing characteristic of London's housing market is that older people are living longer and many prefer to stay in their existing home for as long as they can. Many also own their homes outright, and so are shielded from the rising cost of housing. Relatively few are interested in downsizing and equity release.[24] The outcome is that older people are far less mobile than younger ones. Survey evidence for England highlights the much higher propensity of the elderly to stay in their existing home: for example, 35% of recent movers are aged 25 to 34 but only 3% of them are aged between 65 and 74.

So, even though London has proportionately less old people than England as a whole, a growing part of its stock houses them. As a result, progressively less of the housing stock will be transferred to providing accommodation for younger households over the coming decades.[25]

A growing supply emphasis on new-build across all parts of the housing market.
To summarise, several factors suggest that proportionately more new-build will be required to cope with rising demand in the future:

- the existing stock will be 'sweated' less than it has been in recent decades. Further conversions, property extensions and neighbourhood upgrades will become both more difficult and less worthwhile.
- outer suburban commuting faces both housing supply and infrastructure constraints and, on present trajectories, will continue to decline, relatively, as a source of housing for London's workforce.
- transfers of housing down the age hierarchy are likely to diminish as Londoners live longer. Older Londoners also tend to have a higher share of larger properties, particularly amongst the high share of owner occupiers that exists in this age group.

[24] M. Ball et al, Housing markets and independence in old age, University of Reading, 2011. [25] 2009-10 data, EHS.

One consequence is that these three factors particularly affect the future housing demand of middle to higher income groups. This is because commuting, property upgrading, and ownership of larger properties are concentrated amongst them. So, middle to upper income households are likely to face shrinking opportunities in the current housing stock of London and its surrounding areas. The difference in prices up the market hierarchy is already stretching as the price ladder is climbed. The steps on that ladder are likely to grow ever wider as more people chase a smaller amount of better quality stock available to purchase. More new middle income and above housing demand will therefore be focused on newly built homes.

BOX 3. HOUSING PROFESSIONALS' FORECAST ASSUMPTIONS.

1. 55% of new jobs are in the professional category.[26]
2. 20% of new professional jobs housing requirements are absorbed in the existing stock; the rest require new-building.
3. 60% of new professional jobs require the equivalent amount of housing but, for the other 40%, 2 professional jobs require only 1 housing unit as they cohabit.
4. Private housebuilding rises to 15,000 units a year by 2015, the average level of the previous 2003-7 peak, but increases no further.
5. 60% of private new-build is used to house new professional employees.
6. 80% of new professional jobs lead to a demand for housing to rent.
7. Output contribution of professional workers is the same as the ONS estimated average GVA per job in London in 2011 (though it clearly could be higher).

THE GROWTH OF PROFESSIONAL EMPLOYMENT AND NEW-BUILD PRIVATE RENTING IN LONDON.

This section spells out a likely scenario of the period up to 2025 related to the housing and labour market implications of a growing volume of professional employment in London. It reproduces the results of a housing market forecasting exercise, measured in terms of the amount of new housebuilding and how much of that will be of rented accommodation.

The exercise is based on an 'unconstrained' labour market forecast and a series of plausible assumptions about the housing market consequences of the professional jobs growth. The labour market forecast is termed an unconstrained one, because it assumes no impact of housing shortages on labour demand and supply.

Assumptions are made about a number of issues, including the share of professional jobs in new employment; their economic contribution; how much extra housing demand is absorbed in the existing stock and through commuting; how much new housing is supplied; and allocations of it to professional households and to renting. They are listed in BOX 3.

[26] A similar percentage was reported in Destinations 2020: Employment projections across sectors and occupations in London, LDA, 2010.

SECTION 3. THE THREAT TO LONDON'S ECONOMIC GROWTH. *cont...*

The forecast here suggests that around 9,000 new dwellings will be built annually for professionals. Additional demand from this segment of the workforce will be absorbed into the current stock. Most construction is likely to be of apartment housing to rent. This is a joint outcome of the high cost of accommodation and of the characteristics of the additional professional workforce, where there is an emphasis on those aged below 40. Apart from a general preference for renting, they will have relatively high current incomes but limited wealth. That will encourage them to search for quality accommodation; a liking that could be satisfied in the new build rented market. Many will also have preferences for flexibility, mobility and limited housing transaction costs, which will further encourage renting. Many of the likely new labour market entrants, therefore, fall into the 'core' new build renters group outlined previously.

This forecast amount of housebuilding is likely to constrain significantly actual employment growth in London. When compared to forecast jobs, there is a substantial deficit; with only half of the extra workers likely to find homes. So, housing shortages will mean that many potential jobs will not materialise. New job creation is forecast to be roughly in line with the OEF forecast discussed earlier. There will be 50,000 extra jobs in 2014; rising to 65,000 yearly 2015 to 2020, as the economy picks up; with a modest slowdown to 60,000 from 2021-25.

Obviously, the forecasts are sensitive to the assumptions made. However, sensitivity analysis highlights that significant shortages arise on all but the most pessimistic of assumptions about economic prospects or on the most highly optimistic ones about increases in housebuilding; neither of which seem likely outcomes.

A 60% allocation of newly private built housing is assumed to go to the new-build core renter group. Other users of new homes will include those buying a second home in London from elsewhere in the UK or overseas.

The recent surge in activity from overseas purchasers is likely to slow in the coming years as current enthusiasm dampens down but this source of purchasers will continue to be significant in the new homes market. Of course, overseas investment should not be confused with second home ownership as many overseas investors will rent out their properties. Therefore, they do not affect the estimates made here, as their tenants may well come from this group of employees.

In line with the comments made earlier in this report, only a relatively modest, but still hard to achieve, increase in housebuilding of 25% above 2012 levels is forecast; with a flat trend at 15,000 private homes from 2015. This was the peak level achieved in the last boom from 2003 to 2007.

The cumulative economic effect of the likely loss of employment arising from housing shortages is considerable. Each year more than £1 billion would be lost in potential extra economic output from the London economy. Furthermore, once created those new jobs then become part of existing employment so that year on year the missing economic activity grows and grows. Up to 2025 overall, £85 billion in lost output will have occurred. This estimate flags up the fact that private market housing shortages are not simply an issue for those wanting to live in London but a major economic problem that should be of national concern.

JOBS CHURN FURTHER RAISES THE DEMAND FOR NEW HOUSING.

So far, the discussion has been about new job creation but additional employment change takes place through churn as existing people leave their jobs and are replaced by others. Jobs churn will be a multiple of new job creation and so have a large impact on housing moves within London. For the professional occupations considered here, it has been estimated that around 140,000 jobs will be passed on from one person to another each year.[27]

Frequently, the replacement employees will be younger than those that left and, so, are more likely to be in the 'core new-build renters' group. Moreover, as earnings rise, they will be better-off than their forbears and have higher housing demand. The employment pressure on new housing supply consequently will not only come from new employment but from those who have taken up an existing job as well.

"FREQUENTLY, THE REPLACEMENT EMPLOYEES WILL BE YOUNGER THAN THOSE THAT LEFT AND, SO, ARE MORE LIKELY TO BE IN THE 'CORE NEW-BUILD RENTERS' GROUP."

27 Destinations 2020: Employment projections across sectors and occupations in London, OEF, LDA, 2010.

CONCLUSION.

This report has considered three interrelated themes. The characteristics of the core group of potential renters of newly built accommodation, the housing shortage in London and, finally, London economic prospects and associated employment growth.

Most housing growth in London over the past decade has been related to increases in the size of the private rented sector. Expansion has occurred for a variety of reasons but central to an understanding of the dynamics of private renting is the nature of London's economy and the concomitant relatively high proportion of younger adults.

Many of those people have good jobs and comparatively high incomes. They represent the core group of renters for newly built property. The simplest description of those that constitute core new build renters is that they are relatively young people, aged between 25 and 35, who tend to be above average earners and to be mobile and childless. They live as singles or are sharing. There are other important sub-groups, such as the more affluent people with children in the family who value mobility and central locations but they are niche markets in comparison to the core group.

This core group is going to expand rapidly over the next decade or so, as a workforce increasingly professional in character expands. However, the rise in jobs and, with it, economic growth will be held back by a lack of new housing. A shortage of good quality, market-provided property is likely to restrict growth. A lack of newly built high quality and professionally managed market rent accommodation is a key element of this. However, owner occupied dwellings are important as well in order to retain people in the workforce that wish to become home owners; a common desire as people age. Otherwise, human capital created in London will simply be exported to competing economies rather than sustained in London and its hinterlands to form part of the foundations of future economic growth. A shortage of housing affects everyone but a shortage of market-rented accommodation will be the greatest constraint on London's economic growth.

In the past, London has been able to absorb large increases in employment despite mediocre new housing supply. However, the argument here is that the old strategies of 'sweating' the existing housing stock and relying on long-distance commuting are becoming less likely to satisfy the housing requirements of an expanding professional workforce in the future. Instead, the onus needs to be on building new accommodation.

In the past, most who have wanted to have been able to find accommodation – at a price. This has enabled the London economy to suck in labour: boosting its growth and generating agglomeration economies, innovation and extra productivity. However, this golden era may well be coming to an end. The current strong growth in London's house prices and rents and the growing divergence of its housing market performance from that in the rest of the UK is indicative of the strains that are mounting in the housing market. They are only likely to worsen. These housing shortages will increasingly put a cap on London's economic growth potential.

Continued overleaf...

"THE SIMPLEST DESCRIPTION OF THOSE THAT CONSTITUTE CORE NEW BUILD RENTERS IS THAT THEY ARE RELATIVELY YOUNG PEOPLE, AGED BETWEEN 25 AND 35, WHO TEND TO BE ABOVE AVERAGE EARNERS AND TO BE MOBILE AND CHILDLESS."

CONCLUSION. *cont...*

Rising housing demand, driven by London's population and economic growth, is massively outpacing the supply-side, which remains severely constrained by a lack of viable developable land. This is not to advocate a free-for-all but a more rational view of land-use. Currently, widespread conservation areas; a tightly drawn, rigidly enforced Green Belt; and other restrictive planning constraints are endemic; while the huge infrastructure and other costs of upgrading previous industrial and other rundown areas further limit feasible development. There is a very high price to pay for all this, because the supply squeeze leads to persistent trend increases in property values. In consequence, London's housing costs are high and rising.

A reluctance to put up with rising housing costs and a lack of supply of good quality accommodation on the part of potential employees and the knock-on impact on salaries for firms will be key mechanisms through which jobs growth is constrained by London's intensifying housing shortage.

The economic route also highlights the fact that housing shortages should not simply be seen as an issue of affordability for those on modest incomes, important as that is, but as a problem that affects everyone. The economic case furthermore points strongly towards housing provision for those on middle incomes or above, because they are vital parts of the economic success story of London.

The problem with housing shortages is that many of the economic effects cannot be seen directly, so that housing is often treated solely as a social issue. A medical metaphor may help bring out the economic impact. Housing shortages for the London economy are the equivalent of the impact of excess cholesterol for the human body. It can be ignored for a while but becomes increasingly threatening if neglected and also harder to treat. Land is a key part of the housing cure. A much larger, well-targeted, regular supply of housing land is the equivalent of statins in improving the situation. Unfortunately, denial is the current stage of the London patient, with lots of reasons found for not taking the medicine.

For many, rising house prices and rents are a sign of virility and the strength of the London economy. Unfortunately, instead, they are a sign of a malaise that will gradually price businesses out. A radical change is needed to increase housing land supply throughout the London area and its hinterland and more public expenditure is required to link it all together into a place that is both rewarding and worthwhile to live in. Without them, by the 2020s, if not earlier, London is likely to become known as a place that is too expensive to do business in. We shall all be the worse for that.

ABOUT GET LIVING LONDON.

Get Living London is a new residential owner and rental management company that is creating London's newest neighbourhood at East Village, the first legacy neighbourhood from the 2012 London Olympic and Paralympic Games.

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