

Chapter 4 The current housing market and market signals

Key points

- In a London context South East London is a relatively low value area, except for Southwark. The average house price in 2013 was £338,500 (from £236,500 in Bexley to £440,500 in Southwark). Prices quadrupled between 1996 and 2013, an average compound rate of increase of 8.1% per annum. Rises have been greatest in Southwark and least in Bexley. After a dip in 2008-09 house prices have resumed their upward trend. Sales volumes fell away sharply during the financial crisis but have been rising again recently, although they are still below pre-crisis levels. Against a backdrop of strong demand, low interest rates, and Government policies to stimulate the market, house prices in South East London have risen significantly, rising by more than 10% per annum since 2012. It is possible that the market is now overheating
- PRS rents have been more stable than prices. Nevertheless they rose by 4.3% per annum in the three years to mid-2013, significantly above the rate of inflation and growth in household incomes. The average monthly rent in mid-2013 was £1,674 (from £1,084 in Bexley to £2,057 in Southwark). Private renting is expanding rapidly and is characterised by a high level of household moves. More than half of all household moves each year concern moves into private rented accommodation. The tenure is dominated by younger households as 85% of tenants in South East London are younger than 50. 28% of households in the PRS contain dependent children. Given the lack of security of tenure in the sector this is an issue of concern. There are significant issues about the feasibility of lower income households - and particularly younger, single households - accessing the PRS, in the context of lower LHA rates and housing benefit caps.
- Average rents of new lettings in the social / affordable rented sector in during 2012-13 ranged from £428 per month for 1 bedroom units to £599 per month for units with more than 3 bedrooms. Size-based price differences are much narrower in the social / affordable sector than in the private sector. Rents charged for new social / affordable sector tenancies rose at an annual rate of 6.6% between 2010/11 and 2012/13. The rate of increase was only 2.4% p.a. if affordable rent tenancies, which began to be introduced in 2011, are omitted. Turnover in the sector has declined in recent years and was only 5.7% of the stock in 2012-13. The relet rate of smaller dwellings is higher than for larger dwellings and the former tend to get let to new tenants from outside the social / affordable sector while the latter are more commonly let to transferring tenants. This is likely to be the result of an allocations policy that prioritises the alleviation of overcrowding within the social / affordable sector.
- In 2013 the median house price in South East London was over ten times median annual gross earnings. This ratio had surpassed its 2008 level as a result of recent price increases. There are estimated to be over 10,000 concealed households. The 2011 Census counted just over 53,000 overcrowded households, almost 10% of all households. Levels of overcrowding are highest in Southwark (15%) and lowest in Bromley (4%). Under-occupation (in terms of the bedroom standard) is more prevalent among owner-occupiers than it is for renters in both the private and social / affordable sectors. Conversely, overcrowding is more common among renters. There is scope to at least partially rebalance overcrowding and under-occupation in the social / affordable rented sector by more appropriate matching of stock to household requirements.
- The number of landlord possession orders has been increasing in South East London since the onset of the financial crisis in 2008; however the number of mortgage possession orders has been declining, most likely as a result of increased forbearance on the part of lenders. At the end of 2013 there were 3,689 households classed as homeless and living in temporary accommodation and this number had increased by almost 50% in three years. Steep price rises in all tenures, reduced turnover of social / affordable sector stock, worsening affordability ratios, high levels of overcrowding, concealed households, repossessions and homelessness are clear indicators of a housing market under considerable pressure. These market signals suggest that affordability is and will continue to be a key issue for housing planning in South East London.

Introduction

4.1 This chapter examines the operation of the housing market in South East London and identifies signals which the market is providing as evidence of housing requirements. It firstly examines house prices and the volume of sales, followed by a review of the private rented sector. This is followed by information on rents and allocations in the social / affordable rented sector and an analysis of the intermediate sector. This evidence is then used to derive a range of threshold cost levels for market housing for sale and to rent, for intermediate tenures, and for social / affordable rented housing. These thresholds form an important input into the calculation of the need for affordable housing in Chapter 6. Finally, the chapter examines evidence of what might be termed “market failure” – concealed households, overcrowding and homelessness.

The owner-occupied market

4.2 The average dwelling sale price in South East London in 2013 was just over £338,500 according to Land registry Price Paid Data. Prices were lowest in Bexley and highest in Southwark.

Table 4.1 House prices and sales 2013

	Bexley	Bromley	Greenwich	Lewisham	Southwark	SE London
Number of sales	3,319	5,305	3,409	4,123	4,171	20,327
Average price (£)	236,457	355,012	327,140	305,855	440,483	338,547
5 th percentile price (£)	121,000	155,000	136,500	141,000	170,000	141,000
25 th percentile price (£)	175,000	225,000	205,000	205,000	250,000	210,000
Median price (£)	225,000	295,000	270,000	260,000	349,995	277,500
75 th percentile price (£)	275,000	415,000	382,500	360,000	500,000	390,000
95 th percentile price (£)	400,000	750,000	690,000	590,000	974,000	725,000

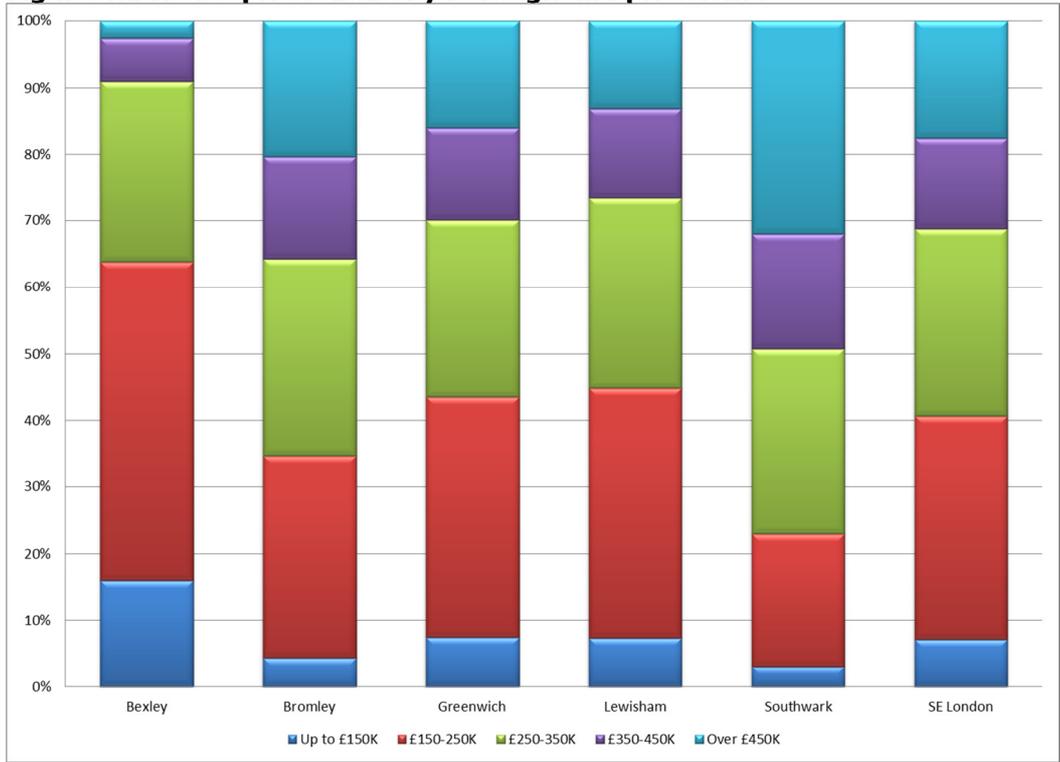
Source: Land Registry Price Paid Data, HMLR website.

4.3 Average prices show trends over time but can obscure details of the distribution of property sale prices across the spectrum. Figure 4.1 below shows the distribution of house prices in each borough across five price bands. 64% of sales in Bexley were cheaper than £250,000, a far higher percentage than in the other four boroughs. Southwark had the lowest percentage of sales below £250,000 (23%), followed by Bromley (35%).

4.4 Land Registry data reveals that the average house price in South East London is about 18% lower than the average price across the whole of London. When the five boroughs in the sub-region are ranked amongst all 32 boroughs in London according to average price Southwark is the 9th most expensive borough followed by Lewisham and Bromley (18th and 19th respectively), then Greenwich (24th) and finally Bexley (30th out of 32). In London terms South East London is a relatively low value area with the exception of Southwark. However to put this in perspective the South East London average price was higher than any other English regional average, including the South East, making South East London a high-priced area.

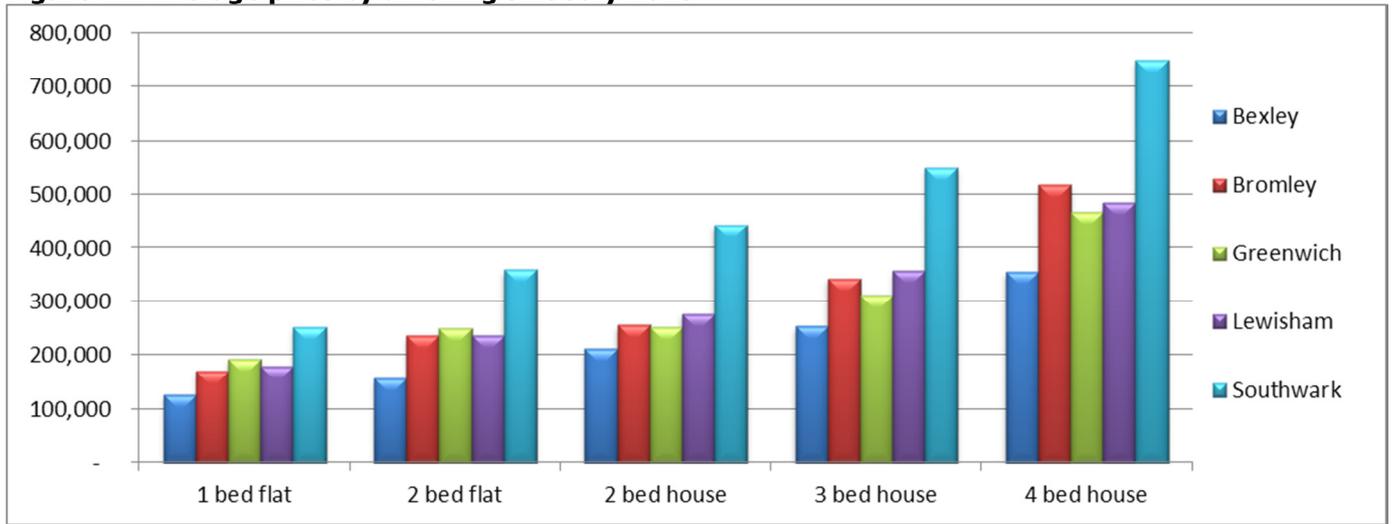
4.5 Data from the South East London Housing Partnership Housing Market Trends Bulletin shows the average price of housing mid-2013 by borough, dwelling type and size (Figure 4.2). Bexley is the cheapest borough and Southwark is the most expensive borough across all types/sizes. However the relative positions of the other three boroughs differ by type/size which may indicate pressure points within local markets. For example the average price of flats in Lewisham is lower than in Greenwich but the situation is reversed with regard to houses.

Figure 4.1 House prices 2013 by borough and price band



Source: Land Registry Price Paid Data.

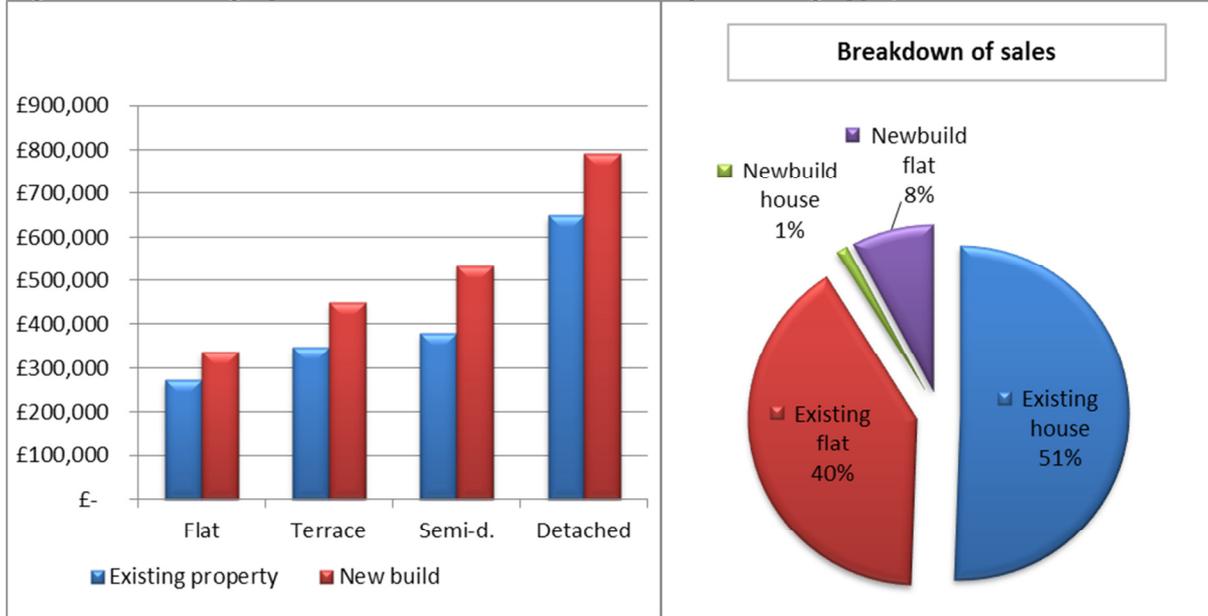
Figure 4.2 Average price by dwelling size July 2013



Source: SELHP Housing Market Trends Bulletin

4.6 Of the circa 20,000 sales in South East London recorded by the Land Registry in 2013, 91% were existing dwellings and 9% were new builds. There was an average new build premium of 29%, ranging from 22% for detached houses to 40% for semi-detached properties. Flats made up 87% of the new build properties sold, a much higher share than existing properties (44%).

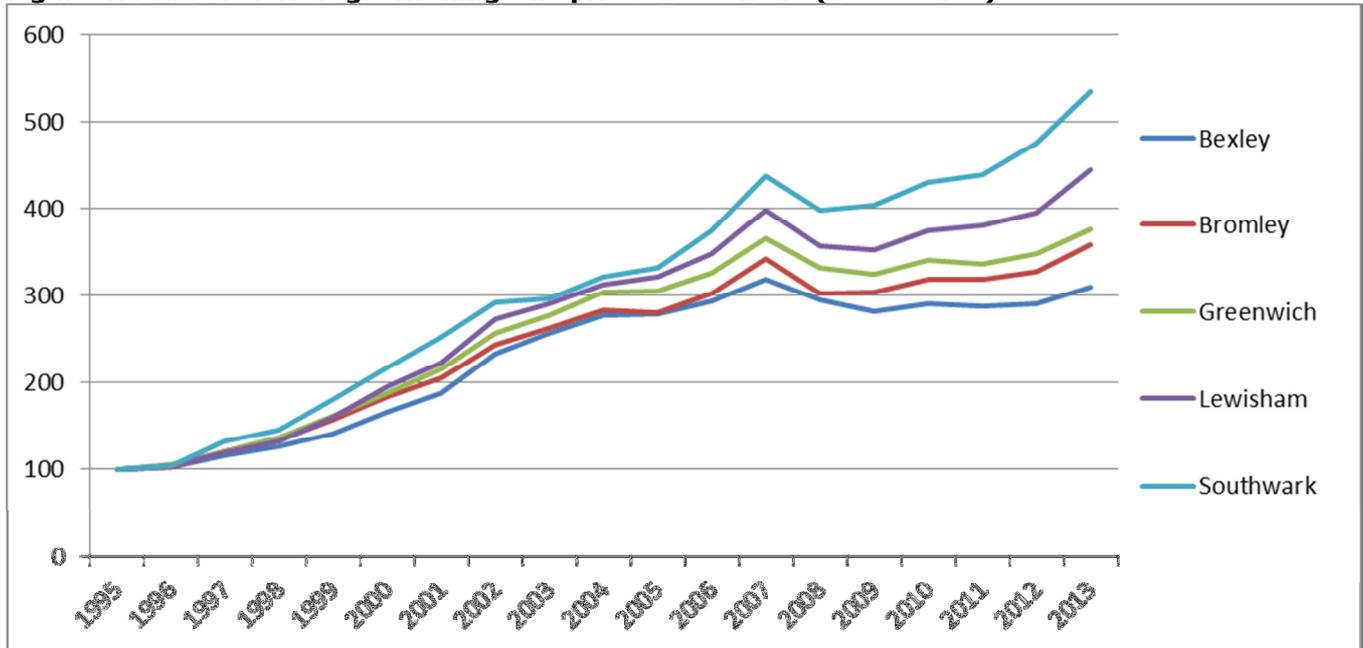
Figure 4.3 Average price and breakdown of sales by dwelling type, South East London 2013



Source: Land Registry Price Paid data

4.7 Figure 4.4 shows how prices in South East London have changed over time. The average sale price in South East London in 2013 was four times the 1995 level. This represents a compound growth rate of 8.1% per annum over the 18 years. Over the whole 1996-2013 period, prices across South East London have increased at close to the same rate as those across London as a whole, although growth rates diverged at times over the period. Prices increased steadily until 2004, and then increased more rapidly over the next three years before the global financial crisis affected the housing market in 2008. But in 2010 prices began to recover and by late 2012 they had risen past their 2007 peak. The rate of increase from 2012 to 2013 was 10.1%, accelerating further to 12.2% in the year to February 2014. This is beginning to fuel speculation in some quarters that the market is now overheating and possibly entering a “bubble” phase.

Figure 4.4 Indexed average dwelling sale prices 1995-2013 (1995 = 100)



Source: DCLG Live table 581 based on HM Land Registry data

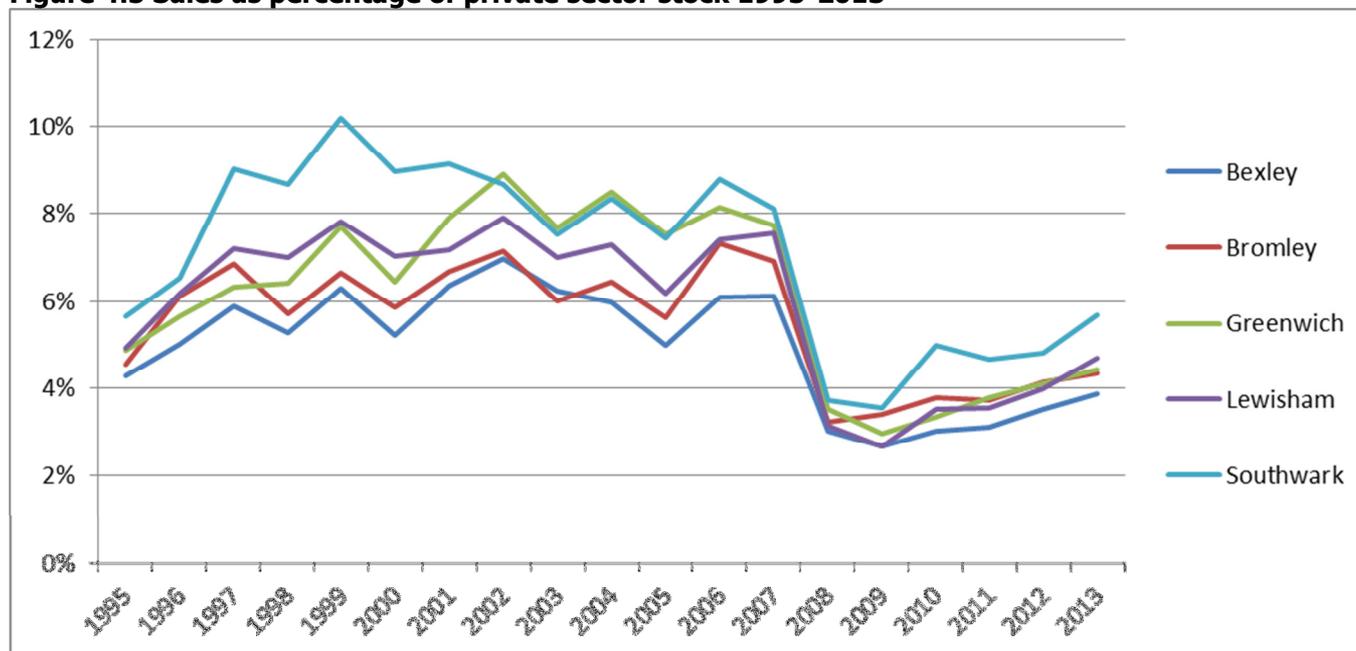
4.8 Within South East London, prices in Southwark have increased by a factor of 5.3 between 1995 and 2013. Increases were lowest in Bexley where the average price rose by a factor of 3.1 over the 18 years. The pattern emerging is one of steeper price rises in relation to the area’s proximity to central

London. House prices in Bromley were the most severely affected by the problems in the market after 2007, but have now recovered to their previous position relative to the other boroughs.

Volume of sales and interest rates

4.9 Between 1996 and 2007, there were on average around 25,000 sales of private dwellings per annum in South East London. This fell sharply to around 13,000 per annum in financial crisis years of 2008 and 2009. Sales volumes have risen year on year since 2009 but still remain far below their pre-crisis level. Figure 4.5 shows annual turnover (sales as a percentage of the private sector dwelling stock) since 1996. Turnover averaged around 7% of the stock between 1996 and 2007 but was just 4.6% in the sub-region in 2013. The reduction in market turnover may not be exclusively a result of the impact of the global recession on consumer confidence and the availability of mortgages. The ageing of the owner occupier population (with older people tending to move less frequently) and the increase in purchases by investors may also have contributed, so even in the longer term the market may not see a return to the turnover rates achieved in the early 2000s. Within South East London, turnover rates have fairly consistently been lowest in Bexley and Bromley and highest in Southwark or Greenwich, but since 2008, rates have converged, with the exception of Southwark where they recovered more quickly and have remained above those in the other boroughs.

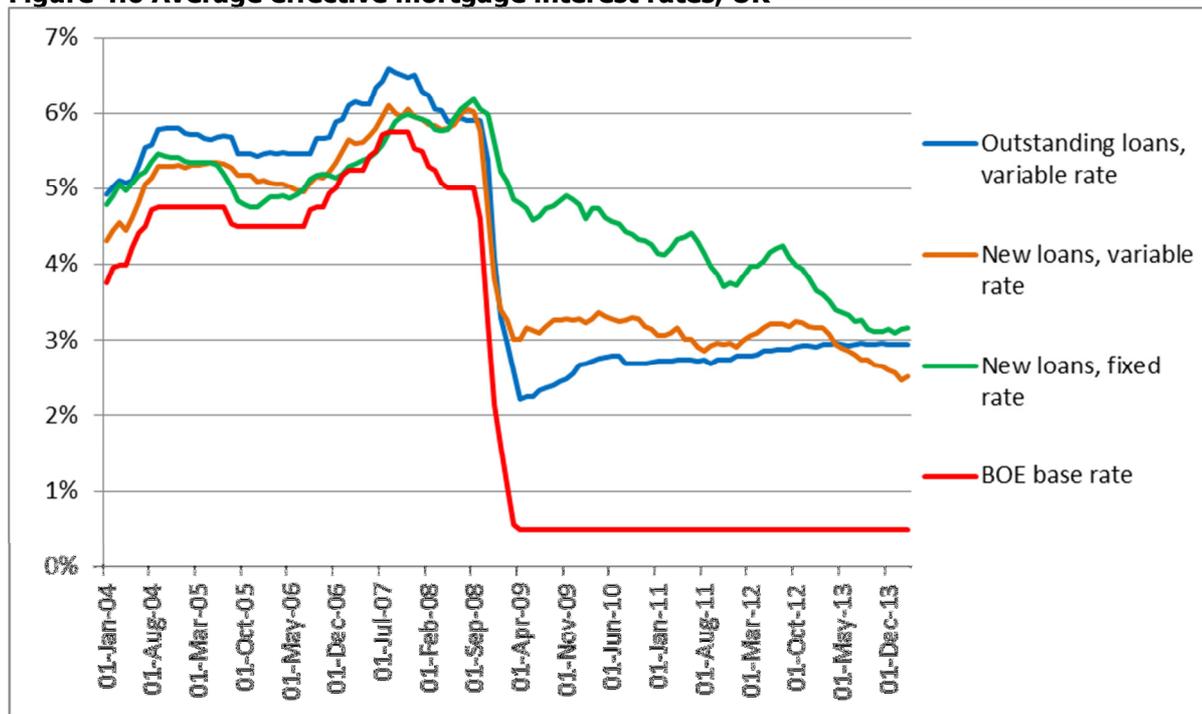
Figure 4.5 Sales as percentage of private sector stock 1995-2013



Sources: DCLG Live tables 100, 581 and historical Housing Investment Programme returns data.

4.10 The Bank of England base rate was reduced to a historically low level of 0.5% in the wake of the financial crisis and it has not risen since. Mortgage interest rates are higher, but are at a historically low level. This may be one of the factors contributing to the current surge in house prices in London and elsewhere. Looking ahead it is important to bear in mind that if interest rates rise, this may create difficulties for purchasers with high loan to income ratios, create further affordability problems for those seeking to enter the market, and potentially impact on house prices.

Figure 4.6 Average effective mortgage interest rates, UK



Source: Bank of England.

The private rented housing market

4.11 The private rented sector includes all rented housing other than that owned by local authorities, Registered Providers, and other public bodies (see Glossary for further details). Private renting is rapidly expanding in South East London, as in many other places. As noted in chapter 3 the proportion of households in the tenure in the sub-region increased from 11.7% to 19.7% between 2001 and 2011. In absolute numbers this represents a net increase of nearly 5,000 households per annum entering the sector over the decade. Given a continuation of the trend the percentage share of private renters is likely to have risen to well above 20% by early 2014. New build is one of the drivers behind the increase in the PRS. According to the report "Who buys new homes in London and why?"¹ some 56% of new London homes sold in 2013 were bought by either 'Buy to Let' or 'Build to Let' investors and a further 5% were bought by speculators to sell on, possibly ending up as rental properties too. However the report noted important variations between different parts of London. In general, the higher the value the development, the higher the proportion of investor buyers compared to owner-occupiers, with the exception of the absolute top of the regional market (London Prime). These findings reinforce evidence provided by South East London stakeholders that pointed to particularly high levels of investor activity in Southwark, including foreign investment in student accommodation. In more detail, the breakdown between investors and owner occupiers was estimated by Molior to be as follows:

- Inner London: 50% - 70% investor; 30% - 50% owner occupiers;
- Outer London higher value areas: 30% - 50% investor; 50% - 70% owner-occupiers;
- Outer London regeneration schemes: 10% - 30% investor; 70% - 90% owner occupiers².

4.12 Private renting is primarily a tenure used by younger households. Table 4.2 shows the age breakdown and household composition of private rented tenants in 2011. The overall South East London profile by age was very similar to that for London as a whole with about 50% aged 16-34 and a further 34% aged 35-49. Only 5% were aged 65 or more. The age profiles for individual boroughs were similar, with the exception of Southwark where the profile was even younger.

¹Who buys new homes in London and why? British Property Federation/Molior London Ltd, Feb. 2014.

²idem.

Table 4.2 Private rented sector tenants by age group of household reference person and household type 2011

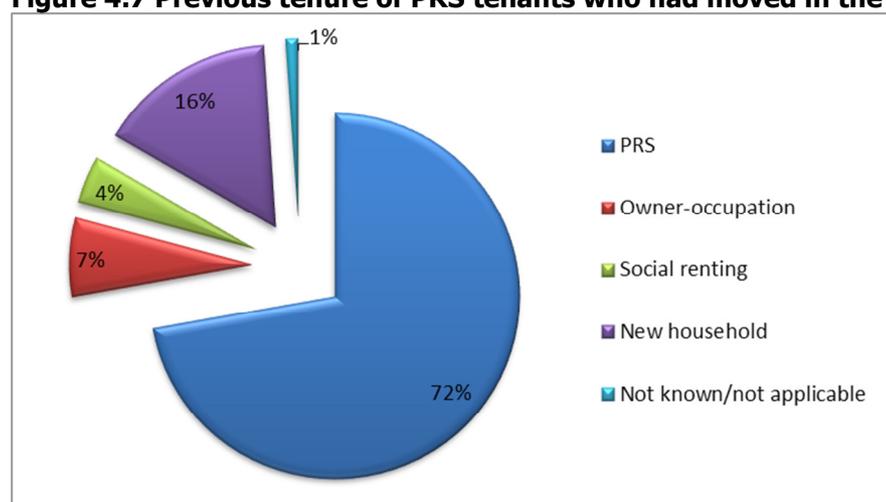
	Percentage of households						
	Bexley	Bromley	Greenwich	Lewis-ham	South-wark	SE London	London
16 to 34 years old	42	40	50	51	59	50	50
35 to 49 years old	36	38	35	35	30	34	34
50 to 64 years old	13	14	10	9	8	10	10
Aged 65 and over	9	9	5	5	3	5	5
One person households	28	37	28	30	23	29	28
Couple with dep children	21	18	21	16	11	16	18
Couple w/o dep children	18	23	24	22	29	24	24
Lone parent with dep children	23	14	12	13	6	12	10
Lone parent w/o dep children	3	2	2	2	1	2	2
Multi-person all students	1	0	3	2	5	3	2
Multi-person other	5	6	11	15	25	15	15
Total number of households	11,318	18,616	21,079	29,365	29,989	110,367	861,570

Source: ONS, 2011 Census, Tables DC4605EW and DC4408EW

4.13 In terms of household composition, people living alone, couples without children, and multi-person households made up nearly three-quarters of private renting households in South East London in 2011. 28% of households had dependent children, the same proportion as across London as a whole. There were major differences in the proportion of private rented households with dependent children at borough level, ranging from only 17% in Southwark to 44% in Bexley, with Bromley (32%) and Greenwich (33%) also having a high proportion of dependent children households.

4.14 Private renting is characterised by high rates of turnover and is less secure than other tenures. Given this lack of security the high numbers of dependent children housed in the PRS is an issue of concern. According to 2011/12 English Housing Survey (EHS) data for the whole of London, 53% of tenants in the PRS had been in their current home for a year or less compared to just 12% of social / affordable sector tenants and 7% of owner occupiers. Close to a half of all house moves in London each year involve the private rented sector. As shown in the pie-chart below, of those private renters who had recently moved (in the year up to the survey date) 72% had moved from other private rented accommodation and 16% were newly formed households.

Figure 4.7 Previous tenure of PRS tenants who had moved in the previous year (London)

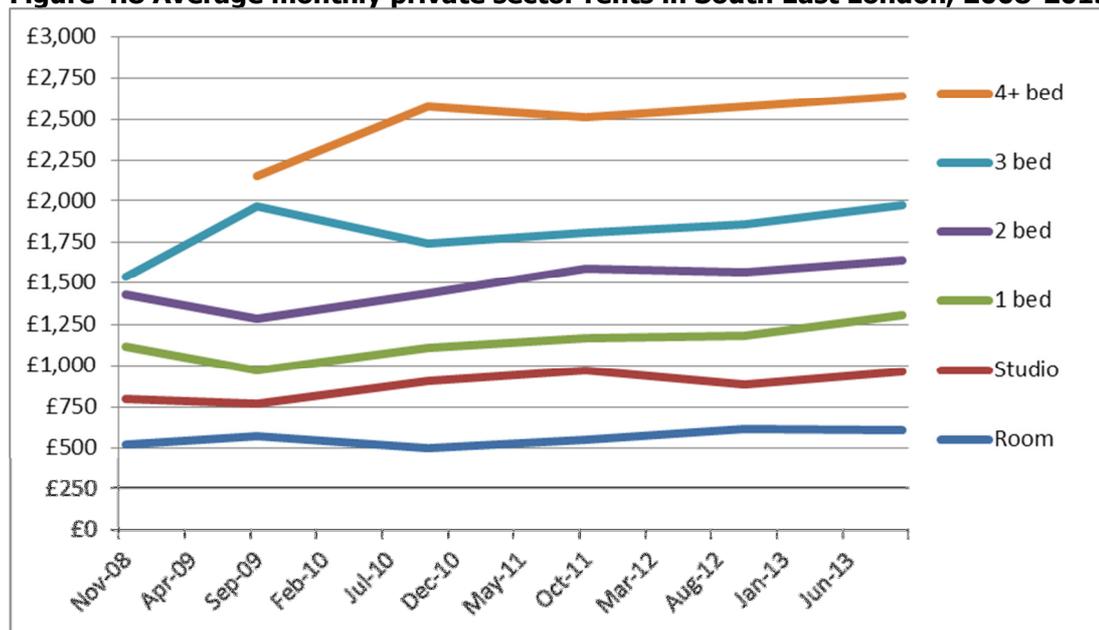


Source: English Housing Survey 2011/12

4.15 According to data from the South East London Housing Partnership Housing Market Trends Bulletin, private sector rents in the sub-region have increased by an average of 4.3% per annum in the three years to October 2013 (Figure 4.8). This is significantly above inflation and also above the average rise in incomes (average gross weekly pay of full time workers in South East London went up by 1.3%

per annum over the same period). This is clear evidence of an ongoing affordability squeeze being experienced by those renting from private sector landlords.

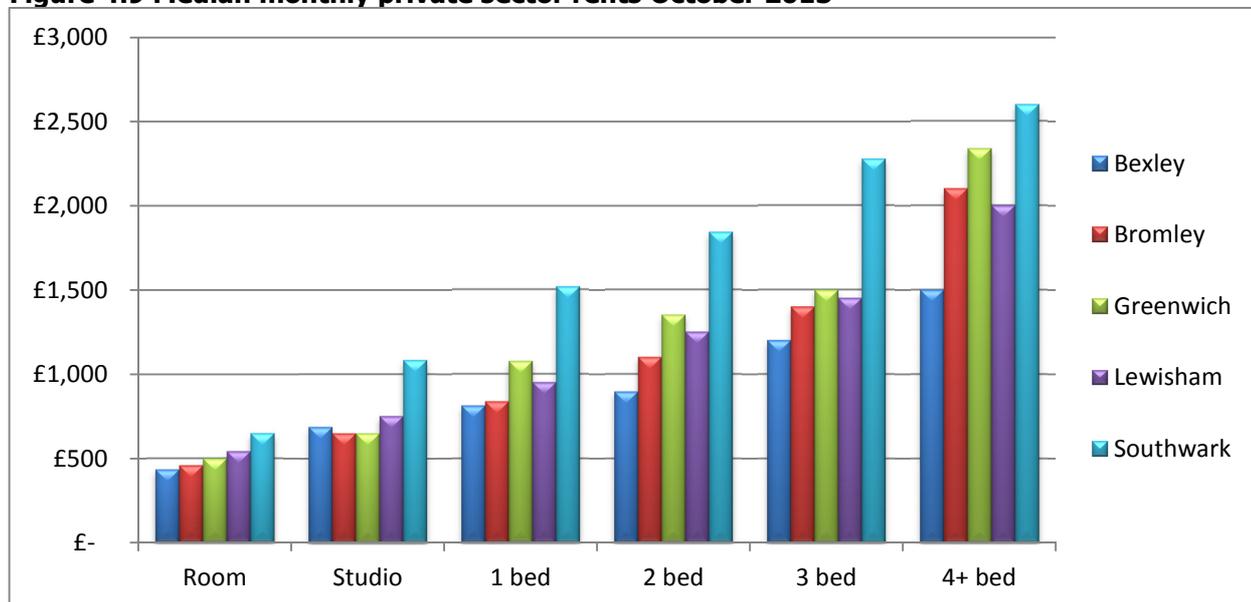
Figure 4.8 Average monthly private sector rents in South East London, 2008-2013



Source: SELHP Housing Market Trends Bulletin

4.16 The latest available median monthly rents for the various dwelling sizes are shown in Figure 4.9. Rents in Southwark are considerably higher than in the other four boroughs, overall around 24% higher than the sub-regional average. Rents are lowest in Bexley, some 35% below the average South East London level.

Figure 4.9 Median monthly private sector rents October 2013

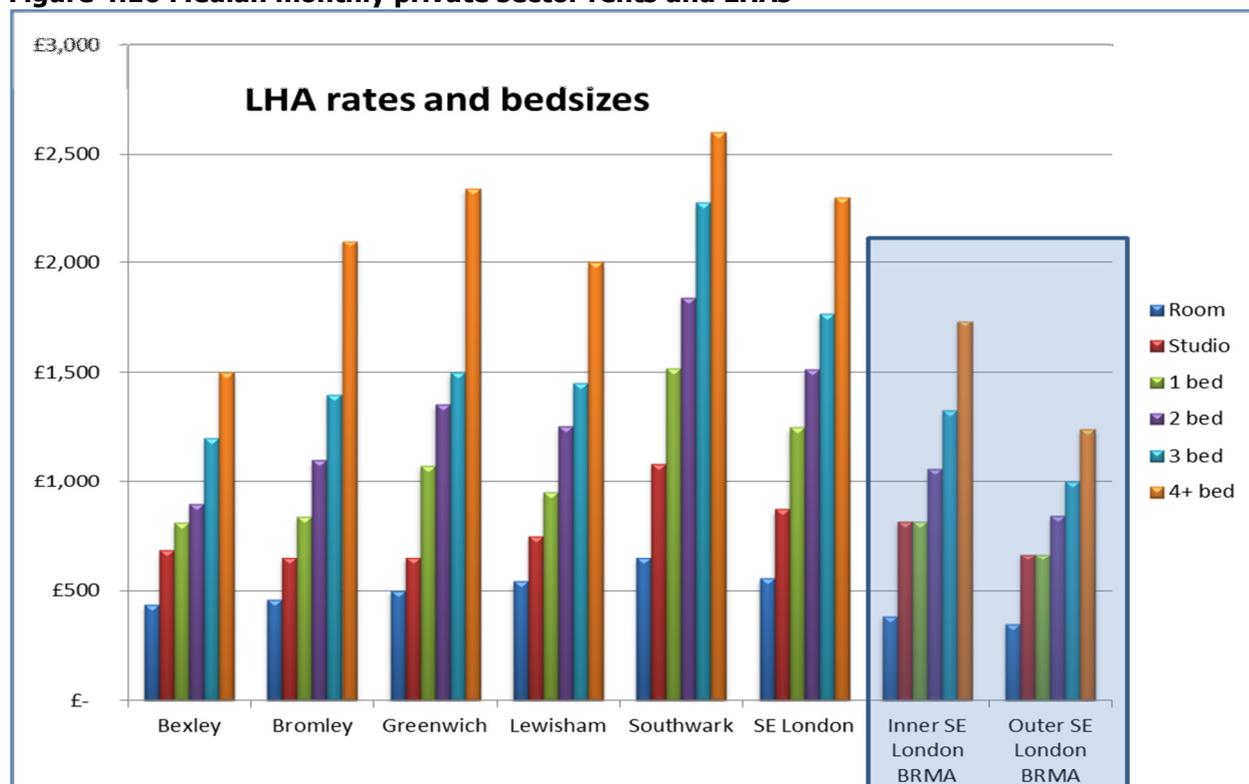


Source: SELHP Housing Market Trends Bulletin

4.17 The relationship between these rents and the Local Housing Allowance (LHA) in force is important in understanding the role which the PRS plays in meeting the needs of households on lower incomes who are unable or who do not wish to access the owner-occupied or social / affordable rented sectors. Figure 4.10 uses this data to illustrate price differentials between different sized accommodation between boroughs and, most importantly, juxtaposes these against LHA limits for different bed sizes (in the box to the right). There are two Broad Rental Market Areas (BRMAs) that are relevant to the sub-region – Inner South East London and Outer South East London. Bexley is solely covered by Outer South East London, and Southwark by Inner South East London, but the other three boroughs include parts of

both. LHA rates are higher in Inner South East London. There are virtually no median rents for any bedsizes in any authorities that fall below the LHA limit, other than studio flats in parts of Bromley, Lewisham and Greenwich. The market in studio flats is also very small covering only about 3% of lettings recorded by the latest edition of the SELHP Housing Market Bulletin.

Figure 4.10 Median monthly private sector rents and LHAs



Source: SELHP Housing Market Trends Bulletin and VOA

4.18 Linked to this must be an analysis of the nature of the lower-income end of those who would normally access the PRS. When we look at the data on housing benefit claims from PRS residents (Table 4.3), we can see that there are 33,589 PRS claimants, of whom 34% are under the age of 35. Given that many of these will be subject to the Shared Accommodation Rate, and given that median rents for rooms across all authorities are outside the rate, there must be concern about the ability of this group to remain housed in the PRS, unless market conditions change substantially.

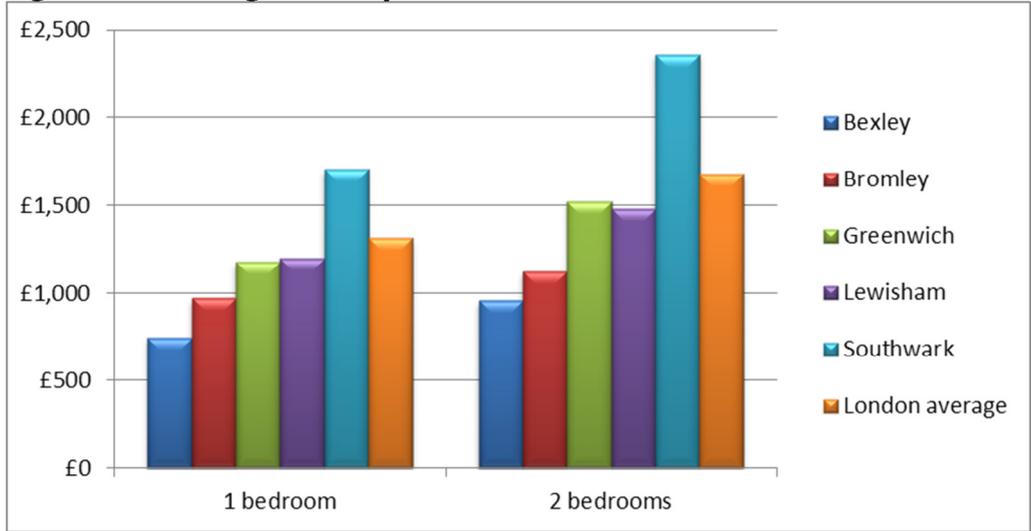
Table 4.3 Private rented sector Housing Benefit claimants

	Under 25	25 to 34	35 to 64	65 plus	Total	% under 35s
Bexley	477	1,564	2,770	550	5,361	38%
Bromley	351	1,447	3,139	803	5,740	31%
Greenwich	463	1,667	3,423	800	6,353	34%
Lewisham	717	3,018	6,594	840	11,169	33%
Southwark	314	1,294	2,915	443	4,966	32%
Total by age	2,322	8,990	18,841	3,436	33,589	34%
London	14,056	67,961	166,357	29,116	277,490	30%

Source: DWP Stat-Xplore, Housing Benefits claimants, November 2013

4.19 When comparing data from the study "Who buys new homes in London and why?" to data from the SELHP Market Trends Bulletin it emerges that new build rents were lower than rents for the existing stock in South East London in 2013 – approximately 12% lower. New build rents in South East London were on average around 14% lower than the overall level of new build rents in London as a whole. Southwark is the only borough in the sub-region with average values higher than the London average. Bexley has the lowest rents of all London boroughs: it was the only borough where the average 2-bedroom new build unit could be rented for less than £1,000 per month in 2013 (Figure 4.11).

Figure 4.11 Average monthly new build rents 2013

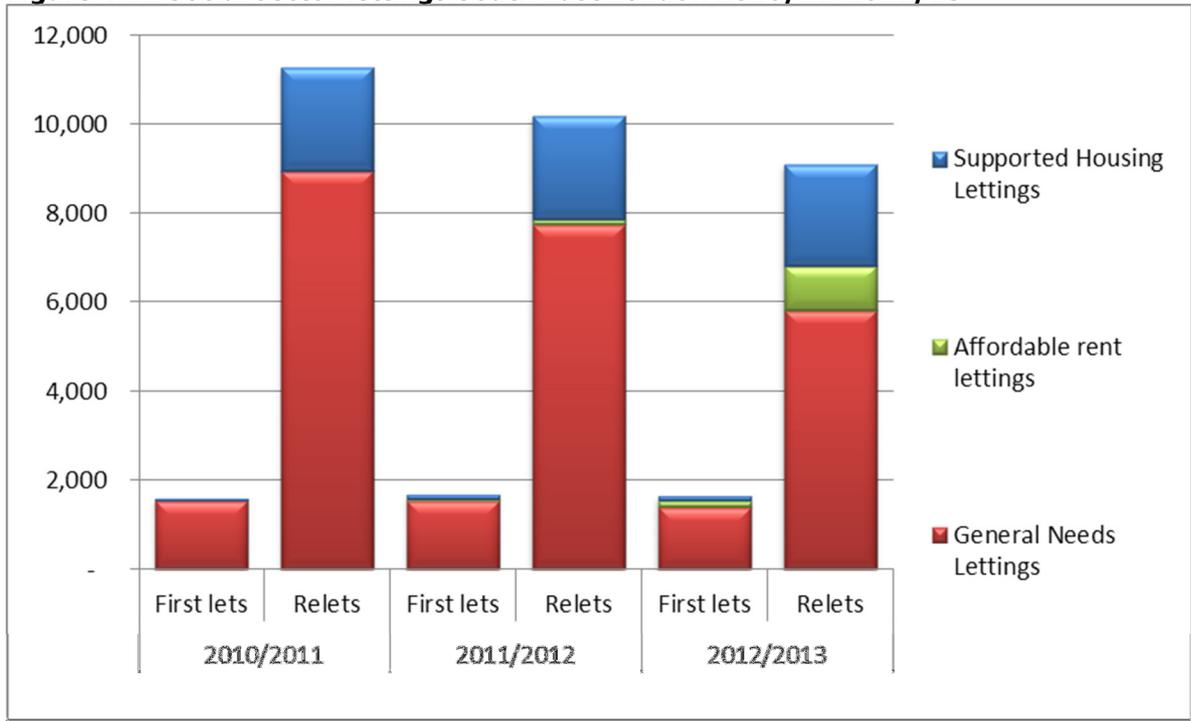


Source: "Who buys new homes in London and why?" (BPF/Molior London Ltd, Feb. 2014)

The social and affordable rented sector

4.20 There is considerably more information available on social / affordable rented housing than on the private rented sector. Social / affordable sector lettings are recorded in the CORE data system, providing a range of information on the dwellings that are let as well as the tenants they are let to. The total number of social / affordable sector lettings across the five boroughs of South East London fell from 12,900 in the 2010/11 financial year to 10,800 in the 2012/13 financial year (Figure 4.12). These figures encompass both first lets (i.e. new build units being let for the first time) and re-lets of existing dwellings, across the three sub-sectors of Supported Housing lettings, General Needs Lettings and Affordable Rent lettings. Affordable Rent lettings can be seen as a sub-set of General Needs lettings. The number of Supported Housing lettings did not decline over the period – they oscillated either side of 2,400 per annum. Rather it was General Needs relets that fell away.

Figure 4.12 Social sector lettings South East London 2010/11-2012/13



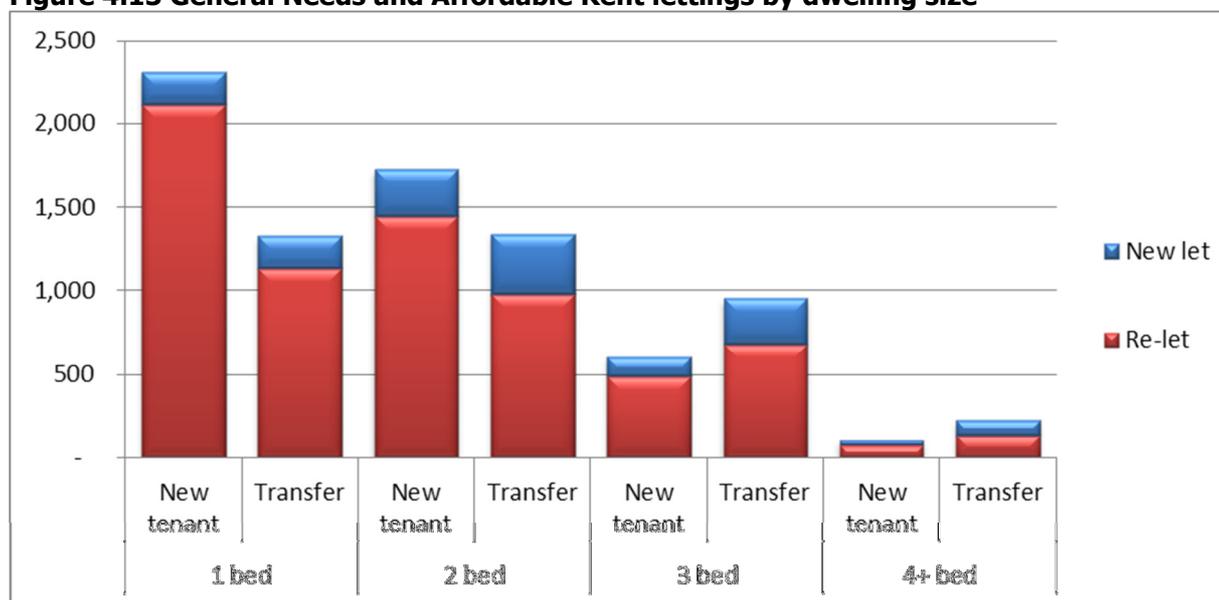
Source: CORE data and Royal Borough of Greenwich

4.21 Turnover in the social / affordable sector, or the rate of churn, is calculated by dividing the number of re-lets by the total number of dwellings in the social / affordable sector stock. The picture that emerges is one of declining turnover during this three year period:

- 2010/11: 7.1% turnover (re-lets 11,273/stock 159,178)
- 2011/12: 6.4% turnover (re-lets 10,197/stock 159,780)
- 2012/13: 5.7% turnover (re-lets 9,117/stock 159,950)

4.22 It is also important to distinguish between lettings to those transferring within the social / affordable sector and lettings to new tenants that newly enter the social / affordable sector. The proportion of lettings going to new tenants fell from 66% in 2010/11 to 56% in 2011/12 and 2012/13. When combined with the overall fall in the number of lettings the result is a 29% reduction in the number of new tenant households entering the social / affordable sector (8,386 in 2010/11 down to 5,974 in 2012/13). The data reinforces comments made during the stakeholder consultation sessions that the social / affordable sector in South East London has shown signs of 'silting up' in recent years, with fewer departures due to household dissolution or a move to another tenure.

Figure 4.13 General Needs and Affordable Rent lettings by dwelling size

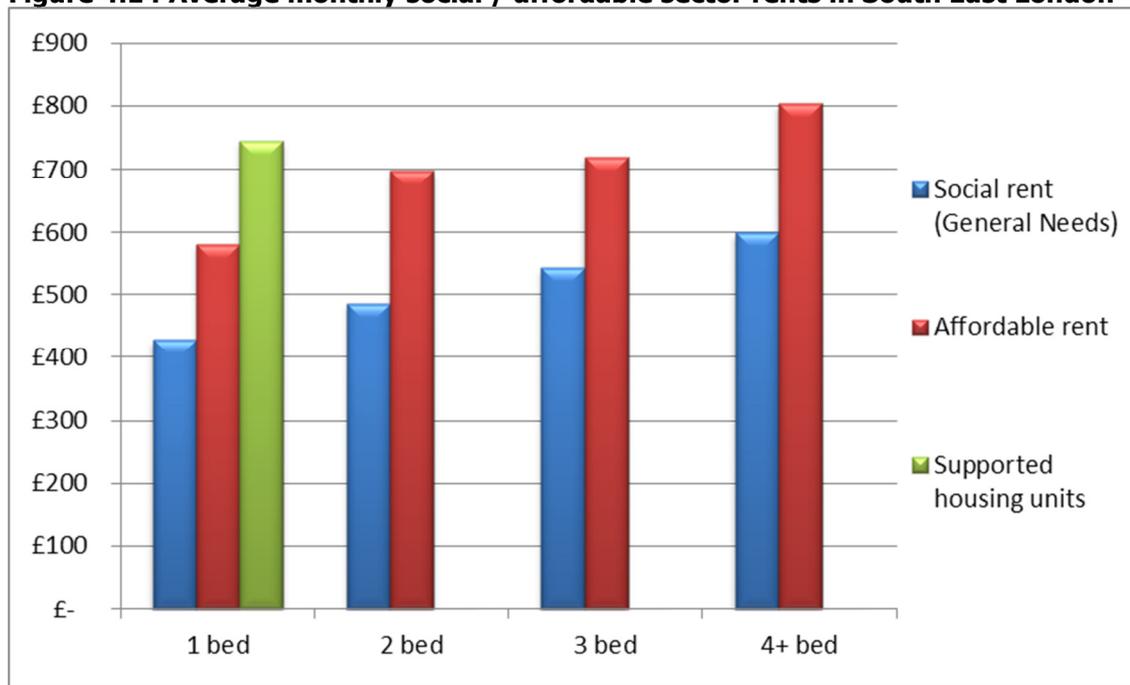


Source: CORE data; the figures represent the annual average 2010/11-2012/13

4.23 Smaller dwellings are far more prevalent than larger ones in the supply of social / affordable rented housing to let: 42% of affordable rent general needs lettings were 1-bed units, 41% 2 bed units, 16% 3 bed units and 1% dwellings with more than 3 bedrooms. When a distinction is made between lettings to transferring tenants and lettings to new tenants, the smaller (1 and 2 bed) units tend to be allocated more often to new tenants while most of the larger (3 bed and larger) dwellings are let to transferring tenants in need of larger accommodation. It is possible that changes made to the Housing Benefit size criteria will have an impact on this distribution. It may be resulting in an increase in the proportion of smaller dwellings being let to transferring tenants during the 2013/14 financial year, which would in turn leave a greater number of larger homes available for new tenants to occupy.

4.24 Rent levels in the social / affordable sector are considerably lower than those in the private rented sector. Furthermore the rent difference between smaller dwellings and larger ones is relatively limited. This contrasts greatly with the open market price structure which means that the price difference between the social / affordable sector and the PRS is especially great for 3-bed and larger dwellings.

Figure 4.14 Average monthly social / affordable sector rents in South East London

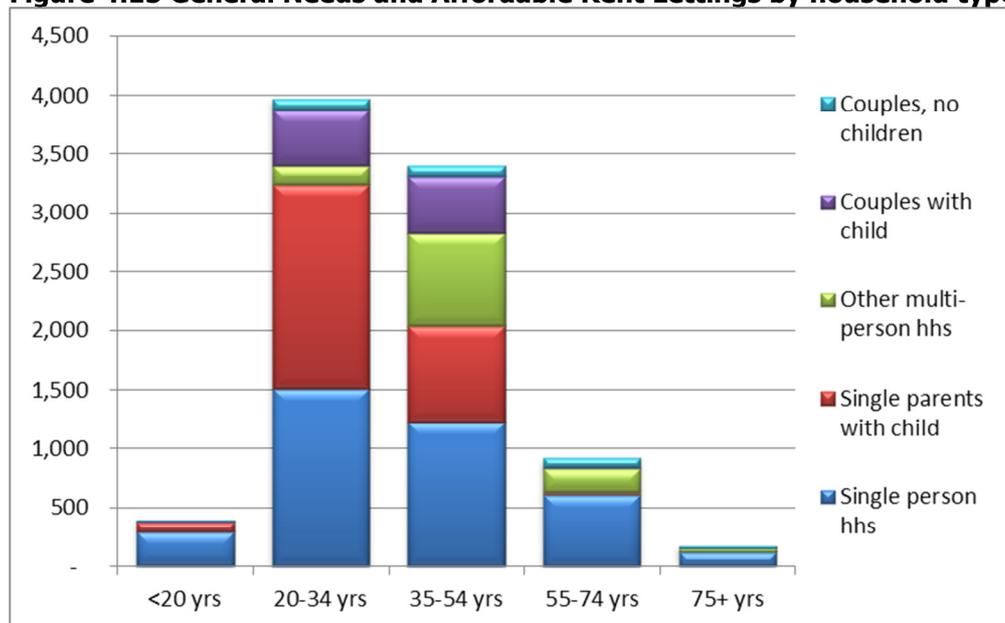


Source: CORE Data; new tenancies 2012/13

4.25 The average monthly rent of new general needs lettings in South East London across all dwelling sizes was £429 in the first quarter of the 2010/11 financial year (this is the total monthly cost including service charges). This rose to £512 per month in the fourth quarter of the 2012/13 financial year. This represents an annualised rate of increase of 6.7% over the period. These figures include the higher-cost affordable rent tenancies which began to be introduced at the end of 2011. When these affordable rent lettings are removed from the dataset the average rent in the fourth quarter of 2012/13 was £477 per month, yielding an annualised rate of increase of 3.9%. This analysis concerns new tenancies, not rent rises for existing tenants.

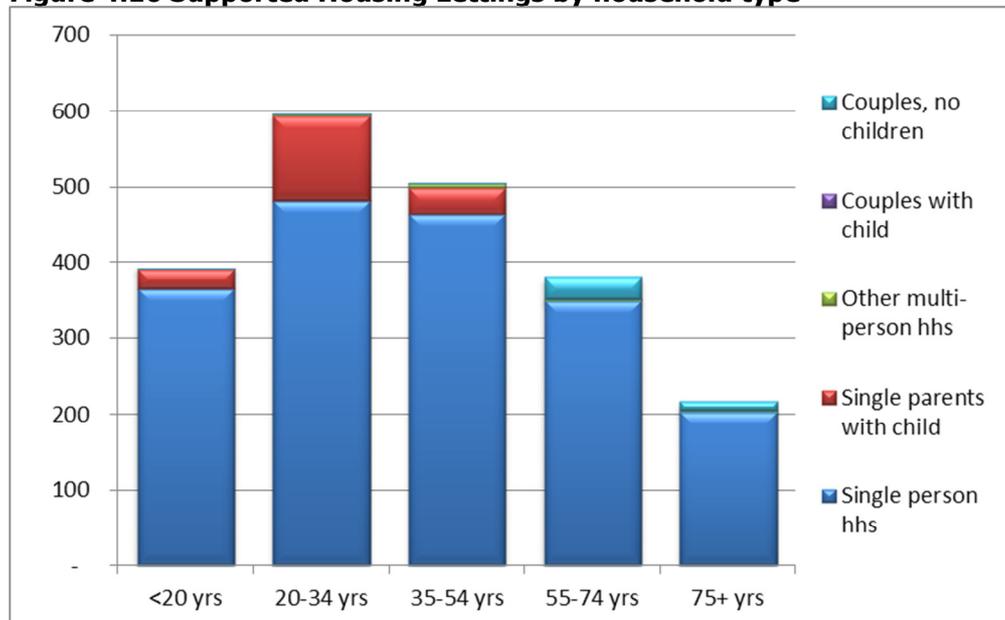
4.26 In terms of the profile of those households receiving new tenancies in South East London between 2010 and 2013 42% of new General Needs and Affordable Rent tenancies went to single person households and 30% went to single parent households (Figure 4.15). Very few tenancies went to couples without children. With regard to Supported Housing tenancies 89% went to single person households and 8% went to single parent households. The overwhelming majority of new tenancies went to those aged between 20 and 54 years. Even in the Supported Housing sector, where a greater proportion of lettings might be expected to be to younger and older age bands, it is still the 20-54 age groups that predominate (Figure 4.16).

Figure 4.15 General Needs and Affordable Rent Lettings by household type



Source: CORE data; the figures represent the annual average 2010/11-2012/13

Figure 4.16 Supported Housing Lettings by household type



Source: CORE data; the figures represent the annual average 2010/11-2012/13

4.27 An analysis of CORE data looking at the reasons behind the granting of new General Needs tenancies reveals that 45% of cases relate to the unsuitability of the tenant's old accommodation. In two-thirds of these cases the unsuitability is due to overcrowding and the remaining one-third is related to ill health/disability, poor condition and under-occupation. 72% of the lettings stemming from unsuitability concern transfers rather than new tenants. For almost a half (47%) of new tenancies the reason given was either 'to move to independent accommodation' or 'asked to leave by family or friends'. Domestic violence, racial harassment and other problems with neighbours accounted for 5% of lettings.

The intermediate sector

4.28 The intermediate sector fills an important gap between the social and affordable rented sectors on the one hand and the open market on the other. For the most part it is made up of new build shared ownership homes. For these products a proportion of the value of the property is bought (commonly financed via a mortgage) and the remainder is rented from the social housing provider which holds the remaining ownership share. The intermediate sector in South East London is currently very small

compared to the other tenures. At the time of the 2011 Census there were 7,259 shared owners in the sub-region, which was 1.3% of all households. This increased from 5,394 in 2001 (1.0%). The number of shared owners increased by just under 190 per year during the inter-census period.

4.29 Authorities Monitoring Reports (AMRs) and data assembled by the South East London Housing Partnership suggest an increase in intermediate new build supply in recent years. Across South East London an average of 518 units were completed per annum over the 2010-13 period together with an average of 121 re-sales. Outputs varied from year to year at borough level. Bexley averaged 58 additional units per annum between 2008/9 and 2012/13, Bromley averaged 63 p.a. 2009/10-2013/14, Greenwich averaged 237 p.a. 2010/11-2012/13, Lewisham averaged 160 p.a. 2007/8-2011/12 and Southwark delivered 418 net additional intermediate units in 2010/11. Adding these figures together results in an annual average of 936 new intermediate sector units in the sub-region in recent years.

4.30 Administrative data from the Share-To-Buy "First Steps" system (the London-wide portal for consumers interested in buying shared ownership housing) shows that 8,331 individuals or households resident in South East London had registered an interest in shared ownership. Of these 11% were social / affordable sector tenants. The most registered users were in Southwark (3,064) followed by Lewisham (1,923), Greenwich (1,556), Bromley (1,116) and Bexley (672). These figures give some kind of indication of both relative and absolute levels of demand for shared ownership across the sub-region.

4.31 Some 355 shared ownership sales in South East London were recorded in the CORE data for the 2012/13 financial year and 90% of these were in Greenwich, Lewisham and Southwark. Of these properties the average equity share sold was 39%. To aid the analysis and for the purpose of comparability total monthly expenses were estimated by calculating the nominal cost of financing a mortgage for the equity share³ and adding this to the monthly rent and any service charge. The dataset contained:

- 136 one bedroom units, median total monthly expense: £763
- 190 two bedroom units, median total monthly expense: £952
- 29 three bedroom units, median total monthly expense: £1,232

4.32 CORE data provides information on the financial position of those households who became shared owners. The median annual income of these households was £35,000, with the lower quartile income being £28,500 and the upper quartile income being £44,500. The median amount of savings they had available was close to £12,000. 81% of new shared owners were less than 40 years of age. Nearly two-thirds of those moving into shared ownership accommodation were previously housed in the private rented sector while 27% had previously been living with family or friends (in all likelihood in the vast majority of cases living with parents). In just 3.5% of cases the household was previously housed in the social / affordable sector.

Incomes

4.33 Evidence on household incomes needs to be set against the picture of rents and prices above. Sources of data on incomes are limited and it is important to differentiate between personal and household incomes and between different sources of income. The Annual Survey of Hours and Earnings published by ONS provides a reliable time series of estimates of average gross earnings but this relates to individuals not households and of course excludes those not working. The average annual gross income of residents in full time work in 2013 ranged from £30,511 in Bexley to £41,131 in Bromley (Table 4.4). These earnings levels are slightly below the London-wide average but the annual rate of increase over the last five years has been similar to that for London.

4.34 The average earnings level of people who work in South East London is well below that for people who live there (£30,471 compared to £35,452) and the annual rate of increase has been much lower (1.9% compared to 3.0%). The difference is especially marked in Bromley, where workers'

³ The calculation is based the following key assumptions: a 5% APR interest rate, a 25 year repayment mortgage and 95% LVT (i.e. 5% deposit assumed to be available as savings).

earnings average only 60% of residents' earnings. This is significant because it indicates the difficulties which people working in the South East London area would face in trying to relocate there if they wished to do so (for example to reduce commuting levels).

Table 4.4 Gross annual average earnings of full time workers

	£ per annum						
	Bexley	Bromley	Greenwich	Lewisham	Southwark	SEL**	London
Residence-based*							
2008	28,148	35,199	31,850	26,400	31,429	30,814	32,001
2013	30,511	41,131	35,242	31,439	37,767	35,452	36,781
% increase p.a.	1.7	3.4	2.1	3.8	4.0	3.0	3.0
Workplace-based*							
2008	22,942	24,783	25,412	23,738	33,701	27,805	34,476
2013	24,763	25,839	26,304	24,429	38,479	30,471	41,143
% increase p.a.	1.6	0.9	0.7	0.6	2.8	1.9	3.9

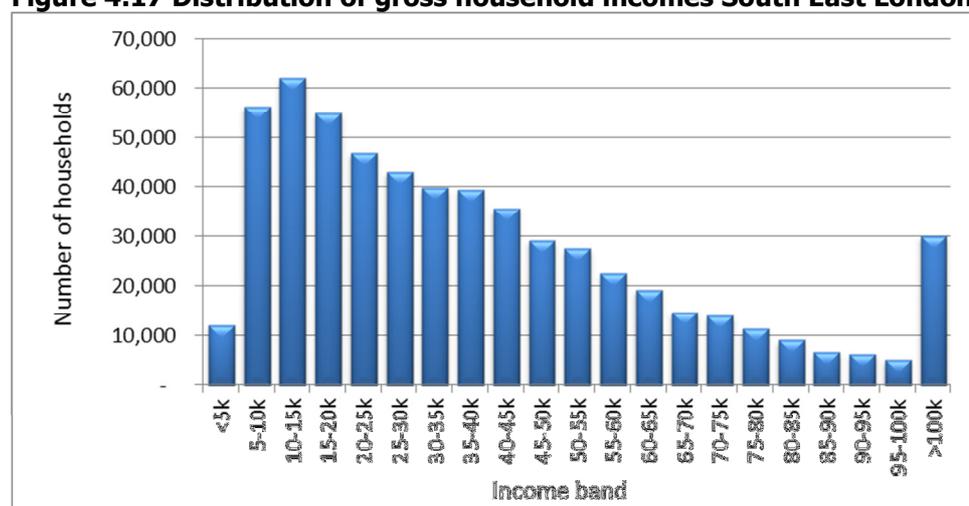
Source: Annual Survey of Hours and Earnings, 2008 and 2013*Residence-based earnings are those of people living in the area; workplace-based earnings are those of people working in the area. **South East London estimated from job-weighted borough data.

4.35 On the basis of Table 4.4 an average two-earner household in South East London would have an annual income from employment of about £70,000 per annum, but in practice many households have only one or no earners, and are reliant on other sources of income including savings interest or other investment income, retirement pensions (private and State), and State benefits. According to estimates of household income produced by CACI Paycheck, the median annual gross household income in South East London was less than half this amount or approximately £32,200 in 2012. There were significant variations at borough level, with the average income considerably higher in Bromley than in the rest of the sub-region:

- Lewisham: £30,050
- Southwark: £30,100
- Greenwich: £30,450
- Bexley: £32,300
- Bromley: £37,200.

4.36 CACI estimates also provide details of the distribution of incomes. Income distributions are always skewed towards the lower part of the range with a very long 'tail' at the upper end of the spectrum and South East London follows this pattern (Figure 4.17).

Figure 4.17 Distribution of gross household incomes South East London 2012

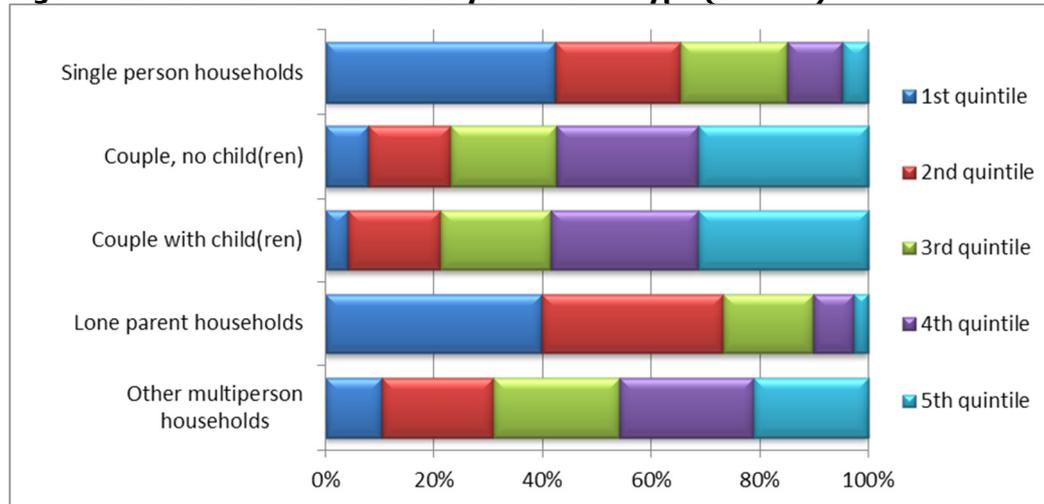


Source: CACI Paycheck 2012

4.37 Data for London as a whole from the English Housing Survey shows a strong correlation between household type and household income, with single person households and single parent households generally concentrated in the lower income bands and couple households (with and without dependent children) taking up a greater share of the higher income bands (Figure 4.18). Assuming that these

relationships apply in South East London goes a long way to explaining on the one hand the higher median incomes in Bromley and Bexley (where family accommodation predominates), and on the other hand the lower median incomes in Lewisham, Southwark and Greenwich, where the housing stock is generally more suited to the housing of smaller households. The following graph, drawing on London-wide data, illustrates this relationship. It is an important input for the affordability calculations presented later in this report.

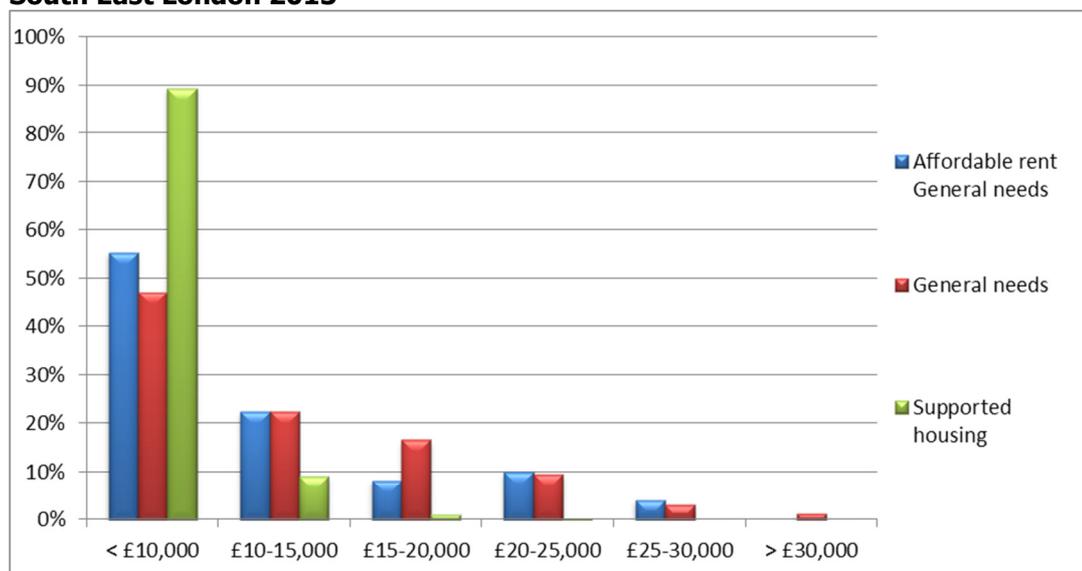
Figure 4.18 Income-distribution by household type (London)



Source: English Housing Survey (London-wide) 2009-2012

4.38 The incomes of social / affordable sector tenants are considerably lower than those of the population at large, as revealed by an analysis of CORE lettings data. Based on the available information (income data is missing in about 50% of cases) the average annual income of households taking up a new tenancy in South East London in 2013 (including transferring tenants) was £11,660 in the case of social / affordable rent general needs tenancies. The average income was £10,571 for affordable rent tenants and £5,317 for those taking up a supported housing tenancy. Based on those cases for which information is available 80% of social rent general needs tenants were in receipt of housing benefit rising to 90% in the case of affordable rent tenants and 98% in the case of supported housing tenants. The spread of incomes across six bands is shown in the next output.

Figure 4.19 Income of households taking up new social sector tenancies, South East London 2013



Source: CORE Data 2013

Affordability

4.39 Comparisons show that house prices and housing costs in South East are high relative to incomes and earnings (Table 4.5). In 2013 the residence-based ratio of median house prices in South East London to median annual gross earnings levels was more than 10. The ratio in Southwark (12.8) was the highest of the individual boroughs. Bromley had a relatively low ratio (9.7) because although prices were high so were earnings. The table also shows this ratio calculated on the basis of the median earnings of people working in South East London (workplace-based). The workplace-based ratios are generally higher, because workers in South East London earn less than residents. This demonstrates the problems which people seeking to move into South East London for employment reasons would face. The contrast between the resident and worker ratios is greatest in Bromley, where the median house price in 2013 was almost fourteen times the median level of earnings for people working in the borough.

4.40 Table 4.5 also shows the ratio of median house prices in 2013 to median *household* income from all sources, as distinct from *individual* earnings. The ratio for South East London was just under 8.5. As with earned income, Southwark had the highest ratio (11.4).

Table 4.5 Ratio of median house prices to earnings for full time workers/median household incomes and median private rents to median incomes

	Bexley	Bromley	Greenwich	Lewisham	Southwark	South East London**	London
Residence-based							
2008	8.34	8.77	9.22	10.01	11.52	9.57	10.12
2013	8.69	9.70	10.03	9.49	12.80	10.14	11.83
Change	0.34	0.93	0.81	-0.53	1.27	0.56	1.71
Workplace-based							
2008	10.76	12.61	10.25	10.66	10.22	10.90	9.47
2013	11.42	13.73	11.07	10.73	11.15	11.62	10.84
Change	0.66	1.11	0.82	0.07	0.93	0.72	1.37
Ratio of median price to median household income 2013							
	6.68	7.85	8.21	8.28	11.41	8.48	NA
Ratio of median private rent per annum to median household income 2013							
	0.36	0.39	0.54	0.47	0.70	0.49	NA

Sources: DCLG, Live Table 582; ONS Annual Survey of Hours and Earnings, 2008 & 2013, CACI Paycheck. **South East London figure is the job-weighted average for individual boroughs as SE London median prices and earnings not available.

4.41 Additionally, Table 4.5 shows the ratio of the median private rent in South East London to the median household income. For South East London as a whole this is almost 0.5 – that is the median private rent represented almost 50% of the median household income per annum. The ratio was highest in Southwark (0.7 – i.e. 70% of income) largely because of the high median rent level, and lowest in Bexley (because rents were much lower) and in Bromley (because of higher incomes). This again demonstrates the difficulties faced by households in affording private rented housing.

Key affordability thresholds

4.42 For the purpose of gauging affordability, the monthly costs of accessing different tenures in South East London need to be compared. Using the latest available data these costs are shown in Table 4.6. It is notable that the price difference between the social sector and the market sector widens as properties become larger. A concern voiced during stakeholder consultation was that the price of shared ownership products has been increasing recently to the point that these new build homes were no longer affordable by the households for which they were originally intended. This is especially the case if shared ownership is priced close to the market entry threshold, especially with regard to the larger size properties.

Table 4.6 Comparison of housing costs South East London: monthly costs

	1 bed		2 bed		3 bed		4+ bed	
	Lower Quartile	Median						
Social rent (1)	£374	£421	£421	£468	£474	£522	£524	£601
Affordable rent (1)	£520	£562	£617	£680	£628	£718	£718	£782
Shared ownership (1)	£693	£763	£833	£952	£1,119	£1,232		
Private renting (2)	£879	£1,038	£1,114	£1,287	£1,361	£1,565	£1,734	£2,108
Open market buying (3)	£826	£1,093	£1,050	£1,585	£1,598	£2,148	£2,136	£3,046

Source: (1) CORE data January 2012-March 2013 (total monthly charge incl. Service charge); (2) SELHP Monitor Q3 2013; (3) SELHP Monitor Q3 2013, calculated using 95% LTV with a 25 year repayment mortgage @ 5% APR.

4.43 Based on the above information key affordability thresholds can be determined. These feed into the affordability calculation which is part of the assessment of the need for affordable housing in Chapter 6 of this report. The first threshold concerns the market entry threshold which, in line with the official SHMA Guidance, is deemed to be the lower quartile price of either renting or buying on the open market – whichever is the cheaper of the two tenures. The second key price threshold concerns the so-called “intermediate threshold” which demarcates the lower end of the intermediate sector from the upper end of the social and affordable rent sector. The prices are the midpoint between the lower quartile intermediate price and the upper quartile price of affordable rent properties that have recently been let in South East London. The threshold prices are shown in the next table.

Table 4.7 Key monthly price thresholds South East London, 2013

Dwelling size	Intermediate threshold	Market entry threshold
1 bedroom units	£ 660	£ 826
2 bedroom units	£ 839	£ 1,050
3 bedroom units	£ 885	£ 1,361
4+ bedroom units	£ 954	£ 1,734

Source: Cobweb Consulting modelling

Evidence of market failure

4.44 This sub-section brings together evidence of pressure points in the South East London housing market by examining a number of aspects of what might be termed market failure or dysfunction. These are overcrowding and under-occupation, concealed households, house repossessions, and homelessness.

Overcrowding, under-occupation and concealed households

4.45 The 2011 Census counted 8,257 concealed families in South East London, ranging from 1,290 in Bromley to 2,076 in Greenwich. These are families needing their own independent accommodation but sharing the accommodation of another household. As such it is an indicator of suppressed housing need. The breakdown by family type was as follows:

- Couple, no children: 43%
- Couple with dependent children: 12%
- Couple, all children non-dependent: 4%
- Lone parent family with dependent children: 32%
- Lone parent family: all children non-dependent: 9%

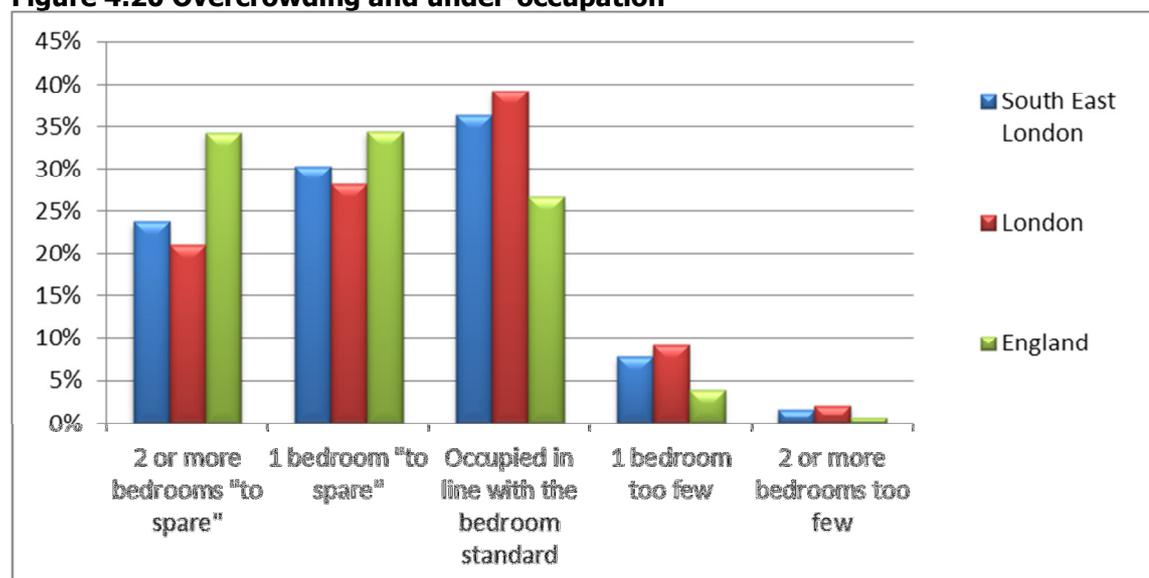
4.46 However the Census definition of concealed families excluded single person concealed households such as adult children in their late 20s and 30s still living with their parents due to a lack of affordable housing options. The 2013 London-wide SHMA made use of the English Housing Survey to arrive at an estimate of 85,826 concealed households in the whole of London⁴. The Census figure for concealed families in the region was lower: 68,600. The two figures were derived from different methodologies and are therefore not directly comparable. Nevertheless the exclusion of single people

⁴ This is based on 3 years of EHS data.

from the Census estimate can be used as an argument in favour of adopting the higher estimate yielded by the EHS-based approach. If the South East London Census figure were to be up-scaled by the factor of 1.25 (the difference between 68,600 and 85,826) this provides a proxy estimate of the number of concealed households in the sub-region including single people: 10,330.

4.47 By measuring the actual occupancy of homes against the bedroom standard, the 2011 Census generated "occupancy standard" outputs, showing levels of overcrowding as well as (nominally) the under-occupation of homes. The Census counted 53,092 overcrowded households in South East London, which was 9.5% of all households in the sub-region. This is a slightly lower percentage of overcrowding than in London as a whole (11%). Overcrowding was most prevalent in Southwark (18,475:15%) followed by Lewisham (14,018:12%), Greenwich (11,011:11%), Bexley (4,367:5%) and lastly Bromley (5,221:4%). 83% of the overcrowded households in South East London had one bedroom too few when measured against the bedroom standard and 17% were two or more bedrooms short of the required number. These households, 9,138 in number, constitute the category "severely overcrowded".

Figure 4.20 Overcrowding and under-occupation

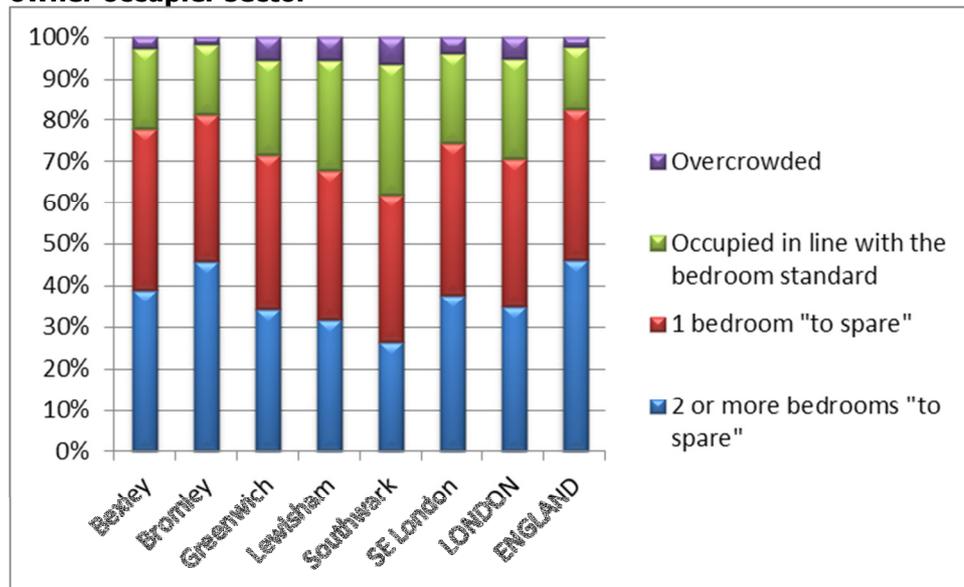


Source: Census 2011 table DC4105EW1a

4.48 Under-occupation is far more common than overcrowding, although it should be recognised that the bedroom standard was intended as a minimum standard and should not be interpreted as constituting a recommended level of occupation, or that households under-occupying according to this standard would recognise themselves as such. Under-occupation is far more prevalent in the owner occupier sector than in the social / affordable rented and private rented sectors.

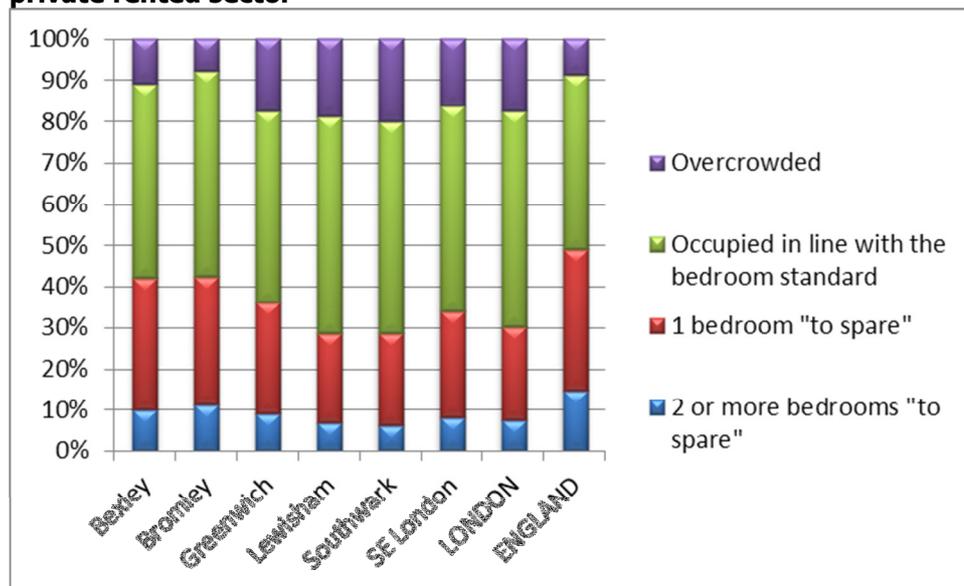
4.49 The next three figures show overcrowding and under-occupation by borough and by tenure. Under-occupation in terms of the bedroom standard is far more prevalent among owner occupiers than it is for renters in both the private and social / affordable sectors. Conversely, overcrowding is more common in rented accommodation. Even when taking account of tenure differences under-occupation is most prevalent in Bromley and Bexley, which correlates with the higher proportion of older "empty-nest" households in these boroughs. Overcrowding is most common in Southwark, followed by Lewisham and Greenwich.

Figure 4.21 Proportion of overcrowding and under-occupation in the owner occupier sector



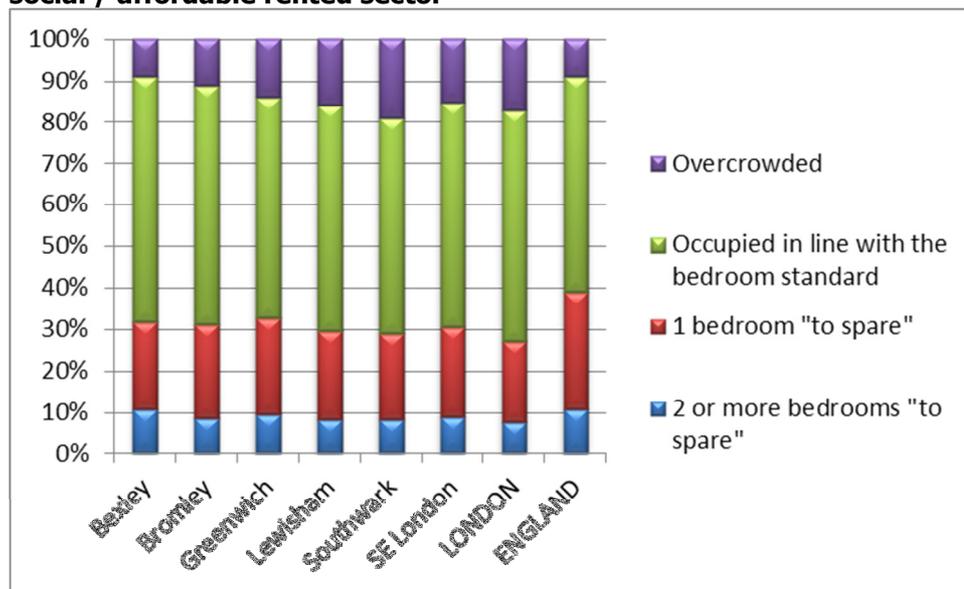
Source: Census 2011 table LC4108EW

Figure 4.22 Proportion of overcrowding and under-occupation in the private rented sector



Source: Census 2011 table LC4108EW

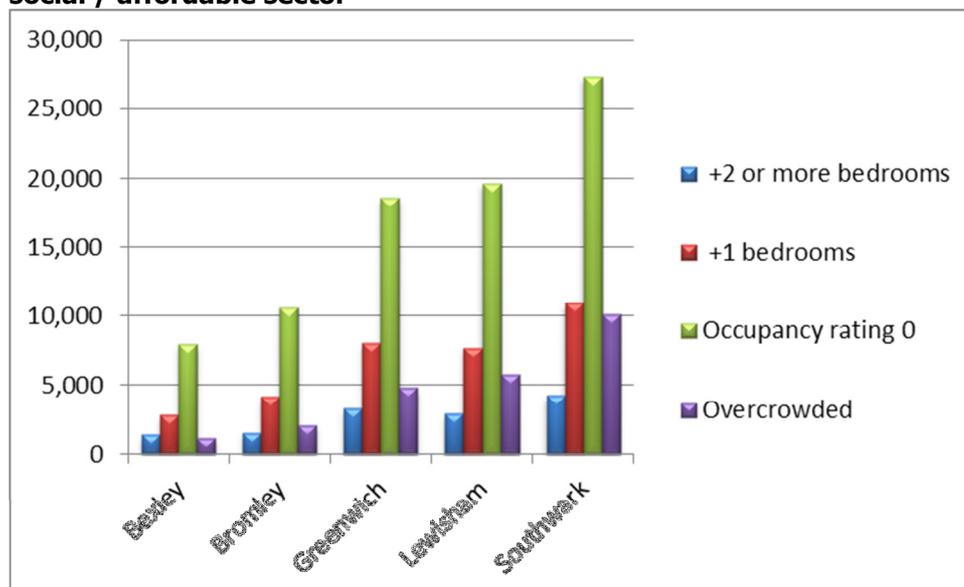
Figure 4.23 Proportion of overcrowding and under-occupation in the social / affordable rented sector



Source: Census 2011 table LC4108EW

4.50 Focusing just on the social / affordable rented sector where authorities may have some influence over the use of stock, we can see that over half (54%) of the stock in South East London is occupied in line with the bedroom standard. 31% are under-occupying by one bedroom or more, and 15% are overcrowded by one bedroom or more. Of the under-occupiers, 9% under-occupy by two bedrooms or more and 22% by one bedroom. There is some variation between authorities, with 9% of Bexley's social / affordable housing tenants being overcrowded, compared to 19% in Southwark for example. The absolute level of over- and under-occupation in the social / affordable rented sector is shown in the next graph. At the time of the 2011 Census there were 52,644 households in the social / affordable rented sector in Southwark and of these 10,111 were overcrowded (19.2%).

Figure 4.24 Volume of overcrowding and under-occupation in the social / affordable sector



Source: Census 2011 LC4108EW

4.51 There is clearly scope to at least partially rebalance overcrowding and under-occupation in the social / affordable rented sector by more appropriate matching of stock to household requirements. The introduction of the changes in housing benefit size criteria is an important factor in this discussion. Under-occupation in the social / affordable sector is likely to be decreasing at present due to government policy aimed at making best use of existing stock and at reducing housing benefit payments for social / affordable housing tenants who are deemed to have spare bedrooms.

4.52 We demonstrate the *potential capacity* for the South East London authorities to use social / affordable housing stock to rebalance the mismatch between the sizes of homes occupied and the sizes required in social / affordable housing – be they smaller or larger – through a number of scenarios that are outlined in Chapter 6 and the appendices. Boroughs and housing associations in South East London are already pursuing a number of downsizing initiatives to improve the efficiency of use of their stock. The scenarios offer some indication of the potential impact of such initiatives. Promotion of mutual exchange, for example, is able to address both overcrowding and under occupation. Boroughs and housing associations report anecdotally that there is a significant increase in mutual exchanges.

4.53 However, it must be acknowledged that there is no simple solution to this mismatch. Over-occupying social / affordable housing tenants, especially older ones, may be reluctant to downsize for a variety of reasons: attachment to their current homes (even if unsuitable), proximity to family and friends, and discomfort with the logistics of moving home, for example. Further thought into an appropriate 'offer' for potential social / affordable housing downsizers will be required to address this issue. Additional research into the reasons that older social / affordable housing tenants are reluctant to re-locate and the 'offer' that would encourage them to re-locate would also be useful.

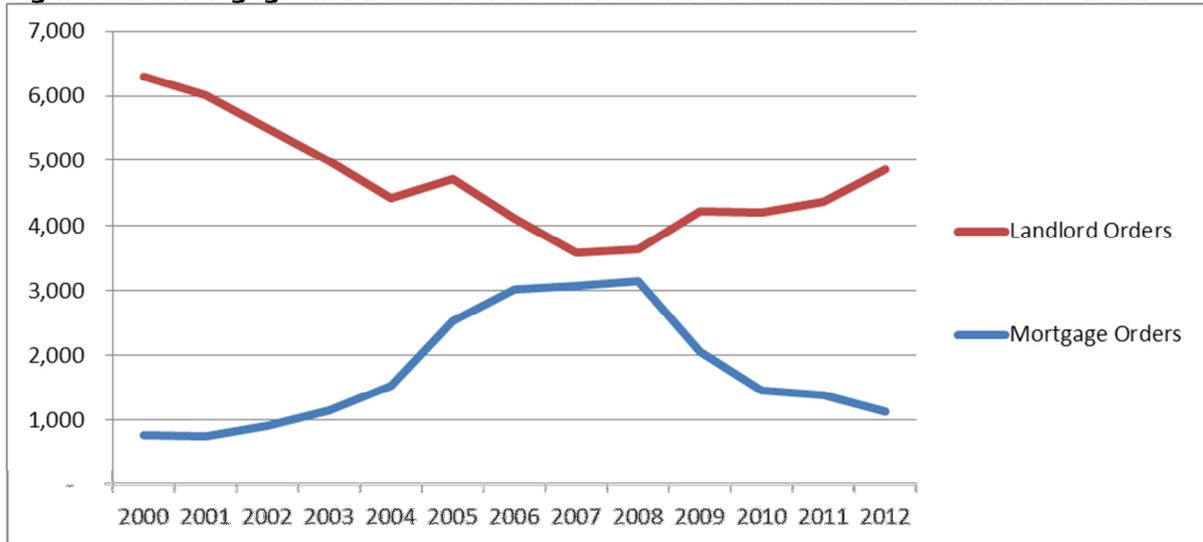
4.54 As regards the mismatch within the owner-occupied sector, it should be borne in mind that over 70% of properties in South East London are in the private sector, and over 50% are owner-occupied. As noted above, there are considerable levels of under-occupation, for reasons of choice and natural change (e.g. grown children leaving home). The process of housing dissolution of an ageing population, and the flexibility that owning a housing asset entails, enables the owner-occupied sector to substantially resolve mismatch (that is, by up-sizing or down-sizing) substantially within the existing stock. However, as discussed further in Chapter 5, issues around affordability within the market sector are increasing the demand for smaller properties, with some newly-entering households having to compromise their desire for extra space against what they can afford.

4.55 The same arguments around the choices that older residents have to downsize within the social housing sector also apply to older residents in the private sector: is there suitable accommodation available, both in terms of the physical and social quality of alternative provision? What are the barriers preventing older people accessing this? What would be the impact on family and social support networks? Is there suppressed demand for the right product? The essential difference here is of course that elderly owner occupiers will have capital assets they can re-cycle to deliver their optimal housing outcome; whereas most social / affordable housing tenants will be reliant on their current tenure.

Homelessness and repossessions

4.56 The 2008 financial crisis marked a turning point with regard to home repossessions. The number of renters (tenants) being evicted from their homes had been falling in the 7 years up to that point while the number of mortgage holders (primarily owner occupiers although the data covers other types of mortgage holders such as Buy-To-Let investors) had been on the rise. Since 2008 both these trends were reversed as there has been a sharp decline in the number of mortgage possession orders and a steady rise in the number of landlord possession orders. With regard to the former this is likely to be the result of increasing forbearance on the part of lenders, not foreclosing on those who are behind on their mortgage payments. Tenants however have not been shown the same level of leniency and the increasing affordability squeeze is resulting in increasing numbers of them being evicted each year.

Figure 4.25 Mortgage and Landlord Possession Orders South East London 2000-2012

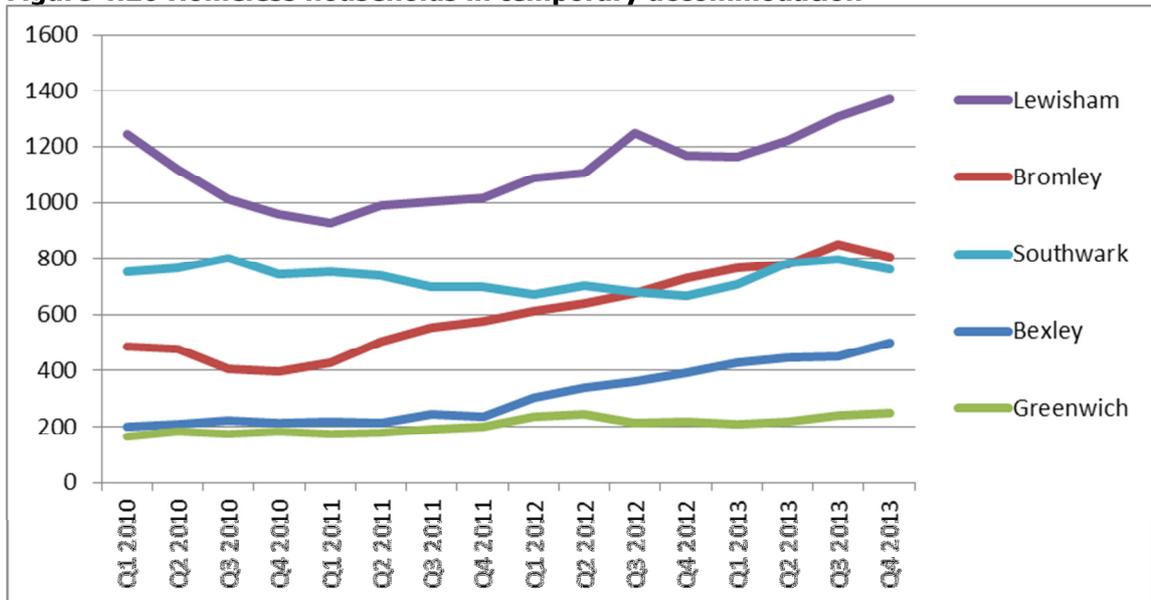


Source: Ministry of Justice Possession Order statistics

4.57 The number of local authority homelessness acceptances in South East London has been increasing gradually since 2010 when there were 1,751 and this rose to 2,424 in the 12 months up to and including the 3rd quarter of 2013. Of those 21% (513) became homeless following the termination of a private sector assured shorthold tenancy. At the end of 2013 there were 3,689 households classed as homeless and living in temporary accommodation in the sub-region. There are significant differences between boroughs with just 249 homeless in temporary accommodation in Greenwich compared to 1,372 in Lewisham. The total across the sub-region has increased by almost 50% in three years. The breakdown of temporary accommodation at the close of 2013 was:

- 39% private sector leased accommodation;
- 18% social / affordable sector (local authority and housing association) stock;
- 15% hostel accommodation;
- 4% bed and breakfast/nightly paid accommodation with shared facilities;
- 24% other forms of nightly paid self-contained accommodation.

Figure 4.26 Homeless households in temporary accommodation



Source: South East London Housing Partnership /PIE administrative data

Conclusion

4.58 This chapter has shown that the housing market in South East London is one which is under considerable pressure. Although average house prices are relatively low by London standards, they are

very high in absolute terms. In 2012 the median dwelling sale price was 8.5 times the median household income. Even the lower quartile price was over eight times the median income. Private rented sector rents are also high relative to incomes and have been rising steeply over the past three years. There are particular issues facing lower-income, younger people in accessing the PRS. The social / affordable rented sector provides a source of lower cost housing, but the supply of social / affordable rented housing is shrinking as fewer new units are added and as existing tenants find it more and more difficult to move into private housing, or even into intermediate tenures.

4.59 Growing affordability pressures are resulting in increased levels of overcrowding with an almost one in ten households in the sub-region being overcrowded at the time of the 2011 Census. Three years on and the level may have climbed to above 10%. There are also more concealed households, increasing numbers of evictions from private rented accommodation and growing numbers of homeless people being placed in temporary accommodation. These market signals suggest that affordability is and will continue to be a key issue in South East London.