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Savills World Research
UK Residential

Spotlight
London Demand

2013

Housing London
The size and shape
of demand and supply
in the capital

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This publication

This document was published in November 2013. The data used in the charts and tables is the latest available at the time of going to press. Sources are included for all the charts. We have used a standard set of notes and abbreviations throughout the document.

Abbreviations are:

- CML: Council of Mortgage Lenders
- LTV: Loan to value
- Peak: refers to the first half of 2007
- PCL: Prime central London
- PRS: Private rented sector

Foreword
CAN LONDON RISE TO THE CHALLENGE?

London needs 50,000 homes each year to meet the needs of a growing population. A total that amounts to 18 new Olympic Villages per annum

When the development of the Olympic Village in Stratford first began almost a decade ago, there was a clear challenge and an unmovable deadline: to build world class accommodation for thousands of athletes by 2012 as well as to provide much needed housing for Londoners as part of the regeneration of a neglected part of the capital.

A year on from the Games, East Village, as it is now known, is the site of 2,818 new homes spread over 67 blocks within a 27 hectare site. There is a new school for 3 to 18 year-olds, cafes, bars and 27 acres of parkland. That the project faced a series of obstacles, not least the 2008 financial crisis, only makes the achievement more remarkable. It proves what can be done when London pulls together to strike a common goal.

We should be building around 18 new East Villages every year, the equivalent of 50,000 homes, to meet the needs of a population that is set to expand by one million by 2021. The bulk of these homes, some 28,500 are required at the lower end of the market, both in the form of affordable housing and properties priced below £450 psf. Given that 70% of households earn less than £50,000 in London, demand falls as you move up the housing market.

Yet, builders' focus on wealthier, equity rich and credit-worthy buyers since the credit crunch, means that a disproportionate amount of stock is being delivered at what we call 'New Prime' levels – at prices between £1,000 and £2,000 psf. There is a risk of over supply if this pipeline increases further or if current levels of demand fall away.

To satisfy the greater level of more tangible demand in lower price brackets, we must look to London's outer boroughs – the doughnut ring in zones three and beyond. Development on the scale of East Village is rarely viable without extending and improving infrastructure. Funding for further rail and Underground lines south of the river is crucial. Current plans to extend the Bakerloo line beyond Elephant and Castle and the DLR to Bromley would encourage development in outer London town centre hubs.

We have been here before. London's population last peaked at about 8.6 million in 1939. In the 1930s we were delivering just over 60,000 new homes a year in London as the country emerged from a global depression. Back then overcrowding was obvious and the need to clear slums were a great motivating force. We lack these visual instigators now.

Today, the signs of overcrowding lie behind closed doors: the young professionals forced to live longer with their parents, the house sharers doubling up to meet rising rents and businesses moving out of London because they can't afford to house their workforce.

Population projections, however big, are never going to seem as pressing as East End slums of the 1930s. But London's economic standing depends on its ability to house the very people who make the city tick. Failure to deliver the homes London needs would severely impact the city's ability to compete on the global stage.

A massive task lies ahead. To meet this challenge London must emulate the drive and ambition we saw flourish in the Olympic Park. Projects on this scale require a common vision and a strong Mayor. Ultimately, London must work as one city not 32 boroughs.

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LONDON IN NUMBERS

8,173,941 the population of Greater London in 2011, 14% higher than in 2001

3,266,173 the number of households in Greater London in 2011, this is 8.3% higher than in 2001

30.9% of households in London with dependent children, broadly in line with the figure for England and Wales

46.4% of London's housing stock having three or more bedrooms, compared to 60.6% of the housing stock across England and Wales

17.1% of households in London where there are more than 1.5 person per bedroom, twice the proportion across England and Wales as a whole

48.3% of London households who are owner occupiers, 13.1% less than in 2001 and lower than the average for England and Wales of 63.6%

25.9% of London households who are in the private rented sector, having increased by 79% since 2001 and 5% higher than the proportion in England and Wales

24.1% of London households who are in the social rented sector compared to 17.6% across England and Wales

Housing market

LONDON NEEDS 50,000 NEW HOMES A YEAR

With a fast-growing population, demand for housing in London continues to far outstrip supply

Words: Susan Emmett
Twitter: @saemmett

"The greatest demand lies in the lower mainstream markets"

Susan Emmett, Savills Research

There are more than eight million people living in London. Projections show that by 2021 the population is set to rise by another million, the fastest rate of growth ever. At this pace, London's population is going to hit nine million before New York and approach 10 million by 2030, according to calculations by the Greater London Authority (GLA).

This expansion is the result of greater longevity and live births in the capital, often to immigrant families. It also reflects the attraction of London as a desirable place to live, work, study and invest.

Unfortunately, there are not enough homes in the capital to absorb all this demand. If London's current population is the equivalent to the sum of 24 major English cities including Manchester, Leeds and Sheffield, over the next decade we will need to find ways of accommodating the equivalent population of another Birmingham and Hartlepool put together.

The scale of the challenge is not lost on London's Mayor. In 2020 Vision, the document in which he outlines his ambitions for the capital, Boris Johnson states that we will need to build another 400,000 new homes in London over the next decade. The figure exceeds the previous GLA target of 32,000 new homes a year, which is likely to be revised next year.

Savills Research believes a minimum 50,000 new homes are needed a year. This is the equivalent of 18 new Olympic villages a year. This is an estimate based on employment driven data calculated by Oxford Economics. It allows us to estimate the levels of demand in different income brackets and extrapolate how much households can afford to pay, whether they are buying or renting. (see p.6-7)

Savills analysis shows that the greatest demand lies in the Mainstream markets where there is call for some 28,500 new homes a year at the lower end of the market (including affordable housing) and a further 18,500 in the mid and upper end of these core markets.

These are markets where a typical two bedroom flat is priced between £280,000 and £570,000 respectively. Further calculations taking into account levels of supply in these brackets shows that there is a supply gap of 15,000 homes in the lower end of the market and 6,500 in the Mid and Upper Mainstream markets a year.

The level of housing requirements based on population growth alone could be far higher. London Councils, which represents 32 boroughs and the City, has called for 80,000 new homes a year over the next 10 years. The figure includes what is needed to satisfy new demand as well as meet the backlog of housing need.

Yet given that only 24,000 new homes were completed in London last year, it is evident that there is a substantial gap between supply and demand by anybody's measure.

Market prices

The London market behaves like no other in the UK. The mismatch between available housing stock and demand has pushed up the cost of the average home in the capital by 10% over the past year while outside the capital values are either flat or beginning to recover from the economic downturn.

Strong capital growth means prices

TABLE 1.1

Mainstream markets Five-year forecast values

Forcast	2014	2015	2016	2017	2018	Five years
UK mainstream	6.5%	5%	4.5%	4%	3%	25.2%
London mainstream	8.5%	6%	4%	2%	2%	24.4%

***NB:** These forecasts apply to average prices in the second hand market. New build values may not move at the same rate.*

are high relative to income. House prices to earnings ratio has doubled in London over the last 15 years. This alone makes it harder for Londoners to buy. Even in a city that attracts vast global wealth, 70% of households earn less than £50,000 a year.

The credit crunch has also raised the bar to homeownership as lenders have demanded bigger deposits relative to house prices. A first time buyer in the capital needs to save an average deposit of £60,000 to qualify for a mortgage.

We estimate that Help to Buy, the two-part government scheme to boost homeownership by helping buyers to purchase homes worth up to £600,000 with a minimum 5% deposit, will assist some 400,000 to get on the property ladder over its three-year lifespan.

However, so far the greatest take up of the first part of the scheme has been outside London.

We expect it will prove more useful to the income rich but equity poor and reduce demand for rental homes in higher price brackets. However, as our exclusive YouGov survey shows (p.12-13) there are some who rent out of choice rather than necessity among higher income groups. We expect this may temper the effects of Help to Buy.

Private renting

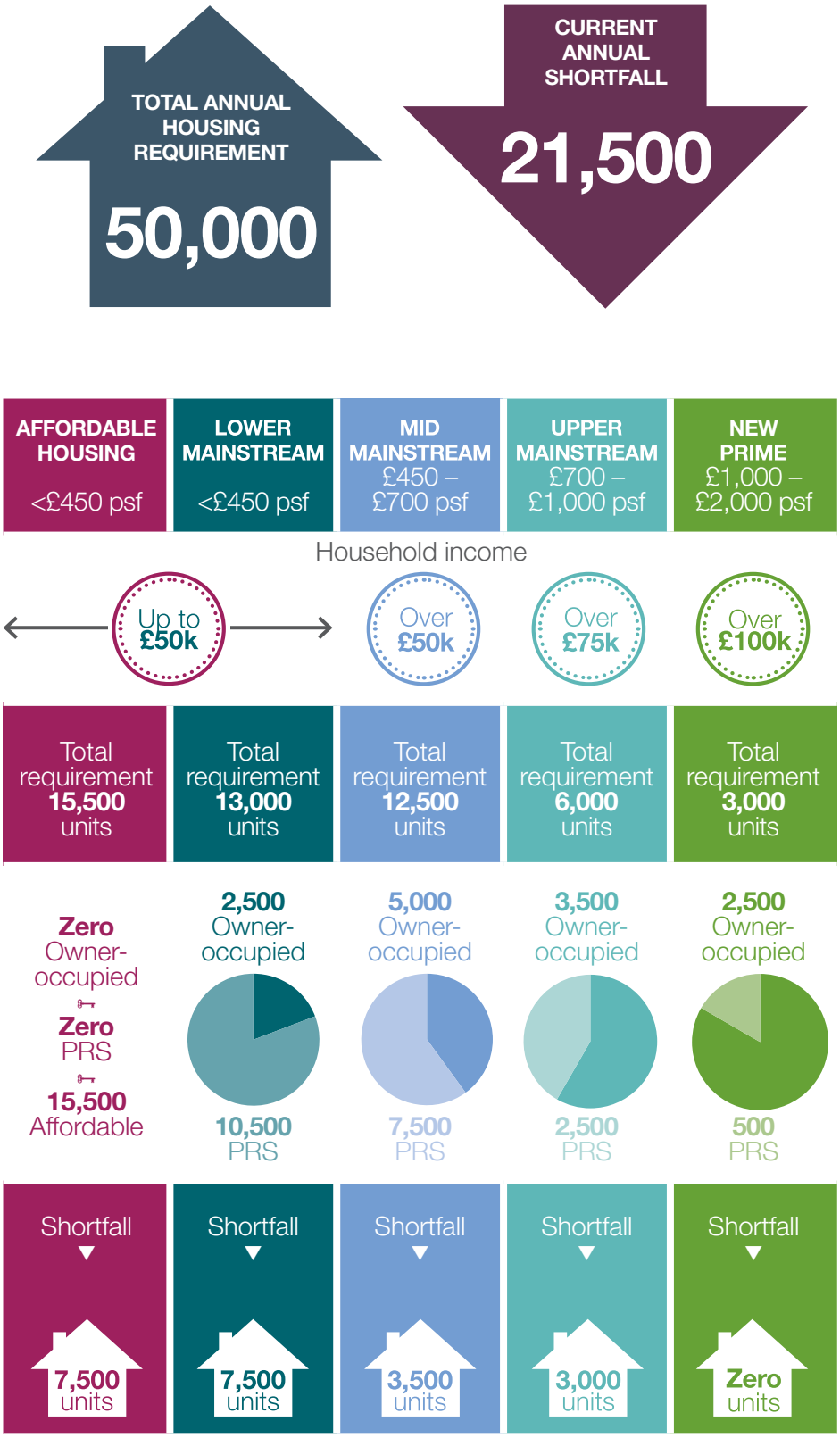
Overall affordability pressures means the private rented sector will continue to expand. Private renting in London has grown from 14% of all dwellings in 2001 to a quarter of all dwellings in 2011. We expect this to rise to 34% by 2021, though some London boroughs already exceed this figure. In Westminster, the Royal Borough of Kensington and Chelsea and Newham, the concentration of households renting is closer to 40%.

For these reasons, the delivery of new private rented sector housing is critical to meeting the demand in the Lower and Mid Mainstream markets where there is the greatest shortfall in the supply of private housing. This is the level at which affordability is most stretched. Hence the need for rental homes is greater than the demand for properties for sale.

The development of a large-scale institutional investment market is crucial to fund these homes. Without this, ordinary Londoners will suffer, as ultimately will the capital's economy.

GRAPH 1.1

London Demand Matrix



Source: Savills Research

Demand drivers

WHAT ARE THE CURRENT LEVELS OF DEMAND?

We assess how the overall housing requirement of 50,000 homes is divided between the different market segments

Words: Katy Warrick

London has higher levels of demand for housing compared to the rest of the UK and affordability is the biggest factor determining where people live within this city where house prices vary massively.

Land Registry data shows that the borough of Bexley has an average house price value of £250,000, whilst in Kensington and Chelsea the average cost of a home is over three times that at £840,000.

Our analysis shows that the greatest demand for housing is at the bottom of the market. 70% of households earn less than £50,000 a year and a quarter of London households live in social housing, a total of 860,000 households.

Savills estimates that there is demand for 28,500 new homes a year in the bottom of the market and that, given current levels of building, we face a shortfall of 15,000 in this bracket. At least half of that requirement is for affordable housing.

However, long council waiting lists and low levels of supply means that tenants who may originally have qualified for social housing are overflowing into the private rented sector. Given the pressure on welfare budgets, this movement of tenants from social into private rented is unlikely to be reversed.

We estimate that there is a total requirement to build 13,000 new homes a year in what we call the Lower Mainstream market (values below £450 psf). However, building even more homes in outer London locations where prices are below £450 psf, would ease the pressure on affordable housing.

Market segments

By contrast, there is a potential oversupply of homes priced between £1,000-£2,000 psf at the top end of the market. Although we have identified a requirement of about 3,000 a year in this segment, the current pipeline of developments matches this demand. We do not anticipate a shortfall in this segment.

Here we have assessed the following market segments, based on average £ per square foot of capital values, to help explain how the characteristics and drivers of demand differ by price point.

Streatham Park – Lower Mainstream

Affordable 15,500 demand pa

Lower Mainstream (Up to £450 psf) 13,000 demand pa

Example property prices: A typical two-bed flat at £280,000, with monthly rent of £1,200pcm and gross yield of between 5%-5.5%.

Household income: We estimate a household would need to be earning at least £41k a year to rent this property, £54k to buy using the Government's Help to Buy scheme, and £36k if they had the £70,000 in savings required for a 75% LTV mortgage.

Who is buying: Past evidence suggests demand consists mostly of owner occupiers rather than investors. However, yields are very attractive at this level of the market due to strong tenant demand fuelling rental growth.

Buyers are driven by: Owner occupiers are driven by affordability and investors driven by high yields.

Who is renting: There is significant rental demand from households who have been priced out of owner occupation due to not being able to afford the deposit. They are more likely to be long-term renters, unable to buy. The highest percentage of families rent in this market segment.

Mid Mainstream (£450-£700 psf) 12,500 demand pa
Upper Mainstream (£700-£1,000 psf) 6,000 demand pa

Example property prices: A typical two-bed flat at £570,000 (Mid Mainstream), with monthly rent of £2,000pcm and gross yield of between 4%-4.5%.
Household income: A household would need to be earning over £69k to rent this property, £110k to buy it using Help to Buy, and £74k if they had the £142,500 in savings required for a 75% LTV mortgage.
Who is buying: We see more owner occupiers than investors but there is strong tenant demand. Rental growth has resulted in attractive yields.
Buyers are driven by: High aspirations to buy but limited by affordability.
Who is renting: Mostly those who cannot afford high deposits, including young professionals who find they have to share with friends, but also lifestyle renters who like the flexibility that renting offers. This group may eventually buy.

The Filaments, Mount Anvil – Mid Mainstream

New Prime (£1,000-£2,000 psf) 3,000 demand pa

Example property prices: A typical two-bed flat at £2m, with monthly rent of £5,000pcm and gross yield of between 3%-3.5%.
Household income: A typical occupier, either renting or buying, is likely to earn over £100k. Buyers of prime property tend to have equity and on average put down about 50% deposit.
Who is buying: As a result of overseas launches, demand in this segment consists predominantly of investors with fewer owner occupiers. Overseas investors are driven more by total returns than rental returns. They often have little or no debt and a significant proportion are buying for family use/children at university. Owner occupiers often work in the finance and insurance sector.
Buyers are driven by: Strong prospects for future capital growth.
Who is renting: Lifestyle renters, predominantly those working in the finance and business sector. Demand from corporates looking for better value than the previously preferred core prime locations. Students tend to live in the more central areas near the universities.

South Bank Tower – New Prime

Super Prime (over £2,000 psf) 350 demand pa

Example property prices: A typical two-bed flat at £5m, with monthly rent of £10,000pcm and gross yield of between 2%-2.5%.
Household income: Ultra high net worth individuals, often with substantial assets and equity.
Who is buying: Predominantly owner occupiers. The purchase of super prime property is discretionary. Yields are low at this level of the market. Investors are driven more by capital growth returns than rental returns as only a small percentage of this stock emerges in the rental market.
Buyers are driven by: Trophy homes, and buyers are typically seeking a safe place to store their wealth and a solid investment.
Who is renting: Corporate demand for relocating top executives is an important part of demand. Having easy access to their workplace is important. People in this segment are also driven by convenience and flexibility rather than tenure. Wealthy hedge fund managers, for example, want the right property and are less concerned about whether they rent or buy it.

Grosvenor Crescent – Super Prime

Supply vs demand
WHAT DO WE NEED TO BUILD AND WHERE?

There is demand for 50,000 new homes a year in London. But only 28,500 are likely to be delivered. How do we fill the gap?

Words: Katy Warrick

We're currently seeing the highest level of new build sales activity in London since before the credit crunch, but many questions remain. Here, we do our best to answer them.

Q. Is it possible to build 50,000 new homes a year?

Building at this level is not unprecedented. Between 1930 and 1939 we built about 61,000 new homes a year. London's population peaked at an estimated 8.6 million in 1939. Currently at 8.1 million and growing fast, it is expected to exceed that level again over the next 10 years.

Despite similar size in population we have a very different building environment today. Back then builders did not face the same planning restrictions and regulatory burdens that restrains construction now. A taxpayer funded public sector played a far greater part in the delivery of new homes whereas today we rely largely on a market based system of private sector housing supply.

Changes to planning rules under the National Planning Policy Framework (NPPF) which introduced a presumption in favour of development in 2012, has helped. But the industry is still concerned that planning conditions attached to many permissions continues to prevent construction work starting on sites.

Q. Where is the greatest need for more homes?

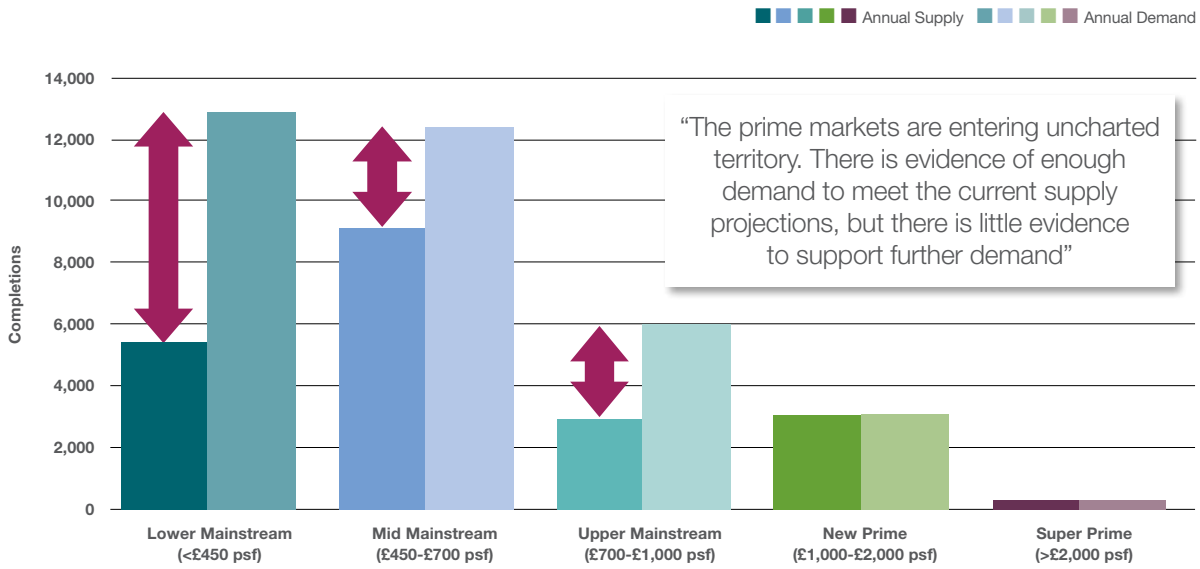
Since the start of the credit crunch house builders have shown a preference for delivering homes aimed at wealthier income-rich purchasers rather than credit-reliant buyers on lower incomes who may struggle to secure a mortgage. As such we have seen high levels of building in central locations at the expense of the construction of more modest homes in the less glitzy periphery.

This focus must be rebalanced. Demand falls as you move up the housing market. The greatest unmet demand is at the lower end of the market where there is a shortfall of 15,000 homes a year. In the Mid and Upper Mainstream markets that gap is about 6,500 homes. In prime markets demand becomes harder to quantify because much of it has come from overseas in the past.

There is more tangible demand and opportunity to build developments under £450 psf in outer London

GRAPH 3.1

The biggest supply gap is in the lower markets



"The prime markets are entering uncharted territory. There is evidence of enough demand to meet the current supply projections, but there is little evidence to support further demand"

Source: Savills Research

boroughs such as Croydon and in parts of inner boroughs such as Lambeth. The industrial nature of areas east of the capital translates into lower land values. Much land in these areas has been earmarked for development but may require regeneration.

Q. How deep is the demand for New Prime property?

Our analysis indicates that there is enough demand for homes priced between £1,000 psf and £2,000 psf to justify the current supply. But there is a risk of over supply if this pipeline increases further or if current levels of demand fall away.

Demand for new prime property in this price bracket consists predominantly of investors, many from overseas who view London as a safe place to live, work and educate their children. The popularity of homes in what is an emerging market has resulted in a premium for new build homes in locations which have yet to become fully established. We would question whether all new schemes can justify their premiums.

A slow down in economic growth abroad and further taxation of high value property at home, could dampen demand for London homes in this bracket. However, the real test will come via the rental market. Will tenants be prepared to pay the rents required to deliver the returns investors expect? We are already seeing weak rental growth in prime central London where there is plenty of rental stock.

Q. What about Super Prime?

London continues to be the city of choice for trophy homes, especially in core prime areas such as Mayfair. Global wealth creation is set to continue. Wealth-X, which tracks the fortunes of ultra high net worths (UHNW), estimates that in 2012 there were 190,000 UHNW individuals representing $26 trillion. Their value is expected to increase by 30% over the next five years.

We expect the world's wealthy to continue to buy in London. The size of this market is growing and new build is taking an increasing share. Sales volumes have increased steadily since the downturn and we expect this to continue. New build homes can be tailored towards the needs of an expanding pool of ultra high net worth individuals, especially those buying early in the stage of construction.

Institutional investment

Greatest need identified in Mid Mainstream market

As the largest employment and higher education market in the country, London will continue to attract young professionals and students. Meanwhile, the constrained affordability of the owner occupied market will keep households in the rented sector for longer.

We estimated that the UK will need £200bn worth of investment in private rented stock over the next five years to meet demand and 30% of that will be in London. We have estimated the current level of investment in new build rental stock in London and also calculated the total investment required to cater to the additional 50,000 households in need of housing each year.

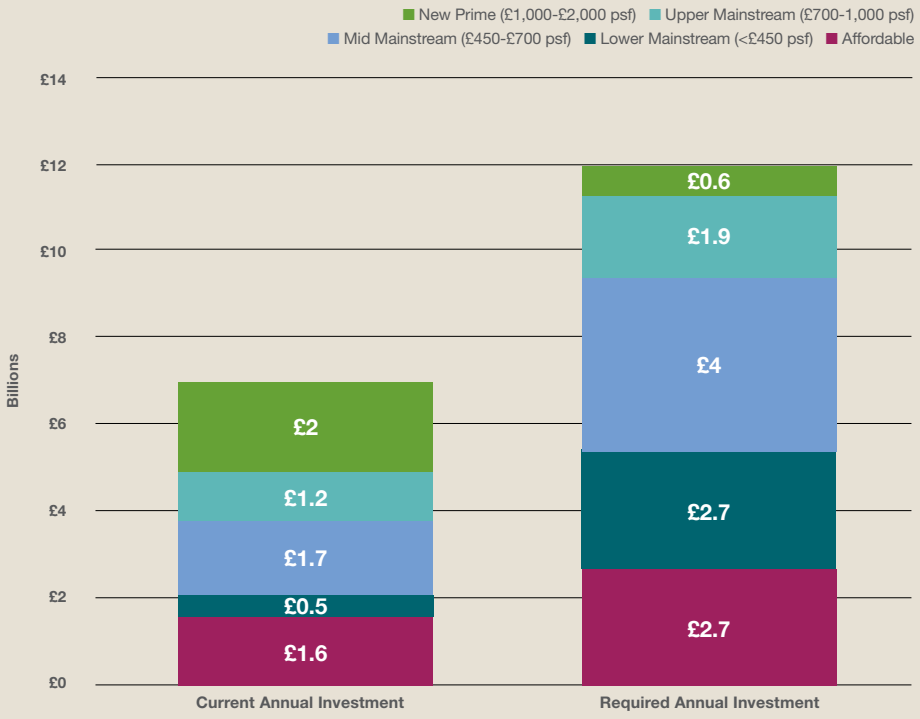
Current annual investment in new build rental stock is in the region of £7bn a year but this will need to rise by 70% to £12bn to meet this higher housing need. The bulk of new demand from households will be in the affordable and lower mainstream markets, each requiring around £2.7bn of investment annually. This compares to a total of only £2.1bn for the two markets in current annual investment. It is these two markets that are likely to be most attractive to longer-term money with gross yields in the 5%-6% range but the greatest difficulty will be in obtaining land that is viable in these lower value markets.

The Mid Mainstream market will also require a significant increase in investment from £1.7bn currently to £4bn while the Upper Mainstream market will require additional investment £0.7bn a year.

Overall investment in the New Prime market is much higher than the £2bn in the chart but, particularly at the very top end of the market, many investors have no interest in a rental income and are investing for capital value uplift. Even so, investment in the sector is well above that required and the continued interest from buyers risks over-supplying the market and creating downward pressure on rental values.

GRAPH 3.2

Current and required levels of investment



Source: Savills Research

Buying vs Renting
TO OWN OR NOT TO OWN?

Renting is still seen as an intermediate step to homeownership, but for many that ambition is difficult to realise

Words: Susan Emmett
Twitter: @saemmett

Given London's high property prices and stretched affordability among those trying to climb on to the housing ladder, you might think that Generation Rent have given up their dreams of homeownership. But this is not the case. The aspiration to own their own home remains and Government policies such as Help to Buy, which allows buyers to purchase homes with a minimum 5% deposit, supports these ambitions.

We expect that within London the new mortgage guarantee part of Help to Buy, launched this autumn, months ahead of the expected date, will have a greater take up among buyers who are income rich but equity poor. As a result, this may subdue demand for rental homes in the higher mainstream end of the market in certain parts of the capital. Central London areas where there is demand from lifestyle renters such as the transient population of overseas students and corporate tenants, will be less affected.

Help to Buy is of less assistance to those on lower incomes. A five per cent deposit of a large sum is still a large sum. Add to that the associated costs of buying such as Stamp Duty and buyers are still having to save sizeable chunks whilst paying rent and living in what is an expensive city. We expect that the Bank of Mum and Dad will continue to play a big part in the housing market despite Help to Buy.

But those are not the only hurdles. Given the demise of interest-only mortgages and lenders' requirement for borrowers to pay back both interest and capital on a monthly basis, the cost of servicing debt is higher. This can make buying on a high loan-to-value mortgage more expensive than renting. Furthermore, lenders are applying tough credit checks and stringent stress tests ahead of a likely rise in interest rates.

Once you take in all the costs and banks' more onerous lending criteria, renting remains significantly cheaper than buying overall. We calculate that an average London property valued at £410,000 would cost about £20,000 to rent a year. But a buyer with a 5% deposit would spend £30,000 a year servicing the mortgage debt and paying off costs associated with homeownership.

First-time buyers

So far, the biggest take up of the equity loan element of Help to Buy, the part aimed at buyers of new build homes which was launched in April, has been outside London. Appetite for the scheme in the capital has been the lowest in the country.

Figures from the Home Builders Federation show that 15,410 reservations for new homes have been made since the scheme was launched in April this year. However, of these only 1099 were in London. In contrast, the Midlands saw the greatest take up with 3,898 reservations, followed by the East and South East where 3,133 deals were made. This suggests that even with the assistance of Help to Buy, London is still out of reach of many first-time buyers – the principal consumers of the scheme so far.

Savills analysis shows that in order to purchase a property at £256,000, the average price paid by first-time buyers in the capital, new buyers are currently putting down deposits of £63,200. Access to Help to Buy reduces that deposit requirement to just £12,800.

However, a smaller down payment means buyers pay a higher mortgage rate on larger capital debt.

The graphic on the right outlines the sums involved for the mainstream market segments discussed in this document. The calculations for buying with a 5% deposit, assume a mortgage rate of 4.99%, which is typical of high loan-to-value deals. For deposits of 25%, we have a assumed a lower rate of 3.99%, reflecting the current mortgage market.

This translates into bigger monthly payments. Assuming a 3.5 times income multiple, we calculate that as a

"We expect that the Bank of Mum and Dad will continue to play a big part in the housing market despite Help to Buy"
Susan Emmett, Savills Research

result first-time buyers relying on Help to Buy must be earning an average income of £54,000 a year compared with the current average income of a first-time buyer in London which is £52,000.

Reality check

A survey by Rightmove of 3,200 Londoners, including owner occupiers, renters and those living with their parents, emphasizes homeownership as the tenure of choice. Rightmove found 96% of those not on the ladder dream of owning their home one day and 69% said they would never stop trying. However, that ambition is unlikely to be realised by all. Although 57% are currently saving for a deposit, of those only 19% feel they are on course to meet their goal.

Savills exclusive survey of tenants by YouGov shows lack of deposit remains the chief reason for renting although the inability to meet lending criteria and meet monthly repayments also plays a part. However, in higher income bands the convenience of renting as a short term solution is a significant factor.

Decisions, decisions

Those in a position to choose whether to buy or rent, face the option of either buying sooner with a smaller deposit and paying more for their property or saving up for longer in order to put down a larger deposit.

In reality people are seldom likely to buy the homes they rent. There are other factors to weigh up such as property size versus commuting distance and second-hand versus new build which can come at a price premium but offer greater convenience. Life stage is also a factor. Those who rent a two-bedroom flat in a central location, may well look to a three-bedroom house a bit further out when it comes to buying.

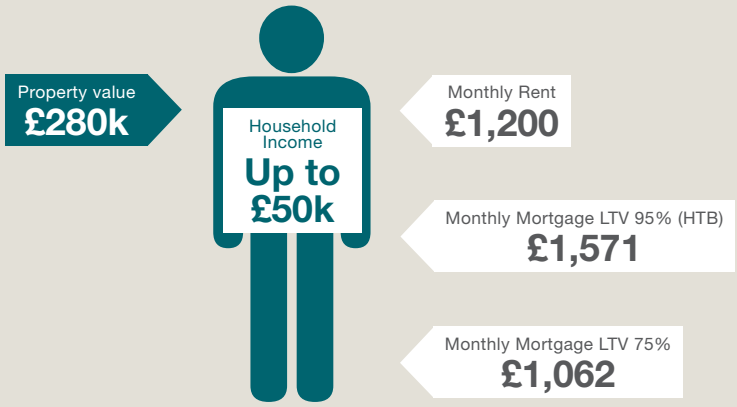
Our YouGov survey reveals tenants prize a convenient location within ten if not five minutes walk away from public transport above all else. Having shops and amenities nearby is also deemed as important.

The research shows that younger tenants do not want to be tied to longer tenancy agreements, emphasising their perception of renting as a short-term measure for those still in a position to aspire to homeownership. But this reverses for older tenants. The fastest growing group of tenants are those aged between 35-44. This trend is likely to continue.

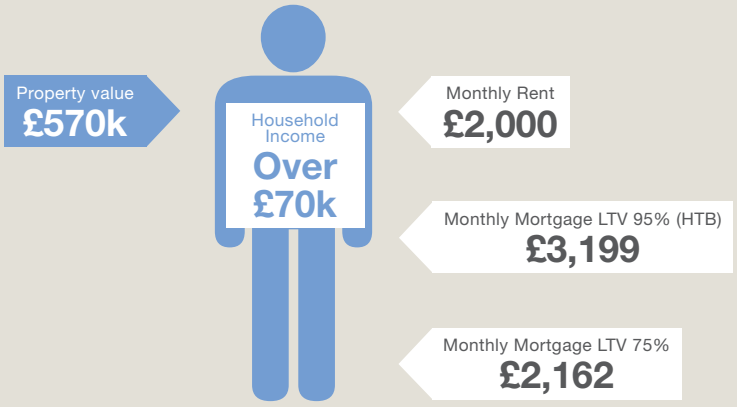
COMPARING THE COSTS

The costs of buying a property against renting

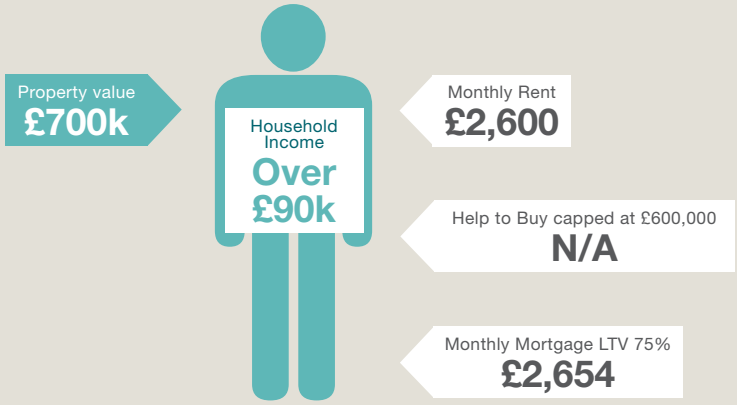
Lower Mainstream (<£450 psf)



Mid Mainstream (£450-£700 psf)



Upper Mainstream (£700-£1,000 psf)



Source: Savills Research

Private rented sector
WHAT DO LONDON TENANTS WANT?

Our exclusive survey of 2,300 private sector tenants provides insight into why people rent and what they seek from a rental home

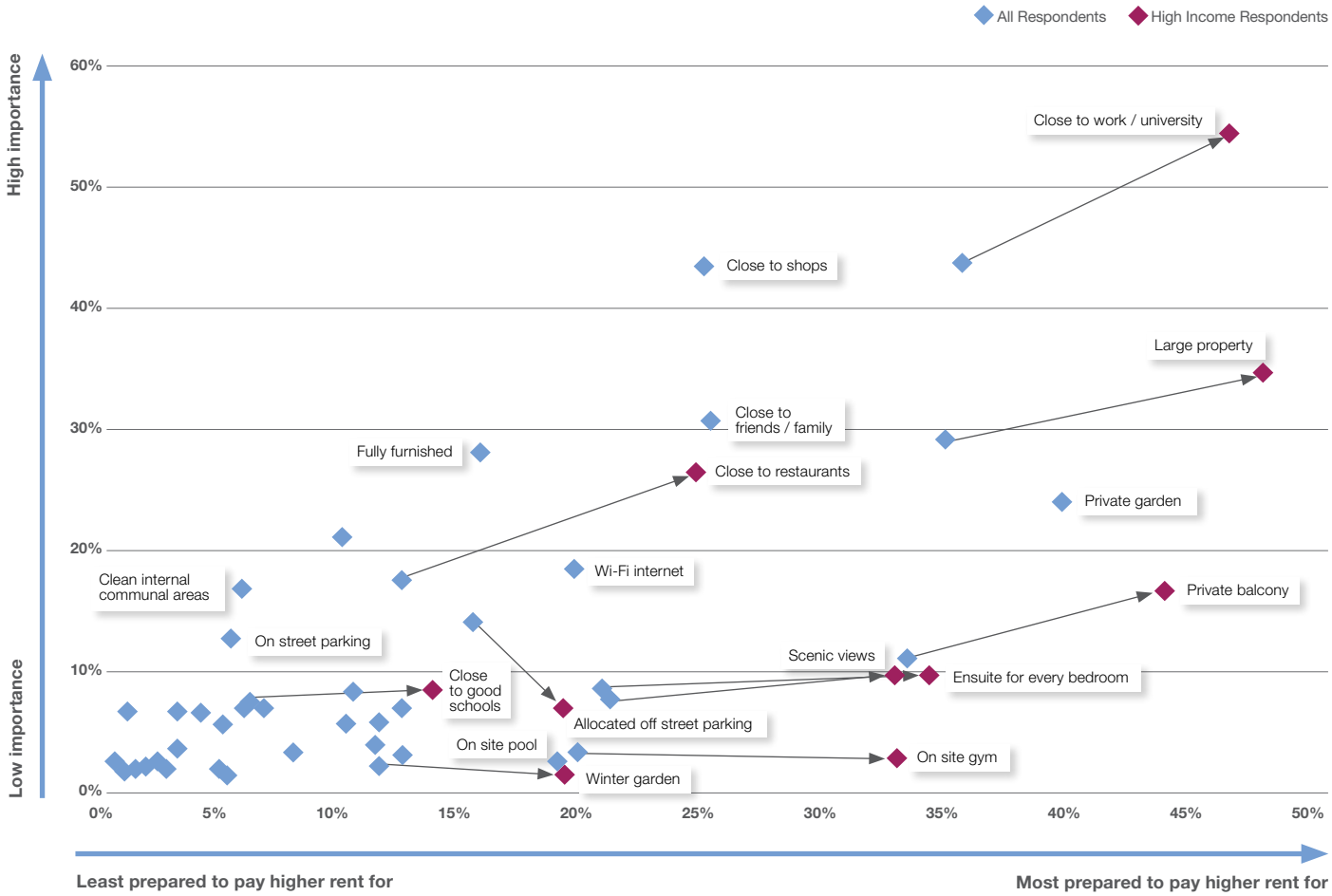
Words: Neal Hudson
Twitter: @resi_analyst

A convenient location is the most important factor when choosing a rental home, particularly for wealthier tenants. According to our YouGov survey, more than half of all respondents on incomes over £80,000 a year not only rate proximity to work or university as their biggest priority, but also said they were prepared to pay more for the convenience.

Size is also a factor, particularly for the better off. Almost half of all respondents on higher incomes said they would pay more for larger property compared with an average 35% of those surveyed. Private balconies, ensuite bathrooms, scenic views and gyms were also on the list of features for which those on higher incomes would pay more rent.

GRAPH 5.1

Savills/YouGov survey findings What do tenants value?



Source: Savills Research

THE NEEDS OF TENANTS IN LONDON

Surveying the capital's private rental sector

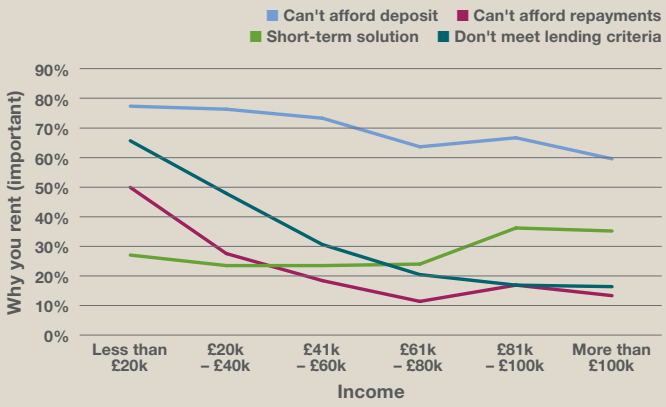
Reasons for renting

Private renting continues to be seen as a short term housing solution for most people. The main reason for renting across all income groups is an inability to raise a sufficient deposit given current mortgage lending conditions and high house prices. The increased availability of 95% LTV mortgages under Help to Buy will enable some of the more income rich households to afford the repayments on large mortgages. For less well-off renters, the current market will force them to continue renting.

There are some signs of lifestyle renters across all income groups and especially at higher levels but only as a short-term solution.

Why people rent

Inability to save for a deposit is the biggest reason across all income levels



Londoners commute for longer

Access to transport is essential to private renters, with 81% of respondents living within 10 minutes of their nearest public transport. The affordability pressures of the London housing market are further reinforced by the travel time profile of London residents compared to the rest of the country. In London, 60% of respondents have a commute time of more than 30 minutes while outside of London only 30% of respondents have to travel more than 30 minutes to get to work.

Travel times

Most commute for more than 30 minutes

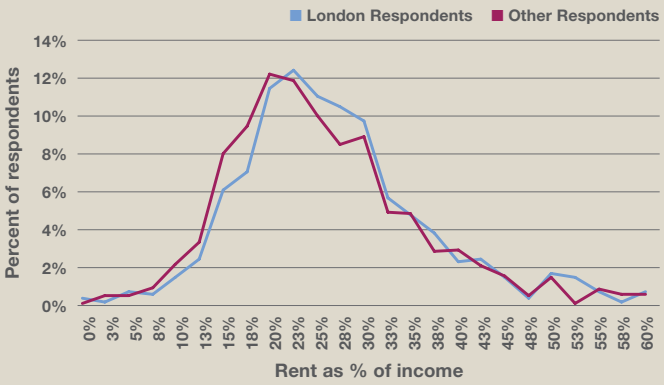
Affordability

Despite the high (and increasing) rents, the affordability profile of London respondents is incredibly similar to the rest of the country. Our analysis suggests the average household in London spends 26.8% of their income on rent compared to 25.6% outside of London. With rents so high relative to underlying wages, the question of how this is the case arises.

Data from the 2011 Census offers some clues: the average household contains 2.6 people in London but only 2.3 people outside of London. A higher rate of households sharing (32% of respondents compared to 20% outside) allows high rents to be split among more individuals.

Income spent on rent

London has a higher rate of sharers

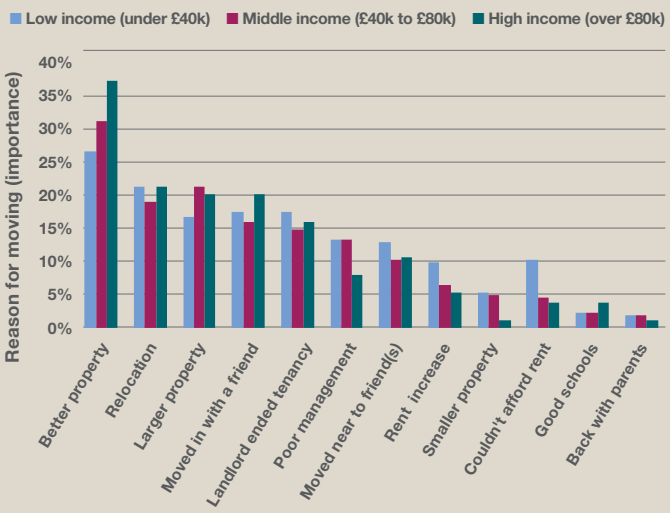


Reasons for moving

Rental values have grown significantly in London according to measures of new rents (up 24% since December 2009 according to LSL). However, separate data from the ONS measuring all rent show an increase of 6% over the same period. This suggests that many landlords have been happy to minimise void periods and reap the benefits of longer-term rewards of rising house prices rather than risk having their property empty and struggle to pay any mortgage.

Why move?

The desire to find better accommodation is the biggest driver



Source: Savills Research/YouGov

OUTLOOK

Next steps towards the delivery of more homes

■ We need a common vision and a strong Mayor at the centre
The Mayor should be encouraged to use his power to determine major planning applications that might be slowed down at borough level. We would also like to see more examples of mayoral development corporations, the vehicle used to instigate the development of the Olympic Park. This mechanism acts as a conduit for Compulsory Purchase Orders (CPOs) to complete the assembly of the land needed to create a new regeneration site. Boroughs should also be required to maximise densities on every site.

■ London must work as one city not 32 boroughs
A clearing house mechanism at GLA level that can pull together payments in lieu of affordable housing, would help. Capital receipts (via Section106) from boroughs with higher value property can thus be used to fund a greater number of affordable homes in outer boroughs where land is cheaper and more plentiful.

■ Land availability should not be a constraint on housing targets
Molior, a residential development research company, has identified enough sites on which to build 850,000 new homes. This is the equivalent of just over 47,000 homes a year over 18 years. Extra new homes could come from surplus public land, industrial land and estate regeneration.

> 'Institutional investors are poised to inject £7 billion into rental homes according to the PRS taskforce'

■ We must be ready to exercise the 'Right to Contest'
The new scheme allows the public to challenge the government and local authorities to release land which is vacant or underused, even if it is currently in active use. The measure is part of a wider Government Strategic Land Review to help identify where further land can be sold to support construction.

■ Greater London Authority owns 653.7 hectares
Not all of these sites will be easy to bring forward. But there could be further public sector land available in the shape of 29.4 hectares owned by the London Fire Brigade, 45.9 hectares owned London Legacy Development Corporation and 103.3 hectares owned by Metropolitan Police Service.

■ Infrastructure is key to bringing new sites forward
The Northern Line extension was crucial to the redevelopment of Battersea Power Station and Nine Elms. We would urge the Mayor to secure funding for further rail and Underground lines such as Crossrail 2. Current plans to open up outer London town centre hubs by extending the Bakerloo line beyond Elephant and Castle and the DLR to Bromley would encourage development in those areas.

■ Expanding the private rented sector could help reduce council housing waiting lists
Institutional investors are poised to inject £7 billion into rental homes according to the PRS taskforce. But the lack of large blocks of residential property to invest in remains the biggest constraint. Public/private partnerships are a key way to deliver a greater number of homes for private rent at the lower end of the market where the demand is greatest.

■ Planning flexibility is key
Regulatory burdens as well as unviable affordable housing demands and CIL can delay building. Conditions attached to many permissions can still prevent construction work starting on sites. Local planning authorities must be open to negotiations regarding affordable housing requirements in order to deliver private rented housing where the market demands.

■ Housing Associations and Local Authorities must build more
The economic downturn caused a sharp reduction in the number of small and medium sized enterprises (SMEs) operating in construction. Given that large private and listed housebuilders are more likely to target bigger sites, this gives public sector players the opportunity to compete for smaller plots.

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Research publications

Our latest reports

- **Residential Property Focus | Q4 2013**
- **Spotlight | Investing in Rental Britain**
- **Market in Minutes | Prime London Residential Markets**
- **Market in Minutes | Prime Regional Residential Markets**

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