London house prices continue inexorable rise

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The price of houses and flats in London rose by an unprecedented 10 percent in October, soaring to a new average high of £544,232 and beating the previous record by nearly £30,000. The eruption is fuelling a social catastrophe for millions of families that live and work in the capital.

The rise in London house prices contrasts sharply with England as a whole, where prices rose 3.8 percent over the last 12 months to £247,000. In Northern Ireland, the rise in the same period was 1.1 percent, in Wales 1 percent, and prices fell 0.7 percent in Scotland, according to the Office for National Statistics.

Just last August, the Royal Institution of Chartered Surveyors said London prices were rising at their fastest rate since November 2006. With average property values now 8 percent above their peak in 2007, even “mid-ranking bankers”—earning less than £500,000—are complaining that central London house prices are out of reach.

Currently, first-time buyers in London face the mammoth task of finding a deposit that averages more than £64,000—more than twice the average salary of about £26,000 a year, and are typically forced to take out a mortgage of nearly £200,000 to get on to the property ladder. This contrasts with an average price for a first home across the whole of the country of £185,000 in August.

According to the Council of Mortgage Lenders, the average first-time buyer in London takes out a mortgage of £192,640 with an average household income of £52,130, after putting down a 25 percent deposit— the only way that a mortgage, even with rates currently relatively low, is even scarcely affordable. That means the average price paid is £256,853, and a typical first-time buyer needs a £64,213 deposit.

Last August, the *Daily Mail* published an article headlined “A run-down flat in Brixton may be the last property in London to be sold for under £100,000.”

It described the “pokey ground floor studio” as “so grim even the estate agents describe it as ‘horrendous’.” The agents Kinleigh Folkard & Hayward said that it was so cheap because there was only a short 56-year lease and it needed extensive refurbishment.

Indicating the dreadful conditions that workers face, not just in terms of their housing conditions and the cost, but the daily grind of a commute to work in overcrowded trains, the agents said, “It’s not the prettiest block but it’s not the ugliest either. It’s only five minutes from the Tube station and because it’s the end of the Victoria line you are guaranteed to get a seat in the morning.”

Ten buyers were ready to view the property as soon as it came on the market.

London’s housing market means only the rich, the very well-paid or those with generous parents who can afford to buy, a phenomenon that is leading to the “social cleansing” of London. Britain’s capital has become the playground of tourists and the financial elite, while young people and workers on low incomes are forced out to London’s fringes.

The rise in house prices is being fuelled by the influx of hot money from overseas investors fleeing Russia, the Middle East and North Africa—countries racked with instability, corruption and inequality—in search of a safe haven for their cash. The crisis in the euro zone countries and high salaries in London’s financial centre are also driving up prices.

London already holds the record for the world’s most expensive apartments. An apartment in the One Hyde Park development in Knightsbridge goes for £140 million. The mansion in Knightsbridge that belonged to the late Rafiq Hariri, the former prime minister of Lebanon assassinated in 2005, recently sold for about £300 million.

Another factor fuelling the sharp increase in property prices is the government’s controversial £12 billion “Help to Buy” policy. The scheme, designed to increase the availability of 95 percent mortgages, enables people to buy a home of up to £600,000 on a deposit of only 5 percent, with the government providing a guarantee to the lender of up to 15 percent of the loan. Most of the high street banks have begun offering loans under the initiative.

The Help to Buy scheme is expected to push up the demand for homes at a time when the number of properties for sale is in short supply. Far from helping first-time buyers—in an earlier period, the government provided tax relief for home buyers—it is yet another ill-disguised subvention to the banks, which have already benefited from billions of pounds provided under the Bank of England's quantitative easing (QE).

Such is the fragile state of the world economy that the International Monetary Fund (IMF) warned last week that investors face losses of up to US$2.3 trillion (£1.44 trillion) if the world's central banks cannot unwind smoothly the emergency measures carried out during the financial crisis.

Numerous organisations including the IMF, the Institute of Directors, the Adam Smith Institute, the Office for Budget Responsibility and the House of Commons Treasury Select Committee have criticised the policy, noting that Help to Buy would do nothing to add to the chronic shortage of affordable housing.

The shortage of housing, exacerbated by the selloff of public housing under the Right to Buy scheme in the 1980s and the failure to build either public or significant numbers of private affordable homes, has led to house prices rising three times as fast as incomes over the last 10 years.

This makes it almost impossible for most young people to get a mortgage to cover the cost of a home. Saving for a deposit while paying rents that have doubled in the private sector is another difficulty. Surveys show that more than half of young people currently renting from a private landlord did not believe they would be able to own their home in the next 10 years.

Between 2001 and 2011, the number of people living in their own home fell from 68 percent of households to 64 percent. But in London, the figures are far starker: the number of people renting—29 per cent—now exceeds the number of people with mortgages, at 19 percent. The number of private rentals has doubled in the last 10 years, with rents far higher than in the public and social housing sectors.

Taken together, this means, as the housing charity Shelter says, that the likelihood of those in their 20s getting on the property ladder in London during their lifetime is just 15 percent. A recent survey showed that one in five 31-to-44-year-olds without children have delayed having children because they do not have an affordable home.

Overcrowding is rife, with 11.6 percent of homes in London having too few bedrooms for their occupants. In Newham, the figure is 25.4 percent. The high cost and insecurity of renting in the private sector leads to constant moves as households are forced to move in search of cheaper housing, often disrupting school, work and family life.

There are more than 400,000 council homes in the Greater London area, housing about one in eight households and accounting for the majority of social housing. But the Smith Institute think tank estimates that 290,000 council homes have been lost to Right to Buy alone since 1980. The cost of replacing them would be £45 billion and would at current rates of investment take 72 years.

With about 380,000 people on waiting lists for London council homes, London's councils recently calculated that they would have to build more than 100,000 new homes each year until 2021—809,000 in all—to meet existing and growing demand. Demand is rising, both because the number of households in London rose by 250,000 between 2001 and 2011 to 3.27 million, and because the percentage of homeowners fell so sharply.

Councils that want to build affordable housing also face the conflicting demand of refurbishing their existing very dilapidated estates, particularly of some of the system-built blocks put up in the 1960s and 1970s.

The Conservative-Liberal Democrat government's housing and welfare reforms are exacerbating the problems. The misnamed "affordable rent" programme means that the few affordable homes that are being provided are being built in outer London, while the cuts in benefits as well as the limits on housing benefits are leading to evictions, rising homelessness, social hardship and problems that further erode councils' budgets.