



Spatial Economics Research Centre

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Investing in London's Affordable Housing

An interesting report from LSE London argues that the government should [invest more heavily in affordable housing in London](#). [Disclosure: I am affiliated with LSE London]. It justifies this conclusion on the basis of need (crowding and rent-to-income ratios are higher than in other parts of the country), value for money (costs are higher, but land used more intensively and private sector leverage higher) and housing numbers (the government will not reach its affordable housing number target otherwise).

There are a couple of striking differences here with the message I took from Steve Nickell's LSE lecture on [housing and immigration](#). First, Nickell argues that reducing supply constraints at the top of the housing market would be the *cheapest* way for government to drive down prices across the market (including for smaller houses and flats). Second, Nickell thinks that strong incentives for local government are the key to achieving these increases in supply.

In part, I think these differences come from different underlying assumptions about equality and access to housing. Welcoming the report, Stephen Howlett, chief executive of London housing association Peabody noted: "that while G15 associations are trying to make the most of the new system, it doesn't enable them to provide affordable housing for larger families particularly in central London". I can't speak for Steve Nickell, but personally I am pretty sure that this should [not be a priority](#) for affordable housing investment. Most professionals cannot afford large family homes in central London so see little to be gained by trying to address that problem via affordable housing investment.

What about the issue of direct grants versus local incentives? Here, I think there are two interpretations. Taken narrowly, LSE London are calling for a focus of existing funding allocation in London. That is, given that we are going to spend the money on affordable housing, we may as well spend it in the place where it is most needed and provides most value. More pessimistically, however, it may be that the authors feel that the [incentives simply will not be large enough](#) and that direct subsidies will remain necessary.

Given that I have highlighted the disagreements, let me end by focusing on an important point of consensus. Whether using subsidies or incentives ([subject to the usual caveat on externalities](#)) both Nickell's lecture and the LSE London report agree that policy should encourage house building in places with high house prices.

Posted by [Prof Henry G. Overman](#) on [Tuesday, June 28, 2011](#)

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