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# FOREWORD

## NATIONWIDE FOUNDATION

The scarcity of decent, affordable homes for people in need is one of the UKs most intractable social problems. It not only damages life chances for individuals, it can have a long-lasting negative effect on whole communities. That's why, at the Nationwide Foundation, we're committed to identifying and addressing the root-causes of unaffordable housing.

Our funding of the Institute for Public Policy Research sought to contribute to the debate on affordable housing, to help build an evidence-base to inform policy-makers and to explore what role a Living Rent model could play in addressing the challenges of housing affordability.

As a method of measuring affordability, we absolutely endorse the message of this report – that linking rents with incomes ensures that tenants aren't trapped in poverty. We welcome the call on the government to abolish the current affordable rent model which sets rents at up to 80% of market rate and support replacing it with a system of rents that those on lower incomes can comfortably afford.

**Jonathan Lewis – Programme Manager, Nationwide Foundation**

# SUMMARY

Even before the onset of the coronavirus pandemic,<sup>1</sup> nearly 5 million households in England faced a problem with their housing affordability (AHC 2019b). For low-income households renting in the private rented sector, this problem is particularly acute.

These affordability issues were apparent even before the coronavirus pandemic which has exposed just how vulnerable many people are to a sudden economic shock and the inadequacy of the housing safety net. This is not just about the housing benefit system; it is about the wider housing system and the inadequate provision of genuinely affordable housing for those that need it.

Prior to the onset of the Covid-19 crisis, the government had said it was committed to bringing forward a social housing white paper designed, in part, to support the continued supply of social homes. In the budget earlier this year, the government also committed £12.2 billion in grant funding to its Affordable Homes Programme over five years from 2021/22 (HMT 2020). However, it seems that much of that funding will be directed at home ownership rather than the new affordable homes for rent where the need lies. In response to the coronavirus crisis, the government has also lifted the cap for housing benefit in the private rented sector.

But as the UK government moves its focus from the public health response to economic recovery, it must learn the lessons of this crisis. Many of these are in relation to public health, but there are also lessons to be learnt about the need for greater economic and societal resilience.

The coronavirus pandemic and its economic implications are said to represent the greatest challenge in the UK since the second world war. After the war, and the one before it, governments of different parties all recognised the importance of housing as a means of driving economic recovery, supporting those on the frontline of the response and strengthening the social safety net – the Conservative government of 1951 regarded housing as the “first social service” (Dale and Cooke 2013). It is in that spirit which the government must approach the recovery today.

The recommendations outlined in this report, if implemented, would help restore affordable housing’s role as the “first social service”, ensure it is genuinely affordable through the implementation of a ‘living rent’ approach, and build support for affordable housing by widening access to tenure, helping the very ‘key workers’ that have kept the country going during the Covid-19 crisis.<sup>2</sup> These recommendations would also help drive our economic recovery through a massive green housebuilding programme.

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1 The analysis for this report was conducted before the onset of the coronavirus pandemic but the issues identified with regard to affordability will have worsened for many households.

2 Key workers as defined by the government following the onset of the COVID-19 crisis: <https://www.gov.uk/government/publications/coronavirus-covid-19-maintaining-educational-provision/guidance-for-schools-colleges-and-local-authorities-on-maintaining-educational-provision>

## KEY FINDINGS

### Nearly 5 million households in England face a problem with their housing affordability.

- There are 2 million households in the private rented sector facing affordability problems, 1.5 million homeowners, and 1.3 million social renters (AHC 2020).
- Affordability for households on median incomes is most problematic in the private rented sector. This problem is most severe in London and the South East where households on median incomes would spend an estimated 61 per cent and 36 per cent of their income on private rents respectively.
- Within the English regions, distinct pockets of unaffordability exist, even within nominally affordable regions. For example, private rent levels in York Unitary Authority and South Northamptonshire are 39 per cent of the regional average income for households on median incomes.

Affordability problems are a result of a series of interlinked problems including the **undersupply of housing, the ongoing decline of social housing, reductions in housing subsidies, the financialisation of housing, changes to the benefit system, and low wages and regional disparities between wages.**

- **Undersupply:** housing undersupply is most acute in regions where unaffordability is high. In the South East, East of England, and London, current delivery rates fall significantly short of supply. But undersupply is less significant as a root cause of housing unaffordability in English regions outside of the South East and London.
- **The decline of social housing:** the stock of housing that is genuinely affordable has declined over time. At the same time, a lack of housebuilding, the effects of the right to buy scheme and the shift of low-income households into the private rented sector have also pushed many low-income households into renting private housing they often struggle to afford.
- **Reductions in grant subsidy:** the level of subsidy and grant capital made available to fund affordable housing has also declined. This underinvestment has resulted in the private rented sector increasingly accommodating households who might otherwise qualify for some form of social housing. It has also driven the introduction of the so-called affordable rent model as the primary product of sub-market housing which is less affordable than social rent.
- **The financialisation of housing:** the treatment of housing as a commodity for investment rather than a home to live in and the liberalisation of the financial system in the 1980s has seen banks and other financial institutions significantly increase their property and mortgage lending, helping to drive the value of housing ever higher and making it ever more unaffordable. This financialisation of housing has bled into the social sector, where cross subsidy and the reliance on private sales to fund the construction and maintenance of social rented homes has become increasingly common.
- **Changes to the benefits system:** welfare reforms have significantly affected low-income households, reducing their ability to meet their housing costs. Caps in local housing allowance (LHA) rates and the growing costs of renting privately mean that, across England, less than 10 per cent of private rented housing is affordable for LHA claimants.
- **Low wages:** while wages have grown in recent years, wage growth has been significantly slower for lower-income households and has not kept pace with increasing housing costs. As a result, when the cost of rent is combined with the cost of essential goods that households need to have a decent standard of living, wage growth has not been enough to make ends meet.

**There is no one solution to improve housing affordability. A 'living rent' approach can help but must be accompanied by wider reforms.**

- A 'living rent' approach, where rents in the affordable housing sector are linked to incomes, could make a contribution to improving fairness and affordability in the housing market, particularly for those on lower incomes struggling with their housing costs in the private rented sector.
- There are two ways of delivering a living rent approach. The first is an approximation approach which is useful for calculating a rent formula that is linked to income across large housing stocks. However, unlike the granular approach, which links tenant income to their rent at an individual level, it is not wholly personalised. While the granular approach more accurately considers the income of individual tenants for generating rents, it requires significantly more investment and administration to implement. Each approach brings clear positives and negatives.
- A living rent can help address affordability issues for some, but addressing the main drivers of the affordability crisis in terms of undersupply, lack of grant funding, financialisation of housing, welfare reform, and low wages will be crucial to improving housing affordability.

## RECOMMENDATIONS

### Recommendations for the Ministry of Housing, Communities and Local Government and the Treasury<sup>3</sup>

#### 1. Redefining affordability

The government should adopt a definition of housing affordability that recognises that a household faces affordability problems when more than 33 per cent of their income is spent on rent. This definition would provide a good starting point for exploring wider issues related to housing affordability.

#### 2. Rent models and rent setting

- **Abolishing 'affordable rent'**  
The government's affordable rent product should be abolished. All funding for this product should come to an end as soon as realistically possible and existing homes that are charged at affordable rents should be converted either to social rents or to an intermediate living rent product (see below) over time, with funding provided to support the transition.
- **Applying the principles of a 'living rent' approach across affordable housing**  
The social rent formula should be reviewed to ensure it remains affordable for low-income households. A target for all social housing to be capped at the new affordability threshold should be set out as part of this review.
- **Developing a 'living rent' model**  
The government should support the development of a living rent product. This product should be delivered as an intermediate housing product for those on lower incomes who are struggling with high housing costs in the private rented sector, have no immediate prospect of buying their own home, and yet would not be eligible for social housing.

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<sup>3</sup> Covering the English housing market only as housing is devolved.



### **3. Increasing the supply of green affordable homes to rent**

The £12.2 billion promised for the new five-year Affordable Homes Programme does not go far enough in providing the capital grant required to build the genuinely affordable homes we need.

Over the next ten years, £15 billion in capital grants (£13.2 billion in today's prices) is required every year from government to support the delivery of zero carbon sub-market housing. This total will support the delivery of social rent, living rent and affordable home ownership options.

- **Investing in zero carbon homes for social rent**

Of the total programme outlined above, the government should invest to build 90,000 zero carbon social rent homes per year in England to boost supply and help those on the lowest incomes, costing an estimated £12.8 billion per year in housing subsidy. Making these homes zero carbon will ensure the government meets its net zero target and provides lower energy bills for households. Building these homes will provide a significant economic multiplier, generating between £78.5 billion and £120 billion per year through industry activity and job creation (NHF 2019b).

- **Investing in zero carbon homes for living rent**

In addition, as part of the wider programme we recommend that 30,000 zero carbon 'living rent' homes should be built per year, costing an estimated £1.5 billion a year in housing subsidy. The rent setting formula underpinning this model should be linked to local incomes to ensure it addresses affordability within local housing markets. The remainder of the spend should be allocated to low cost home ownership options.

Delivery organisations of the living rent should consider prioritising 'key workers'<sup>4</sup> for the allocation of any new 'living rent' model of homes.

### **4. Reducing the loss of social homes through the right to buy**

- The government should suspend the right to buy scheme with immediate effect before devolving the necessary powers to local authorities to determine the rules around right to buy for their area, including the discount rate, eligibility and ability to let after sale. Local authorities and housing associations should also be given complete control over receipts from any housing sales.

### **5. Improving the housing safety net**

- We recommend that the government should raise the local housing allowance so that it covers the 50th percentile of local market rents in each area. After the pandemic subsidies, the government should review after one year whether this support is the right level. In the long run, LHA should have the flexibility to adapt to local markets where current rents may run significantly above the cap, allowing it to be adjusted to local rents and household incomes.
- The government should change the rules so that housing benefit can be paid directly to housing providers as the default, with an option for tenants to opt out and receive the payment themselves.

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<sup>4</sup> Key workers as defined by the government following the onset of the COVID-19 crisis; see: <https://www.gov.uk/government/publications/coronavirus-covid-19-maintaining-educational-provision/guidance-for-schools-colleges-and-local-authorities-on-maintaining-educational-provision>.

## **6. Earnings and housing costs**

- The government should legislate so that all people in work are paid a real living wage that allows them to meet their housing costs. The wage should be calculated by referencing minimum income standards and adequately take into account regional variations to ensure that it is consistent with the cost of living locally (Johns et al 2019).

## **7. Devolving powers and resources**

- The government should devolve a package of powers including rent setting powers, flexibility to develop their own housing products and housing funding to sub regional combined authorities (and their equivalent structures).

## **Recommendations for housing providers**

### **8. Working towards a living rent model**

- Local authorities, housing associations and their membership organisations should explore further the viability of a living rent product in different local housing markets across England.
- Ahead of a new rent settlement in 2025, the housing sector and the UK government should work together to develop greater flexibility in the way housing providers can set their rents to allow for the delivery of a living rent model.

# INTRODUCTION

***“Housing is the first of the social services. It is also one of the keys to increased productivity. Work, family life, health and education are all undermined by crowded houses. A Conservative and Unionist Government will give housing a priority second only to national defence.”***

Conservative Party Manifesto (1951)

The “first social service”; that was how the 1951 Conservative Manifesto described housing. More than 70 years on, the landscape of the housing market has changed significantly, but the need to recognise the essential role that housing plays in all our lives has not. While housing wasn’t as prominent in the general election of 2019 as it was in 1951, when the Conservatives gave it a priority “second only to national defence”(Dale and Cooke 2013), it was a key priority for all the political parties. It also remains an important issue for the public, with just under one-quarter (23 per cent) of Britons saying ahead of the election that the issue of housing would help them determine how to vote (Ipsos 2019).

Housing affordability remains a central issue for many households across England. Affordability decreased year on year from 2012 to 2017, and stagnated in 2018 (ONS 2019a). These affordability issues present problems for low-income households in particular. Income growth for low-income households has been absorbed by increases in housing costs – equivalent to a £1,200 reduction in living standards since 2002 (Tomlinson 2019). In the private rented sector, unaffordable housing is often combined with poor quality housing, leaving many unsatisfied with their living situation (Baxter and Murphy 2018). These issues have been exacerbated in the private rented sector because of government cuts to housing support; these reductions have meant that affordability has continued to worsen for lower-income households.

However, affordability is not just a problem in the private rented sector. Increasingly, sub-market housing is becoming unaffordable for low-income households. The current model of affordable housing isn’t genuinely affordable. The so-called affordable rent product – introduced during austerity in 2011 – where rents are linked at up to 80 per cent of market rates, does not consider people’s incomes. In areas where the housing market is heated, it is helping to push low-income households into poverty (Inside Housing 2018a; Cribb et al 2018).

Moreover, nothing has exposed the fragility of the housing safety net in quite the same way as the onset of the coronavirus pandemic. As an increasing number of people have lost or seen their income reduced as a result of self-isolation or the closure of their places of work, the inadequacy of the housing benefit system has been exposed. While the government has introduced some short-term measures to stem evictions and to provide some additional assistance through universal credit, it has stopped some way short of fixing the long-standing flaws in the system.

Prior to the coronavirus pandemic, the government had said that they were committed to bringing forward a social housing white paper designed, in part, to support the continued supply of social homes (Conservatives 2019). The planned white paper will supposedly build on the social housing green paper, released under Theresa May’s government in 2018, which promised “a

new deal for social housing” (MHCLG 2018). In the budget earlier this year, the government also committed £12.2 billion in grant funding to its Affordable Homes Programme over five years, starting from 2021/22 (HMT 2020).

However, despite this new investment there are worrying signs that the government intends to focus far more on home ownership than genuinely affordable housing. On the future Affordable Homes Programme, the budget red book suggested that it would “help more people into homeownership and help those most at risk of homelessness” (ibid), yet this misses the vast swathe of people who are desperately in need of an affordable home to rent. Moreover, the government’s planned First Homes scheme, which will provide a discount of up to 30 per cent off new homes to buy, will be funded through what are called section 106 contributions (planning levies on new developments). But this is currently the main funding method for affordable homes to rent and diverting funds to the First Homes policy could lead to a significant reduction in the provision of social homes.

In this report, we argue that instead of almost exclusively focussing on home ownership the government should bring forward a ‘new deal’ for social housing and as part of its wider housing policy should focus on three things.

First, **the government should apply its attention rigorously to the affordability of housing rather than only the overall supply.** In this report, we highlight the wider set of policy changes that would be needed to improve housing affordability including reforming the current benefit system.

Second, **the government should commit to widening access to social housing, ensuring that people on a wider range of incomes can access it through the provision of a ‘living rent’ product.** To test the idea of an income-linked living rent with both housing sector stakeholders and the public, this report integrates expert interviews, and policy roundtable and focus group insights into its analysis of primary and secondary data, as well as the existing evidence. We argue for the adoption of a nationwide ‘living rent’ model, in part to restore the role of social housing as a tenure that caters to a broad cross-section of people on different incomes, rather than just for those on the lowest incomes.

Third, it should commit to a significant step-change in investment in social housing overall. The provision of additional affordable housing, through increased government investment, should be an essential component in ensuring that household incomes are not increasingly consumed by rising housing costs.

If the government is serious about a ‘new deal’ for social housing, it should recall the spirit of the 1951 Conservative manifesto; it should restore housing as “the first of the social services” and make it a national priority.

# 1.

## WHAT IS AFFORDABLE?

The concept of affordable housing has undergone numerous iterations. There is no single statutory definition of ‘affordable housing’ in England, and the term has often been used interchangeably with social housing (Wilson and Barton 2018).

Academic definitions of affordability have usually focussed on defining reasonable affordability ratios. These measures focus on the financial stress a household is under and usually do so by calculating the percentage of income spent on housing (after the subtraction of housing benefit). Affordability ratios have then generally focussed on setting a rent ceiling as a percentage of income – over which point a rent is considered unaffordable – at between 25–35 per cent (Meen 2018a).

In some parts of England, rent payments significantly exceed these limits for tenants in both the social rented sector and the private rented sector. The problem is acute in London, where just over one-fifth of working-age households live in sub-market housing, and 46 per cent of these households have a housing affordability problem (Padley and Marshall 2018).

Other definitions of affordability have focussed on the residual income households have left when the cost of rent is subtracted from income (inclusive of benefits). These residual income approaches take a more granular approach than affordability ratios by calculating how much money a household in a local area would need after rent to purchase essential household goods and services like food and energy.

Joseph Rowntree Foundation (JRF)’s minimum income standards (MIS) is one of the most widely used measures of minimum household income. These calculations differ depending on the composition of household, adjusted to consumer price index (CPI) inflation, and the MIS are re-based every four years (Davies et al 2018).<sup>5</sup>

In this report, we adopt a definition of affordability that places the affordability ceiling at 33 per cent of income. We believe that using an affordability ratio allows affordability to be effectively assessed and remains straightforward to operationalise. However, we also draw on insights and evidence from the Affordable Housing Commission and others, who adopt different measures of affordability, which also considers factors such as housing quality (AHC 2019b).

### A MORE GRANULAR APPROACH

To improve the granularity of our approach, we have used median regional incomes for all households and set the affordability levels accordingly. This ensures that the assessment is linked to what people can afford across different English regions. Our analysis of households on median incomes and rents highlights how affordability varies across tenure, region, and even across local authority boundaries within different regions.

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<sup>5</sup> This means that every four years, new sample groups identify the required essential household items they need from scratch. This allows the MIS to provide a more representative and up to date estimate of essential household needs.

**TABLE 1.1: IN MANY PARTS OF ENGLAND RENT IS A SIGNIFICANT PORTION OF HOUSEHOLD COSTS FOR MEDIAN-INCOME HOUSEHOLDS**

Rent levels in social rent, affordable rent, and private rent homes as a proportion of estimated weekly incomes before housing costs for households on median incomes

Region	Incomes	Social rent		Affordable rent		Private rent	
	Estimated weekly incomes before housing costs for households on median incomes	Average housing association net weekly rent, average across all size	As a percentage of income	Average housing association net weekly rent, average across all sizes	As a percentage of income	Average (median) private sector rents, average across all sizes	As a percentage of income
North East	£462	£77	17%	£93	20%	£114	25%
North West	£467	£79	17%	£100	21%	£127	27%
Yorkshire and the Humber	£468	£78	17%	£96	21%	£123	26%
East Midlands	£488	£85	17%	£102	21%	£137	28%
West Midlands	£467	£85	18%	£105	22%	£138	30%
East	£531	£92	17%	£129	24%	£183	34%
London	£569	£119	21%	£194	34%	£345	61%
South East	£560	£102	18%	£152	27%	£202	36%
South West	£512	£89	17%	£120	23%	£162	32%

Source: Existing rent data from the UK Housing Review, table 74, net affordable and social rents 2017/18 (UK Housing Review 2019a). Private rental market summary statistics April 2018 to March 2019 (VOA 2019). Median income, author calculations using households below average income and Family Resources Survey data (DWP 2019).

**TABLE 1.2: HOUSING AFFORDABILITY EFFECTS 4.8 MILLION HOUSEHOLDS ACROSS ENGLAND**

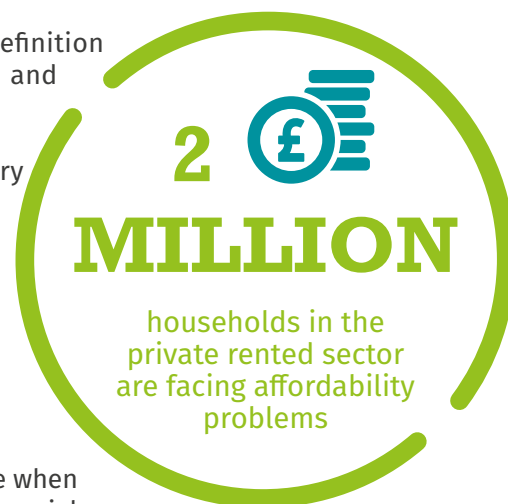
Affordable Housing Commission estimates of households in unaffordable accommodation by English region

	Numbers in unaffordable housing	Proportion of total	Proportion of renters within region in unaffordable housing (bottom half of income distribution)	Proportion of renters within region in unaffordable housing (all incomes)
North East	320,000	5%	50%	44%
North West	700,000	13%	53%	42%
Yorkshire and the Humber	510,000	9%	52%	37%
East Midlands	360,000	7%	57%	40%
West Midlands	500,000	9%	54%	40%
East	440,000	9%	58%	36%
London	950,000	24%	72%	44%
South East	620,000	15%	69%	43%
South West	400,000	8%	57%	38%
<b>Total</b>	<b>4,800,000</b>	<b>100%</b>	<b>60%</b>	<b>44%</b>

Source: Affordable Housing Commission (2019b)

While the analysis demonstrates significant regional trends, it is important to understand that affordability varies within region, local authorities and tenures. It is also important to note that because these estimates are based on averages, there are still many households that face significant affordability problems which are missed when analysing data in the aggregate.

Recent estimates from the Affordable Housing Commission - whose definition of affordability also takes into account the quality of accommodation and overcrowding as a marker of value - show that, while affordability problems tend to be concentrated in London, the South East, and the East of England, a significant number of households across the country and across different tenures face an affordability problem. These figures reveal that 2 million households in the private rented sector are facing affordability problems, making the problem particularly acute for struggling renters (AHC 2019b). In addition, 1.5 million homeowners and 1.3 million social renters also face a problem with affordability in line with their definition (ibid).



### **AFFORDABILITY AND SOCIAL HOUSING**

Social rents across England are, on average, below 33 per cent of income when equivalised for average household size. This suggests that, in aggregate, social housing is the most affordable tenure for median-income households. However, it is important to note that, because this estimate is based on averages, some of the very poorest lower-income households may still face significant affordability problems, which are missed when analysing data in aggregate. For example, estimates that look at the number of lower-income households under retirement age find that 380,000 households in the social rented sector face a problem with affordability (ibid).

The estimates of housing affordability in the social rented sector also include those people currently living in what are called 'affordable rent' homes. As this rent can be set at up to 80 per cent of the market rate, it is far less likely to be affordable than social rent. Looking at affordable rents in London and the South East, it corresponded with 34 per cent and 27 per cent of median household incomes respectively.

Even within regions that are broadly affordable, there will be pockets of local affordability and even median-income households that struggle with their housing costs. There are also distinct differences between providers. For example, one private registered provider in Hackney's average one-bedroom rent amounted to £135 per week, while another provider in the same area had an average price of £99 for the same sized property (RSH 2019).

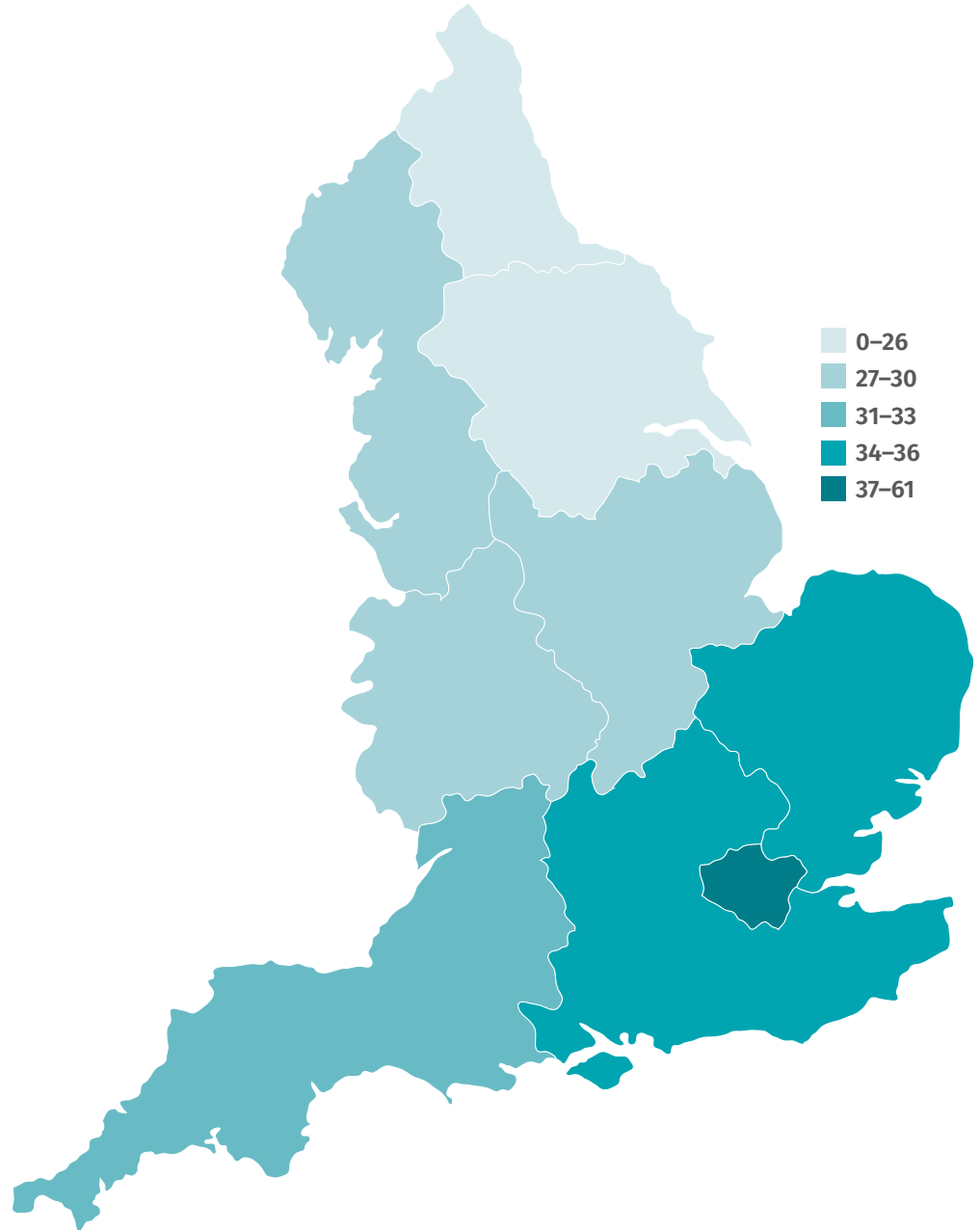
### **AFFORDABILITY AND PRIVATE RENTING**

Moving from sub-market housing products to private rents, we see that, on average, median-income households face proportionally more housing stress with regard to their housing costs. While some regions, such as the North East of England, remain relatively affordable in aggregate, other regions have noticeable affordability problems. In the East Midlands, for example, Daventry remains relatively more expensive than the regional average. Most regional hotspots tend to be focussed around economic centres and affluent hubs that have seen steep rises in house prices. London, the East of England, and the South East have the most hotspots where rents run apace of incomes.

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**FIGURE 1.1: AFFORDABILITY VARIES GREATLY ACROSS ENGLISH REGIONS. HOWEVER, LONDON AND THE SOUTH EAST ARE LIKELY TO FACE THE GREATEST AFFORDABILITY PROBLEMS**

Private rents as a percentage of regional average incomes



Source: Author's analysis using table 1.1

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Digging into more detail beneath these headline estimates reveals that problems of affordability are particularly acute for households renting in the private rented sector in certain areas. Estimates that look at the number of lower-income households under retirement age in the private rented sector find that 1.22 million households face an affordability problem (AHC 2019b). This further demonstrates that while there are distinct regional and local variations in affordability, there will be many households up and down England that face problems with housing affordability.



**TABLE 1.3: HOUSING AFFORDABILITY DOESN'T JUST VARY ACROSS REGIONS, BUT ALSO WITHIN REGIONS**

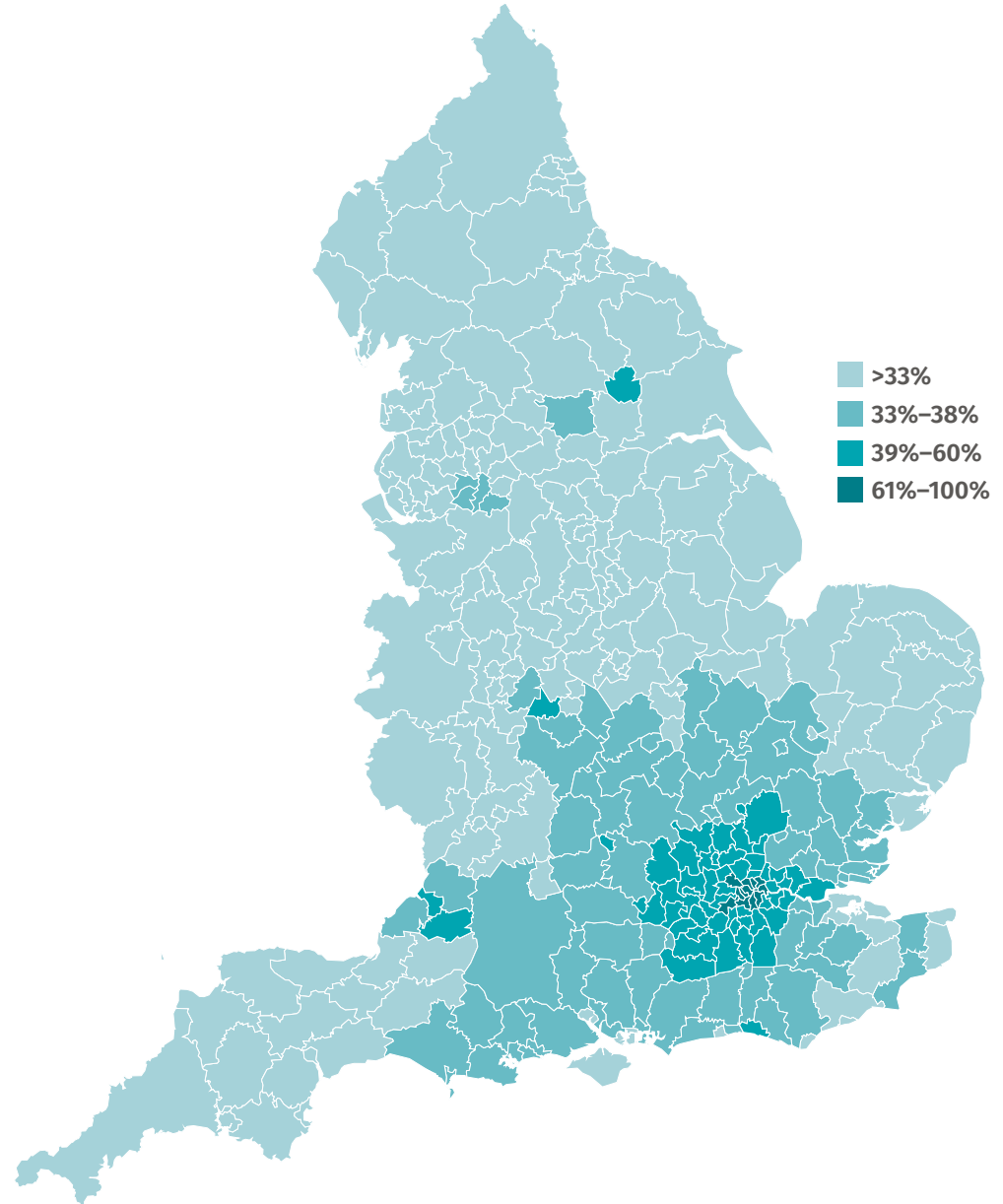
**Most unaffordable local areas by private rents as a percentage of regional income for median-income households**

Local authority or metropolitan county area	Region	Median weekly private rents	As % of income when compared to regional average household incomes
Stockton-on-Tees	North East	£121	26%
Tyne and Wear (average across metropolitan area)	North East	£127	27%
Redcar and Cleveland	North East	£114	25%
South Lakeland	North West	£150	32%
Cheshire East	North West	£144	31%
Greater Manchester (average across metropolitan area)	North West	£138	30%
York UA	Yorkshire and the Humber	£183	39%
Harrogate	Yorkshire and the and Humber	£167	36%
Leeds	Yorkshire and the and Humber	£155	33%
South Northamptonshire	East Midlands	£190	39%
Daventry	East Midlands	£167	34%
Harborough	East Midlands	£160	33%
Warwick	West Midlands	£185	40%
Solihull	West Midlands	£185	40%
Stratford-on-Avon	West Midlands	£179	38%
Hertsmere	East	£277	52%
Three Rivers	East	£288	54%
St Albans	East	£277	52%
Westminster	London	£525	92%
Kensington and Chelsea	London	£560	98%
Camden	London	£462	81%
Guilford	South East	£294	53%
Elmbridge	South East	£299	53%
Oxford	South East	£288	51%
Bath and North East Somerset UA	South West	£231	45%
Bristol, City of UA	South West	£213	42%
South Gloucestershire	South West	£196	38%

Source: Private rental market summary statistics using median figures for estimates for all categories (VOA 2019). Author calculations using regional median income data for households below average income (DWP and Family Resources Survey 2019).

**FIGURE 1.2: FURTHER ANALYSIS DEMONSTRATES FURTHER VARIATION IN RENTS TO INCOME FOR MEDIAN-INCOME HOUSEHOLDS ACROSS LOCAL AUTHORITY AREA**

Private rents as a percentage of income



Source: Private rental market summary statistics using average median rents for all categories (VOA 2019). Author calculations using regional median income data for households below average income, drawing on Family Resource Survey data (DWP 2019).

Affordability not only varies across local area and tenure; there are also significant variations across the different types of housing offered within tenures. For example, newer flats – whether let at social rent, affordable rent, or at market rates – tend to have a higher service charge than older properties. Between 2018 and 2019, service charges on supported housing alone increased by 5 per cent (Regulator of Social Housing 2019a).

Overall, housing affordability affects a wide range of households on median incomes. The effects of affordability problems are felt across England and vary across and within regions. A particularly vulnerable group are those households who currently have no option but to rent in the private rented sector and are subsequently forced to pay market rents.

These rents do not consider household incomes. The following chapters assess the core causes of unaffordable housing and, in doing so, highlight the factors that need to be addressed to improve housing affordability. This analysis informs our subsequent recommendations for improving housing affordability. These chapters further outline how a living rent model would operate and who would be most likely to benefit from it.

## 2. WHY IS HOUSING UNAFFORDABLE?

The current cost of housing is determined by a complex interplay of factors. While rent setting policies and the type of affordable housing products available are important, a holistic approach to tackling affordability problems requires addressing the root causes of unaffordable housing.

Affordability is affected by the following key factors:

- undersupply of housing
- decline of social housing
- reductions in housing grant
- commodification and financialisation of housing
- changes to the benefit system
- low wages and high household costs.

The following sections provide an analysis of these factors to understand how they manifest across different regions in England and understand the policy changes needed to address these issues.

### UNDERSUPPLY OF HOUSING

Housing supply is often cited as one of the key drivers that can make housing unaffordable (Bramley 2018; Wilson and Barton 2018). This stems from the fact that a lack of supply pushes up house prices and the limited supply of sub-market housing pushes low-income households into renting within the private rented sector.

**TABLE 2.1: NOT ENOUGH HOMES ARE BEING BUILT IN ENGLAND, AND THIS UNDERSUPPLY OF HOMES IS MOST ACUTE IN THE SOCIAL RENTED SECTOR**

Housing need across English regions

English region	Total	Social rent	Shared ownership	Intermediate rent
North East	6,963	828	400	1,190
Yorkshire and the Humber	18,868	1,795	1,477	2,216
North West	22,574	4,324	3,297	3,288
East Midlands	17,248	1,867	2,202	1,929
West Midlands	21,102	3,129	3,268	2,458
South West	42,171	8,340	3,980	2,540
East of England	46,104	10,999	3,851	3,143
South East	90,179	26,250	6,466	5,319
London	74,464	32,883	2,308	10,523
<b>Total (rounded)</b>	<b>340,000</b>	<b>90,000</b>	<b>25,000</b>	<b>30,000</b>

Source: Bramley (2018)

Regional level analysis demonstrates that housing undersupply is most acute in regions where unaffordability is high. In the South East, the East of England, and London, current delivery rates fall significantly short of supply. For example, while 74,464 homes are needed in London year on year to meet housing need, only 31,723 net additional dwellings were added to Greater London's total housing stock in 2019 (MCHLG 2019a).



While housing undersupply does have an England-wide impact, it is less significant as a root cause of housing unaffordability in English regions outside of the South East and London. In cities like London, a lack of supply is likely to have more of an impact on affordability because excessive demand for housing, constrained supply, and price inflation all push rents and household costs up.

Recent research suggests that, in aggregate, housing supply has a relatively modest direct impact on rents. While there is a general relationship between the two, the degree to which they are directly linked is limited. For example, an extra 1 per cent increase in housing supply would affect prices by around 1.5 to 2 per cent (Mulheirn 2019). Increasingly, supply is likely to be most effective in helping specific types of households in certain regions and expanding the type of housing on offer. For example, younger households who live in areas where supply is constrained, and who need to work in economic hubs such as major cities, are more likely to face a problem with housing affordability that is driven by undersupply. However, adding to housing supply may not necessarily be the best way to help these households, or the most effective approach when compared to, for example, policy interventions to create a tighter labour market or increase pay in high demand areas (ibid).<sup>6</sup>

Improving housing supply can help address the housing need of lower-income households. However, this intervention needs to be targeted. Increasing the supply of social housing where there is currently high demand and low supply would be an effective intervention (see next section). But increasing overall supply is likely to have little impact on affordability if it does not increase supply where it is needed, given the small direct relationship housing supply has on house prices.

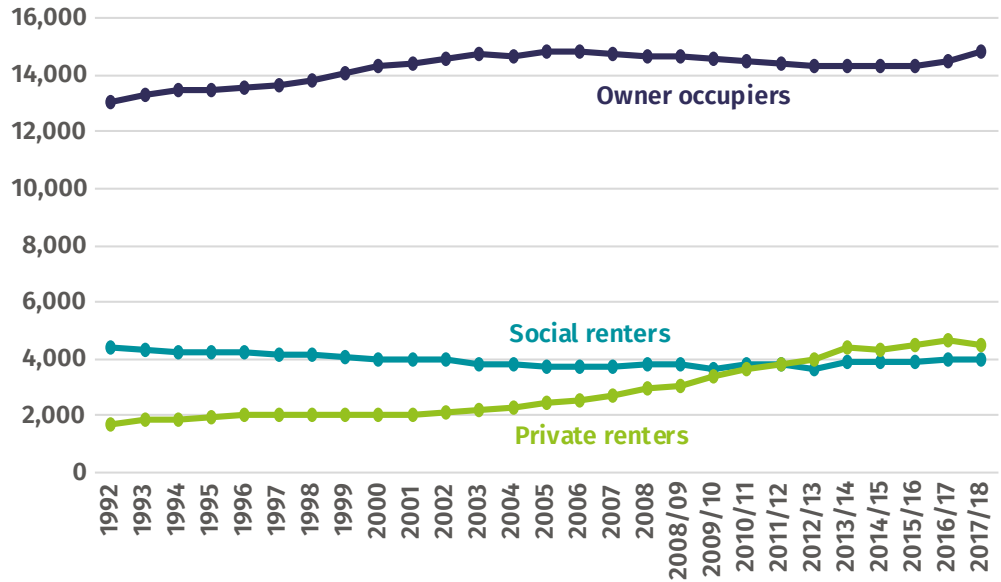
### THE DECLINE OF SOCIAL HOUSING

While the supply of housing overall is an important factor, it is the change in the balance of housing tenures that is one of the key determining factors of growing unaffordability. Supply remains significant in the current context of English housing policy where the current mix of supply and tenure does not meet housing need. For example, undersupply of social housing can force people on housing waiting lists to rent privately where rents might be higher. These households don't have access to social housing because demand for social housing outstrips supply in most places (Bramley 2019b).

<sup>6</sup> A tighter labour market will generally have demand for work that exceeds the supply of labour and as such, unemployment will be low.

**FIGURE 2.1: THE PRIVATE RENTED SECTOR HAS NOW GROWN TO REPLACE SOCIAL RENT AS THE SECOND BIGGEST HOUSING TENURE**

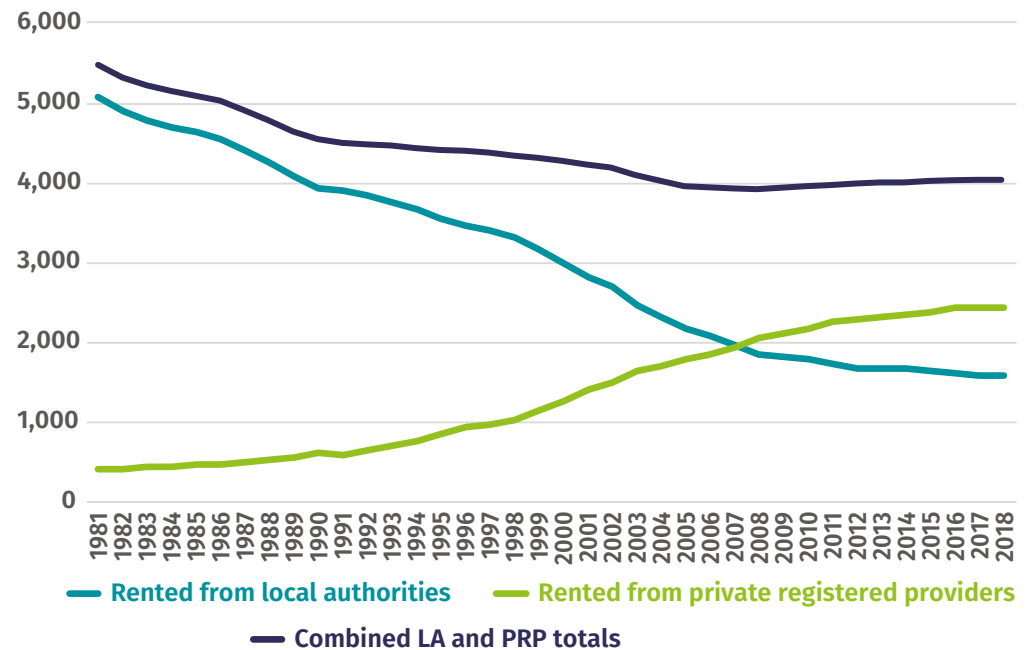
Trends in housing tenure since 1992 (1,000s of dwellings)



Source: English Housing Survey, table FT1101 (s101): trends in tenure (MHCLG 2019e).

**SINCE THE 1980S AND THE INTRODUCTION OF THE RIGHT TO BUY SCHEME, A SIGNIFICANT AMOUNT OF SOCIAL HOUSING HAS BEEN SOLD OFF OR CONVERTED, AS WELL AS TRANSFERRED BETWEEN LOCAL AUTHORITIES AND PRIVATE REGISTERED PROVIDERS**

Social housing stock trends since 1981 (1,000s of dwellings)



Source: Table 104: Live tables on dwelling stock (MHCLG 2019c)

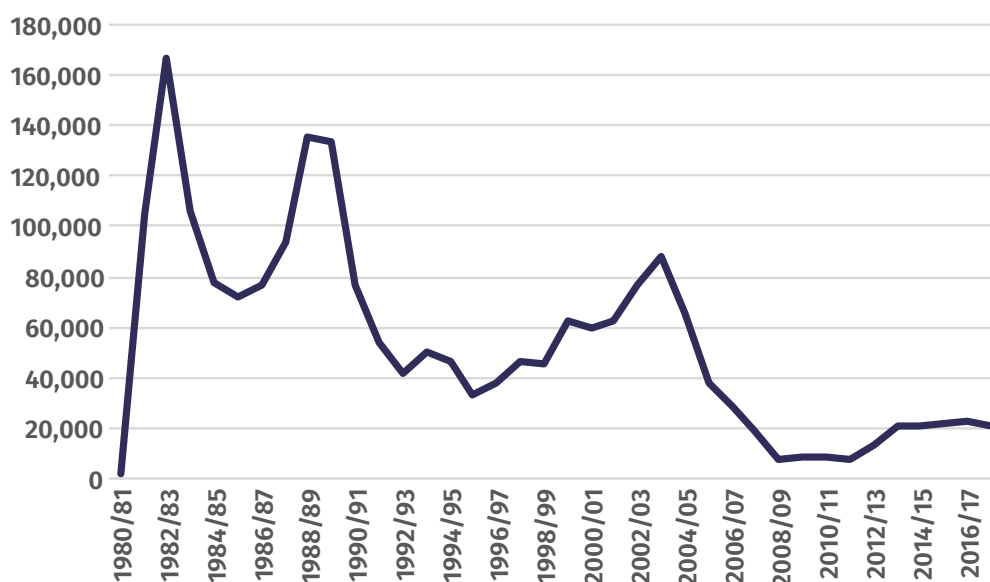
Notes: Most of these sales have come from local authority housing. While other social housing providers have increased their stock during this time, largely through the transfer of local authority housing stock to registered providers, the total number of social housing stock remains below 1981 levels.

The long-term decline of social housing, its continuing undersupply, and the growth of the private rented sector are the main driver of changes in housing tenures. Since the late 1970s, there has been an absolute decline in the number of properties owned by social housing landlords (predominantly those owned by local authorities) from 5.5 million to 4.1 million today. At the same time, the private rented sector has grown from 2 million households in 2000 to 4.5 million households (MHCLG 2019d). A marked decline in the number of new social rent homes being built has been accompanied by stock losses through the right to buy scheme. This has contributed to a now unbalanced housing market where the private rented sector now dominates. While the private rented sector does work for some people, it may not be appropriate or affordable for many lower-income households (AHC 2020).

Alongside a shortfall in capital investment (see below), the sale of social housing has resulted in the depletion of social housing stock. The right to buy scheme, introduced in the 1980 Housing Act, has contributed significantly to the sale of social housing in England. The policy has seen a large proportion of social housing stock (predominantly that owned by local authorities) ‘recycled’ into the private rented sector, further contributing to the growth of the private rented sector at the expense of the social rented sector. The result of this is an unbalanced mix of tenure which leaves many lower-income households with little choice but to rent privately (Cole et al 2015).

**FIGURE 2.3: OVER 1 MILLION SOCIAL HOMES HAVE BEEN SOLD OFF AND NOT SUITABLY REPLACED SINCE THE 1980S**

Social housing sales in England since 1981



Source: MCHLG, table 678, social housing sales by scheme in England (MHCLG 2019f)

### THE REDUCTION IN HOUSING GRANTS

The decline of social housing has also been driven by a big reduction in the amount of government funding available to support the construction of new social homes. Prior to the 1980s, social housing was supported through generous government subsidy and grant funding. With the election of the Thatcher government in 1979 and following a series of radical reforms, the

private rented sector and home ownership quickly became the focus of government housing policy (Gibb 2018).

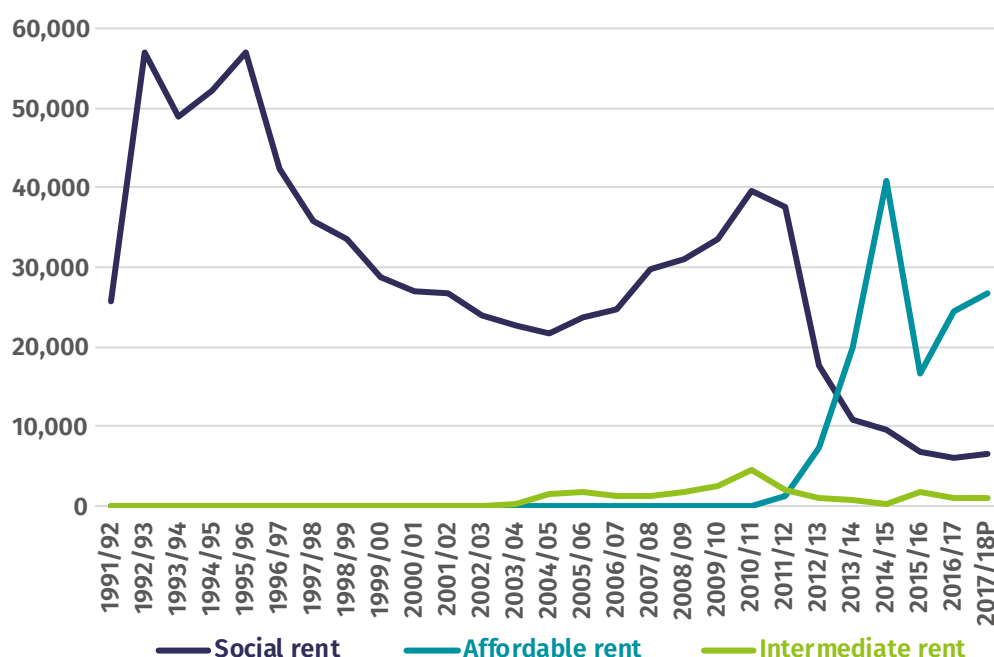
Housing subsidy funding can be split into two types: the funding made available to housing providers through national programmes, and money made available to local authorities to support house building.<sup>7</sup> In relation to the former, initial efforts to increase the available grant for homes was initiated by New Labour. This occurred in response to the fact that housing supply was falling significantly behind demand (Perry and Stephens 2018). This investment, delivered through the national Affordable Homes Programme, was further increased in the wake of the 2008 financial crash.

Since 2010, the Coalition government and subsequent Conservative governments have significantly reduced the available grant funding that housing providers can draw upon to support the development of affordable housing. Although in the recent budget the government committed to £12.2 billion in grant funding to its Affordable Homes Programme over five years from 2021/22, which represented an increase on previous programmes since 2010, it still remained £500 million less per year than the funding committed over a decade earlier in the last few years of the then Labour government (Birch 2020).

Current delivery rates of sub-market housing of all types fall well short of meeting housing need. Estimates suggests that 90,000 social rent homes need to be built per year to meet housing need (Fitzpatrick et al 2019). In addition, there is a need to build 30,000 intermediate rent homes (Bramley 2018). Without an adequate supply of social housing or genuinely affordable intermediate housing, people are forced to rent in the private rented sector, where rents are higher.

**FIGURE 2.4: THE TYPE OF SUB-MARKET HOUSING BUILT HAS CHANGED DRASTICALLY IN RECENT YEARS. SINCE 2012, AFFORDABLE RENT HAS BECOME THE LEADING TYPE OF SUB-MARKET HOUSING TENURE BUILT**

**Additional affordable homes provided by tenure, England**



Source: MCHLG, live tables on affordable housing supply, live table 1,000 (MHCLG 2019e)



In the context of lower levels of grant funding to enable large-scale house building, current housing delivery is now supported through a combination of government subsidy and the cross-subsidy activities by housing providers. This includes the sale of low-cost home ownership options and market sales (Gibb 2018). To make their business models viable, most housing providers now operate a range of housing products and use the revenue generated from sales and non-social rents to subsidise their other affordable rent and social rent housing (Scanlon et al 2017).

### **AFFORDABLE IN NAME ONLY?**

The reduction in government subsidy combined with the lack of a formal government definition of what is and isn't affordable allowed the creation of the 'affordable rent' model launched in 2011. So-called affordable rent requires much less subsidy than the traditional social rent model and allows rents to be set at up to 80 per cent of market rate in the sub-market sector (Tunstall and Pleace 2018).

However, experts have concluded that in many local areas homes let at 80 per cent of the market rate simply aren't affordable for many low-income earners for whom this product is supposed to cater (Meen 2018a; Padley and Marshall 2018). The delivery of new-build homes in the form of affordable rent has been compounded by the conversion of existing (and more affordable) social rented stock to affordable rent, with 112,000 homes converted between 2012 and 2018 (AHC 2020).

The problems of affordability are not confined to the affordable rent model alone. As highlighted in chapter 1, an estimated 380,000 households in the social rented sector face a problem with affordability (ibid 2019b) with rents rising faster than incomes since the 1990s (ibid).

In its social housing green paper, released in 2018, the government described social housing as set out below, demonstrating how broad the concept of 'affordable' has become.

***“Social housing is housing to rent below market level rents or to buy through schemes such as shared ownership. It is made available to help those whose needs are not served by the market. Social rent levels take into account a measure of relative local earnings as well as relative property values. It is typically set at around 50–60 per cent of market rents. Affordable rent was introduced in 2011 to support building more new homes below market rents. Affordable rent levels are set at a maximum of 80 per cent of the market rent (except in London where both social rent and affordable rent levels tend to be lower). Around 95 per cent of rented social housing is let at social rent, with around 5 per cent let at affordable rent. Since 2010, over 100,000 new affordable home ownership homes have been delivered, including 60,000 for shared ownership.”***

*A new deal for social housing (MHCLG 2019)*

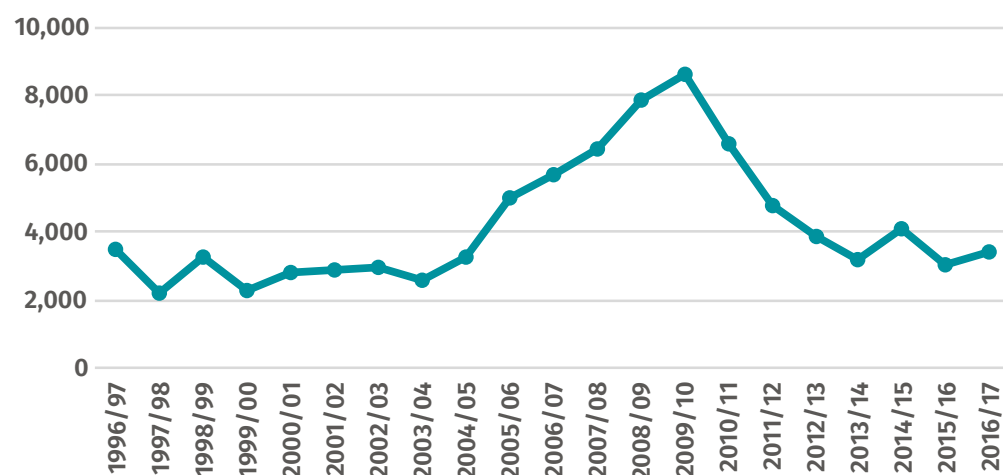
For local authorities, the main instrument to support local house building has been the housing revenue account (HRA). The HRA is a separate budget that stock-retaining local authorities can use to develop their supply of social housing. The previous HRA subsidy from central government was changed drastically in 2012, with councils being permitted to keep hold of their rental revenues. Previously, these rents had to be paid to central government before they could be drawn back out in the form of subsidy (Adam et al 2015).

Up until 2018, the amount of money that local authorities could borrow through the HRA was restricted by a cap, and borrowing was tied tightly to the value of assets (housing stock). This was implemented to reduce public borrowing levels in line with the then government’s austerity policies. This cap was lifted in 2018, allowing local authorities to borrow more money to support the development of new housebuilding.

Despite recent attempts to boost housing supply through the lifting of the HRA borrowing cap, shortfalls in capital investment have reduced the capacity of the housing sector to provide a broad mix of housing options that are genuinely affordable. An estimated £15 billion a year is needed to build enough zero carbon homes to meet housing demand. This will require a significantly bigger investment than that current £12.2 billion promised in the next multi-year Affordable Homes Programme.

**FIGURE 2.5: CAPITAL INVESTMENT IN HOUSING IS NOW LOWER THAN IT WAS IN 1999**

Capital investment to housing providers and local authorities has declined significantly since 2010



Source: UK Housing Review (2019b), Compendium: table 62

### COMMERCIALIZATION AND FINANCIALISATION OF HOUSING

The process of commodifying and financialising housing in the UK began in the late 1970s, as the state provision of social housing was eroded, housing was increasingly treated as a commodity for investment rather than a home to live in and the liberalisation of the financial system in the 1980s led to a big increase in mortgage lending (Blakeley and Nanda forthcoming). As a consequence, banks and other financial institutions have significantly increased their mortgage lending, helping to drive the value of housing ever higher, making it ever more unaffordable (ibid).

The process has been replicated in the social housing sector where the UK government is now one of many financial actors who provide housing providers with the money they need to develop homes and provide housing services (Hull et al 2011). This shift is symptomatic of the transformation of the UK’s economic model since the 1980s and the belief amongst consecutive governments that the market could help provide essential public goods alongside the state (Roberts 2018).

While the introduction of private finance into the social rented sector was originally envisaged as a means of revitalising sub-market housing, it hasn't been able to support the delivery of the homes needed. The current reliance on market borrowing restricts the actions of housing providers, who not only have to consider their duty to provide affordable homes, but also whether their activities will be attractive to lenders (Adam et al 2015).

The introduction of a mandatory 1 per cent decrease in social rent with the Welfare Reform and Work Act (2016) further increased the need for housing providers to amplify their revenue streams through activity in the private market and resulted in some providers converting their social rent housing units to other tenure types (MCHLG 2016). In 2020, this 1 per cent decrease will be reversed for the first time since 2016, with with CPI+ 1 per cent rent increases allowed.

Changes in the way housing is financed have also seen providers increasingly focus their efforts on developing homes for sale. To give an indication of this shift in activity, in 2012, registered providers recorded £780 million in sales from low cost home ownership and open market sales. By 2019, income from low cost home ownership sales and sales on the open market totalled £2.9 billion by registered housing providers (Regulator for Social Housing 2020).

Available equity, construction costs and land availability all determine the cost and supply of housing (Ballantyne 2016). Alongside this, financial instruments are crucial for determining how funds are directed and the types of homes that are built. Without adequate capital grants from government, private finance has stepped in to play an increased role in housing delivery and provision. This has resulted in increased collaboration between the housing sector and private finance. This collaboration has enabled providers to deliver homes but has also focused attention away from providing genuinely affordable housing options.

### CHANGES TO THE BENEFIT SYSTEM

Housing benefit remains indispensable for low-income households in meeting their housing costs. In the social rented sector, unaffordability would be significantly worse if housing benefit was excluded. When housing benefit is discounted, rents on average would pass recognised affordability measures of more than 33 per cent of income being spent on rent.

The private rented sector is particularly unaffordable for those low-income households who rely on housing benefit to meet their housing costs. A lack of supply in the social housing sector, both in terms of dedicated social rent and intermediate rent housing, means more households are forced to rent in the private rented sector. Currently, 20 per cent of private renters claim housing benefit, compared to 57 per cent of social renters (MCHLG 2020). However, without the support of housing benefit, private renters would spend on average 37 per cent of their income on rents, and social renters would spend 35 per cent (ibid). The higher costs for renting in the private rented sector means these households must draw down significant levels of housing benefit to meet their rent. Recent analysis has shown that private renting would be unaffordable for 67 per cent of families if housing benefit were to be discounted (Shelter 2019).

A lack of genuinely affordable housing has contributed to a spiralling housing benefit bill, which totalled £23.4 billion for 2018/19, up from £21.9 billion in 2017/18 (OBR 2019). The more that rents increase unchecked, the more housing benefit must be drawn down to enable low-income tenants to meet their housing costs.



Housing benefit for low-income households is the largest single aspect of the housing budget (Gibb 2018). It continues to represent a significant source of expenditure for the UK government, despite attempts by recent governments to restrict welfare expenditure.

**FIGURE 2.6: MANY RENTERS WOULD SPEND MORE THAN 33 PER CENT OF THEIR INCOME ON HOUSING COSTS IF HOUSING BENEFIT WAS DISCOUNTED**

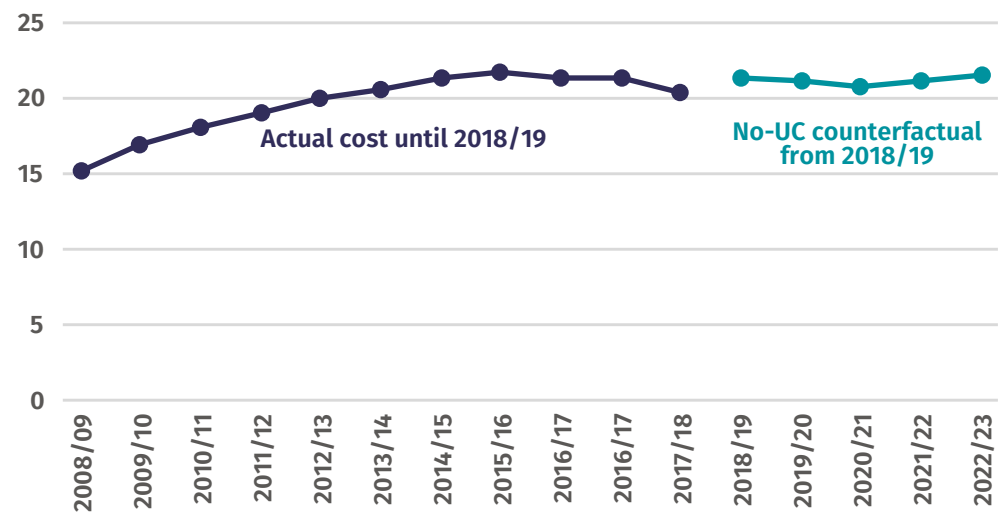
Mortgage/rent as a percentage of income including and excluding housing benefit



Source: English Housing Survey, 2018/19 (MHCLG 2020)

**FIGURE 2.7: THE HOUSING BENEFIT BILL HAS ALMOST DOUBLED SINCE 2001, DESPITE THE IMPOSITION OF THE BENEFIT CAP**

Housing benefit expenditure since 2008



Source: OBR (2019)

Changes to the way housing benefit is administered has also placed low-income households under significant financial stress. Recent studies suggest that under the new universal credit (UC) system, the rate of arrears for claimants is higher than under the old housing benefit system (Hickman et al 2018). Landlords themselves believe that UC has had a detrimental impact on their income stream and increased rental arrears (The Smith Institute 2017). Complications in the roll out of UC, which resulted in delayed payments and financial hardship for many claimants, is widely cited as a cause of arrears and significant financial stress for low-income households (Finch 2018).

Housing benefit continues to be restricted by a cap in terms of the maximum amount of money that households can claim in relation to their household composition and local housing costs. This cap is problematic given that many low-income households will be dependent on housing benefit to meet their rental costs; since the cap has been in place housing costs have continued to rise in many areas. This is particularly problematic in the private rented sector, where households need to draw down higher amounts of housing benefit to meet their housing costs and commit more of their own earnings to do so (Jones et al 2017).

The way in which housing support for private renters is calculated in local areas is determined by the local housing allowance (LHA) rate. This is a set figure that caps how much housing support private renters can draw on to meet their rents and is calculated in line with local market data. Recent analysis suggests that, in England, only 7.54 per cent of advertised properties in 2019 were affordable for LHA claimants (NHF 2019a). There is significant regional variation, with nearly all private rented housing being unaffordable within the current LHA cap in the South and South East of England for low-income households.

**TABLE 2.2: VERY LITTLE HOUSING IS AFFORDABLE FOR THE AVERAGE LHA CLAIMANT IN ENGLAND**

**Estimated affordability of housing for average LHA claimant by English region**

Region	Not affordable	Affordable	Total	% affordable
East of England	7,091	234	7,325	3.19
East Midlands	4,317	206	4,523	4.55
South East	12,548	615	13,163	4.67
London	18,165	942	19,107	4.93
South West	5,097	303	5,400	5.61
West Midlands	6,230	427	6,657	6.41
North West	7,246	990	8,236	12.02
Yorkshire and the Humber	5,005	770	5,775	13.33
North East	2,867	1,101	3,968	27.75
England	68,566	5,588	74,154	7.54

Source: NHF (2019a)

From 2013, LHA rates were no longer calculated to cover 30 per cent of local rents and were instead increased by the consumer price index. This detached LHA from local private rents and LHA only increased by 1 per cent between 2014 and 2015 (Basran 2019a). Since 2016, these rates have been frozen completely, while private rents have increased on average by 1.4 per cent per year during that period (ONS 2019b). This demonstrates that the growth in rents has not been matched by a corresponding growth in housing support for low-income households. Following the onset of the COVID-19 crisis, the

government announced that it was increasing universal credit and housing benefit from April 2020 so that it will pay for at least 30 per cent of market rents, but it is not yet clear whether this will be a permanent measure.

### **LOW WAGE GROWTH AND HIGHER HOUSEHOLD COSTS**

On average, people in the social housing sector spend 27 per cent of their income on rent (MHCLG 2020). In the private rented sector, this rises to 33 per cent. Lower-income households, on average, spend an even larger proportion of their earnings on rent, and are further squeezed by other household costs such as utility bills and maintenance payments. By the time these total outgoings are added up, lower-income households often have very little money left over (Meen 2018a and 2018b).

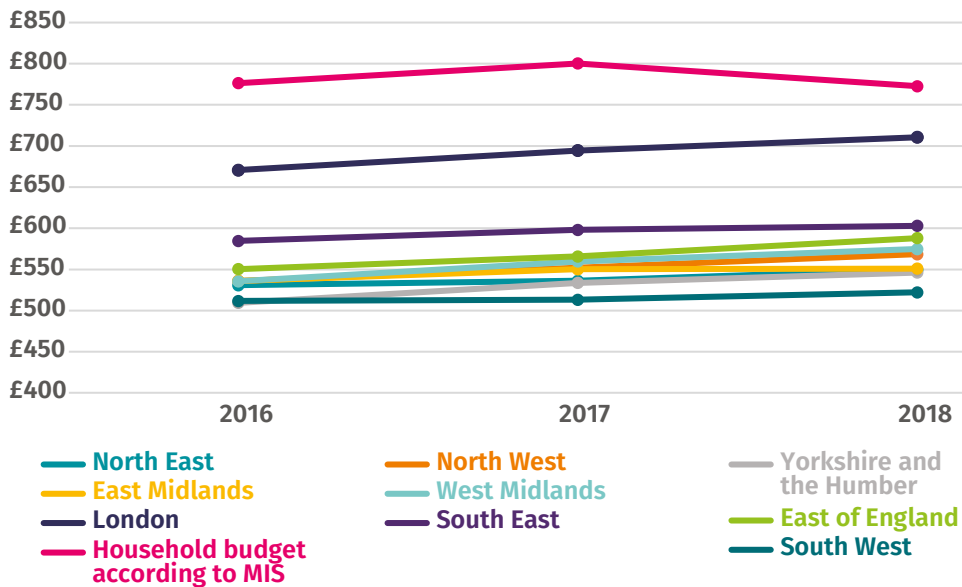
Despite wages growing year on year, wage growth is distributed unevenly across the income spectrum. For example, pay fell by 1.6 per cent for those in the tenth percentile (those on the very lowest incomes) in 2018 (Cominetti et al 2019). At the same time, the growth in precarious work among low-income households has reduced the stability of household income, with earnings now being much more variable. Coupled with rising rents, many low-income households face increased affordability problems and reduced financial stability.

In London and the South East, housing affordability is significantly worse than in other parts of the country. While earnings have increased at a greater rate in these English regions, this still hasn't allowed households to keep up with increases in market rents. Consequently, housing is a much greater percentage of expenditure for lower-income households in these areas. Low wage growth, combined with the restrictions on housing benefit noted in the previous section, has worsened affordability for many households. At the same time, little concerted effort has taken place to increase earnings in line with living costs, despite the introduction of the national living wage.

IPPR's own analysis of median rents across England and regional analysis of lower quartile earnings suggests there have been marginal increases in rent and in wages across all regions. However, when broader household costs are considered and added to rents, the combined costs have remained apace of earnings. JRF's minimum income standards provide a comprehensive assessment of the minimum income households need to pay their total housing costs, including rent, as well as essential household goods and childcare. This comparison shows that, under the minimum income standards criteria, there's a significant difference between housing costs and earnings across the country. This is reflected in the fact that many lower income households rely on welfare benefits to boost their household income.

**FIGURE 2.8: THE COST OF RENTING HAS GROWN SUBSTANTIALLY WHEN COMPARED TO WAGE GROWTH FOR LOW-INCOME EARNERS. WHILE THERE WERE SIGNS THE GAP MIGHT BE CLOSING IN 2018, A SIGNIFICANT DIFFERENCE STILL EXISTS**

Weekly lower quartile wages (gross) for single earner compared to estimated household costs for a family of two adults with two children



Source: Author's calculations using ASHE data 2015–2018, table 8.1 (ONS 2019c); Joseph Rowntree Foundation's minimum income standards (Hirsch 2015; Davies et al 2016; Padley and Hirsch 2017; Davies et al 2018)

The clear disconnect between earnings and living cost directly affects the cost of living and subsequently, housing costs. In the context of housing benefit restrictions, restrictions on LHA rates, year-on-year increases in rents, and low growth in wages, housing is likely to continue be less affordable and squeeze low-income earners in the absence of policy action by government.

### 3.

## WHAT ROLE CAN LIVING RENT PLAY IN IMPROVING AFFORDABILITY?

As outlined in chapter 2, housing affordability is determined by a complex range of factors which have a varied impact across different regions of England. Addressing the issues of supply, lack of grant funding, financialisation, welfare reform, and low wages is crucial to improving housing affordability. These issues must be addressed in order to improve housing affordability and rectify the fundamental issues within the housing market that contribute to making housing unaffordable for low-income households.

This chapter explores how a living rent model could contribute to improving fairness and affordability in the housing market, and examines the different forms this can take. A living rent model clearly cannot solve housing affordability on its own, but, in this chapter, we identify where it could help and who.

### CALCULATING A LIVING RENT

A range of different living rent models exist at present. As affordability has distinct regional and even local level differences, and many housing providers work across local authority areas and regions, we do not advocate a single living rent model. Rather, we highlight the different ways a living rent model can be implemented and the core methodology underlying the formula for living rents.

JRF have outlined a basic methodology for linking rents to incomes. This model underpins many of the existing approximation models. The JRF model calculates living rent by taking data from the Annual Survey of Hours and Earnings (ASHE), and using information from the continuous recordings of lettings and sales in social housing in England. It combines this with OECD-modified equivalence scales to calculate different rent levels depending on the household size and composition. This methodology adapts the figures from ASHE to reflect different compositions of households in different sized properties, as well as for the potential child support households with children can draw upon (Lupton and Collins 2015). The basic steps for calculating the model are:

- identifying regional earnings via ASHE lower quartile earnings
- adjusting rent for property size by using the recognised organisation for OECD equivalence model
- starting rent set at 28 per cent of net earnings
- ensuring rents apply on a local authority area basis (JRF 2015).

### WHO WOULD BENEFIT FROM A 'LIVING RENT'?

Applying this methodology, we calculate what a living rent baseline might look like in different English regions. Tables 3.1 and 3.2 illustrate the initial rent payable for tenants based on median weekly earnings, as well as the upper limit, above which rent increases would be capped. In this case, the rent floor is set at 28 per cent and the rent ceiling set at 33 per cent. As the estimates below demonstrate, the figures for living rent are higher than social rents in every English region, although the rent floor remains lower than



current affordable rent levels in some English regions. It therefore follows that applying the living rent methodology to those currently living in social rented housing would mean a significant increase in the rents for a majority of households (less so in affordable rent); likewise, a new-build home at a living rent would likely be higher than one for social rent.

However, when compared with private rents, the rent charged both at the floor and ceiling within the living rent model would represent a reduction in housing costs in every region except one. In the North East, the level of private rents equates to the ceiling level of living rent (33 per cent) and therefore the floor level of 28 per cent would also represent a significant reduction in housing costs.

**TABLE 3.1: THE MINIMUM THRESHOLD FOR A LIVING RENT APPROACH WOULD BE MORE AFFORDABLE THAN AVERAGE PRIVATE RENTS IN NEARLY ALL REGIONS AND MORE AFFORDABLE THAN POTENTIAL AFFORDABLE RENTS IN LONDON, THE SOUTH EAST AND EAST OF ENGLAND**

An illustration of the minimum amount of rent, starting at 28 per cent, that households would pay under a living rent approach, including a comparison with existing rents

Region	Median weekly earnings single earner lower quartile income In £	Median weekly earnings equivalised to 1.5	Average rent across all size living rent homes	As a percentage of weekly earning for equivalised household of 1.5	Current private rents (average across all size homes)	As a percentage of weekly earning for equivalised household income of 1.5	Current housing association affordable rents (net average across all size homes)	As a percentage of weekly earning for equivalised household income of 1.5	Current housing association social rents (net average across all size homes)	As a percentage of weekly earning for equivalised household income of 1.5
North East	275	413	117	28	114	28	93	23	77	19
North West	284	426	121	28	127	30	100	23	79	19
Yorks and Humber	273	410	115	28	123	30	96	23	78	19
East Midlands	276	414	117	28	137	33	102	25	85	21
West Midlands	287	431	121	28	138	32	105	24	85	20
East	294	441	124	28	183	41	129	29	92	21
London	355	533	150	28	345	65	194	36	119	22
South East	302	453	129	28	202	45	152	34	102	23
South West	261	393	110	28	162	41	120	31	89	23
England	293	440	125	28	160	36	112	25	85	19

Source: Author calculations using ASHE data for employee earnings in the UK: 2018 (ONS 2019c). Existing rent data from the UK Housing Review, table 74, net affordable and social rents 2017/18 (UK Housing review 2019a)

**TABLE 3.2: THE UPPER LIMIT AT WHICH A LIVING RENT WOULD BE CAPPED OUT REMAINS MORE AFFORDABLE THAN PRIVATE RENTS IN MOST REGIONS AND MORE AFFORDABLE THAN AND MORE AFFORDABLE THAN POTENTIAL AFFORDABLE RENTS IN LONDON, THE SOUTH EAST AND EAST OF ENGLAND**

An illustration of what the maximum amount of rent, capped at 33 per cent, that households would pay under a living rent approach, including a comparison with existing rents

Region	Median weekly earnings single earner lower quartile income in £	Median weekly earnings equivalised to 1.5	Average rent across all size living rent homes	As a percentage of weekly earning for household of 1.5	Current private rents (average across all size homes)	As a percentage of weekly earning for equivalised household income of 1.5	Current housing association affordable rents (average across all size homes)	As a percentage of weekly earning for equivalised household income of 1.5	Current housing association social rents (average across all size homes)	As a percentage of weekly earning for equivalised household income of 1.5
North East	275	413	138	33	114	28	93	23	77	19
North West	284	426	142	33	127	30	100	23	79	19
Yorks and Humber	273	410	136	33	123	30	96	23	78	19
East Midlands	276	414	138	33	137	33	102	25	85	21
West Midlands	287	431	144	33	138	32	105	24	85	20
East	294	441	147	33	183	41	129	29	92	21
London	355	533	177	33	345	65	194	36	119	22
South East	302	453	151	33	202	45	152	34	102	23
South West	261	393	130	33	162	41	120	31	89	23
England	293	440	147	33	160	36	112	25	85	19

Source: Author calculations using ASHE data for employee earnings in the UK: 2018 (ONS 2019c). Existing rent data from the UK Housing Review, table 74, net affordable and social rents 2017/18 (UK Housing Review 2019a)

## THE PROBLEM WITH SOCIAL AND 'AFFORDABLE' RENTS

Despite the evidence presented in the previous section, a living rent approach can still be helpful to households living in social housing, as well as those living in the private rented sector. This is because, as explored in chapter 2, the averages disguise a large minority of households who are paying above one-third of their income in the social housing sector.

Analysis by the Affordable Housing Commission (2020) has shown that around 13 per cent of households of working age in social housing spend more than one-third of their income on rent. While some of those paying more than one-third are doing so as a result of changes to the benefit system described in chapter 2, this is not the whole of the story, and the problem has been exacerbated as shown above by the higher rents charged through the introduction of the affordable rent model in 2011.

Analysis of the affordable rent model has shown that a household earning the national living wage would pay 40 per cent of their income if they lived in an affordable rent home, compared to 25 per cent in a home for social rent (ibid). More broadly, living in a home for affordable rent absorbs on average an additional 10 per cent of a household's income than if they lived in a socially rented home (ibid).

And the problems are not confined to the affordable rent model alone. Evidence shows that housing association rents rose 25 per cent faster than inflation between 1997 and 2016, while council rents rose 30 per cent faster than inflation (ibid). Income growth has flatlined since the turn of the century but over the same period social rents have almost doubled (ibid).

These increases in rents have been largely driven by the formula used for setting rents which is now 20 years old. The formula is set based on average social rents, local earnings, local property values and adjusted for the number of bedrooms. As part of the original settlement, housing providers were able to increase rents slightly above inflation (RPI and then CPI), but, because incomes have remained flat, rents have grown faster than wages. In addition, because local authority rents were significantly lower than those of housing associations, local councils were able to increase their rents at a higher rate to allow them to converge in the medium to long term.

Between 2016 and 2020, social rents were cut as the government sought to freeze rents for tenants as well as to lower the housing benefit bill which was taking the burden for many households of rising rents. However, from 2020, the new five-year rent settlement will see the return of above inflation rent rises as rents will be allowed to rise with the CPI plus 1 per cent.

While for many households these kind of rent increases will remain affordable, there is a large minority of households for whom these increases will make their housing costs ever more unaffordable. Introducing a living rent for all households in the social housing sector would not be appropriate, but *the principle* of capping rents using a living rent approach – for instance, to one-third of household incomes for all forms of social housing – does have merit.

### **NOT 'PAY TO STAY'**

The government's most recent attempt to link rents in the social housing sector to incomes came in for considerable criticism and was eventually abandoned. One of the major flaws of the 'pay to stay' scheme was that its fundamental purpose was to *increase* the amount paid by some households in social housing in England, or to force them out, rather than to make social housing more affordable.

Under the pay to stay model, higher-income earners paid more or would move on from their social home. However, the model proved to be a disincentive to tenants to increase their earnings due to a steep cliff edge (Shelter 2015). A threshold limit of £31,000 meant that any households over this limit would pay an additional £3,000 a year on average (ibid).

A second major criticism of the pay to stay model was its failure to consider household size and adjust incomes accordingly (ibid). This differs from the living rent methodology, which applies adjusted rents based on household size and composition. Consequently, the model ended up pushing higher-income earners out of social housing.

## 4. WHAT DO RENTERS THINK?

To understand the appetite for a living rent amongst renters and how such a rent setting approach might help improve housing affordability alongside other interventions, the idea was tested in focus groups in different parts of England. The key aspects of housing that a living rent could help improve included fairness, stability and security, and transparency.

### FAIRNESS

A living rent approach was seen as more affordable by focus group participants who were renting in the private rented sector. While there was an overall preference for social housing with low rents, participants believed a living rent model could act as an appropriate bridge between social rents and market rents. The idea of linking incomes to rents was considered fairer and more equitable than setting rents at a market rate. Defining affordability in relation to incomes was considered a more transparent and equitable way of setting rents.

'Fairness' was a key concept associated with the social rented sector. This perception of fairness stemmed from tenants' rents being much more affordable and a much smaller proportion of their overall income when compared to experiences of renting in the private rented sector. One of the key aspects of the private rented sector that was described as unfair was the way in which rents were calculated without consideration of income.

***"I think if private landlords were more aligned with council and housing associations, that would be a bit better, and a bit more guidance as to, yes, that's the right amount to be paid on that particular area... I pay £450, but if I go across the road, I'd be paying £900 privately renting. So, it's just, where's the consistency, do you know what I mean?"***

Social renter, Newcastle

***"Private rents, they just absolutely charge what they want, don't they? There should be something that says, 'No, you can't if it's one bedroom, if it's two,' you know, there should be a cut-off of what they can charge."***

Private renter, Newcastle

When the idea of a living rent was presented to participants, there was initial scepticism about how the model might operate. However, if these operational barriers could be overcome, participants agreed in principle with the notion that a rental model that linked rent to incomes, instead of the market rates demanded by landlords, would offer a fairer model. One of the main pushbacks against the model related to the cap at which rents could be charged. When the idea of a cap on percentage of income was put forward that did not exceed 33 per cent of household income, participants were far more receptive to the idea of the model.

***"If you were to propose something like this, would there be, like, a cut off, in terms of how much they could increase it to? That, for me, would be, you know, a deal breaker. If they were to consider doing something like that, I might, but if there was, like, a maximum. So, it couldn't go past a certain amount."***

Social renter, London

Given that social renters tended to see their rent as fair and affordable, the potential benefit of a living rent model for these people was less clear. This matches our earlier analysis in chapter 1, which suggested that a living rent model is most likely to improve affordability for certain households currently struggling in the private rented sector. Where the idea of a living rent was supported, linking it to at most 33 per cent of household income was seen as crucial for ensuring that the model remained fair.

## STABILITY AND SECURITY

Part of the problem focus group participants had with the private rented sector was its unpredictability. These concerns related to high costs, a lack of clarity on how much rents might increase by, and a perceived lack of rights and protections for renters. This aligns with previous IPPR research that showed that private renters often live in fear that their tenancy could be ended 'at any time' or that rents could increase, with little power for this to be stopped (Baxter and Murphy 2019).

***“For the council [housing]...more security with where you are, affordability, definitely, and you could also have the option to buy in the future if you got to that stage. Private, probably more expensive, certainly than council and housing association, and then the issue with landlords and stuff, and with problems you could have potentially, you know, and on security.”***

Private renter, Newcastle

The idea of security was one which our focus group tenants overwhelmingly associated with the social rented sector. This was on account of the long-term tenancies it offered, the perception that social landlords were likely to be fairer than private landlords, and tenants' own experience of renting within the sector.

When tenants were asked to associate words with different sectors, insecurity was heavily associated with the private rented sector. This notion of insecurity stemmed from the perceived power imbalances between landlords and tenants, but also from a lack of clarity around the way rents were set. The idea of a living rent was more attractive because it was clearly understandable how rents were calculated.

***“There's got to be some kind of balancing act between rents and incomes. People need to know they won't get screwed over if their rent falls. It's about security.”***

Social renter, Newcastle

Linking rents to people's *personal* incomes (rather than to averages at a local level) was viewed as being more secure because, ultimately, it would consider the tenants personal earnings and, if they changed, would adjust rents accordingly. This form of living rent was also seen as a way to address stability by ensuring that rents only ever change in line with incomes.

Private renters within our focus group suggested they would prefer to rent in the social rented sector if it improved their length of tenure and protected them from rent rises. Given that the supply of social housing is low and that many renters struggling in the private rented sector would not qualify for social housing, a living rent could provide an immediate solution for these renters. A living rent that operated as an intermediate product could be offered for these private renters as a more affordable rental product. At the same time, it would broaden the demographic of renters in the social rented sector.

## TRANSPARENCY

The opaque nature of rent setting leaves tenants confused as to why they pay the rent they do. Participants were generally happy to not ask questions if they were paying a low rent that they could afford. However, participants said they would prefer a rental model where they understand more clearly how rents are set. A living rent was popular because focus group participants could understand how it operated and therefore saw it as fairer.

***“I really like your idea. If we could cap this, you know. For example, if you’re saying this. Like, people who are earning less and people who are earning more. Both of them, they should not pay more than, for example, £600 per month. So, the maximum amount you might be paying is £600, not more than that. Which is, like, good value for the house, you know, and considering all that. If you cap it, it’s a very good idea.”***

Private renter, Manchester

Overall, both social renters and private renters knew little about how their rents were calculated. This suggests that more could be done to ensure that tenants fully understand how their rents are set and that changes to rent levels are communicated in an understandable way. More broadly, focus group participants suggested that housing providers could do more to communicate how their rents are set. On the issue of private rents, participants tended to understand that these were set by the market. However, they often felt that landlords were not honest and couldn’t justify their rent increases. Even participants who were sceptical of a living rent model did like the fact that it was clearly understandable and transparent regarding why rents might go up or down.

***“If you work in different jobs and getting a different income, I can see the difficulty in figuring out the rent.”***

Social renter, Manchester

Focus group participants were less supportive of a living rent model when it was considered that higher earners would have to pay more for a similar sized or style of property as lower earners. This concern was grounded in the perception that a living rent model would disincentivise people to work and punish those who had worked to increase their earnings. The practicalities of how a living rent model would operate, as well as its perception, need to adequately consider how much rents should increase in line with earnings.

A sensible taper rate for the model and a ceiling on how much rents could increase by somewhat alleviated this concern. When these taper rates were communicated to focus group participants, they were more supportive of the idea of linking incomes with rents. The key factor for many participants was ensuring that even if their rents did increase in line with earnings, that they would still be able to save money, particularly if they held aspirations of home ownership.

***“I think if you’re in social housing and you’ve had a good period, or if you earn a few quid more, I’d be prepared to pay a few quid more.”***

Private renter, London

## ACCESS TO, AND REPUTATION OF, SOCIAL HOUSING

Participants had mixed views of the reputation of social housing. Some said that while it had benefits in terms of security and affordability, they were concerned about the stigma that they thought was attached to the tenure.

***“Whereas council, we’ve got, you know, it’s affordable, it’s also secure, it’s reliable, you’ve got the freedom, but there’s a stigma.”***

Private renter, London

***“Social, council housing... good security, good neighbours, and a nice area, but then there’s stigma attached to it, but there’s stability as well, to the good points.”***

Private renter, London

However, others felt that with the affordability of housing worsening, the stigma attached to social housing had lessened.

***“I think there was a lot of snobbery to a few years ago. I think people are way more open to it now, definitely.”***

Private renter, Manchester

***“I think you probably used to, but I think people are a bit more open to it now, purely on the fact that you see how much money you can actually save, and it’s just a form of living, really, isn’t it?”***

Private renter, Newcastle

There were also those that believed that despite its reputation improving, or at least the stigma surrounding it lessening, access to the tenure was extremely hard except for those high up on the housing waiting lists.

***“There used to be [stigma], but there’s not anymore, because I think it’s so sought after. I think it’s almost non-existent. It’s not an option anymore. It’s not an option. I don’t think that anyone has an option, unless you’re way up the housing list, you have no option.”***

Private renter, Manchester

Overall, the idea of linking rents to income was perceived as fair, particularly when compared to private rents. Overall, focus group participants supported our analysis that a living rent product could help those currently struggling to make ends meet in the private rented sector.



## 5. THE LIVING RENT IN PRACTICE

A range of models have been devised in recent years to help reconnect earnings with rents. The case studies detailed in this chapter conform to two types: an approximation, or a granular approach.

The first of these uses the living rent formula, described in previous chapters, to develop an estimated rent that is linked to housing in a local authority area. This method is useful for calculating a rent formula that is linked to income across large housing stocks. However, unlike the granular approach, which links tenant income to their rent at an individual level, it is not wholly personalised. While the granular approach more accurately considers the income of individual tenants for generating rents, it requires significantly more investment and administration to implement. Each approach therefore brings clear positives and negatives.

Drawing on several case studies, in this chapter we outline the features of these different approaches in practice and where they might best be applied.

### TRIVALLIS

Trivallis is a Welsh housing association operating in South Wales. Its rent model is based on the JRF Living Rent methodology. However, instead of working out an average rent level across all of its stock, Trivallis sought to set different rent levels across the different geographies its housing services covered. To do this, it took the living rent methodology and applied its own equivalence criteria for different property types based on available allocation data.

To make its estimates more granular, Trivallis applied an area adjustment using Office for National Statistics (ONS)' small area income estimates for middle layer super output areas.<sup>8</sup> This provided an indication of how earnings varied across the borough level. The policy was applied across Trivallis' stock and covered a total of 9,868 tenancies. Under the rent policy, 2,491 tenants had their rents frozen for 2019/20 as their current rent was above the living rent. The remaining tenancies had a maximum rent increase of 2.4 per cent + 65p to converge with the higher living rent.

Trivallis' experience so far has been that the living rent model was viable within its business plan and, in most cases, kept rents below the Welsh government's 'rent envelope' – the rent ceiling up to which housing providers can set their rents (JRF 2015; Inside Housing 2018b). The sustainability of the current model employed by Trivallis will be predicated on the convergence of Trivallis' model and the Welsh government's own rent ceilings for social housing, which it enforces across Wales.

A similar approach to living rents has been adopted elsewhere in Wales with Merthyr Valleys Homes implementing their own model in 2018/19, while Bro Myrddin Housing Association, Rhondda Housing Association, and United Welsh are exploring how they might set their rents more closely in line with incomes. The growing interest in living rents in Wales has resulted in Community Housing

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<sup>8</sup> A middle layer super output area (MSOA) is a geospatial statistical unit used in England and Wales to facilitate the reporting of small area statistics. They consist of contiguous lower layer super output areas. They are part of the coding system created by the ONS.

Cymru (CHC) commissioning its own research into affordability as a key rent setting metric. This research highlights that, while no ‘one size fits all’ model exists, effective models like Trivallis’ living rent approach should ensure that households are left with an appropriate residual income after their housing costs have been accounted for (Altair 2019).

### **DOLPHIN LIVING**

Dolphin living is a housing provider that owns 660 homes in inner London. Dolphin Living’s tenants are best summarised as working Londoners in key sectors, who can generally afford to pay more than social housing tenants elsewhere in the capital yet cannot afford market rent. Dolphin acquired the New Era estate in Hackney in 2014. Following the acquisition, Dolphin created its own income-linked rents policy that would ensure tenants paid a fair amount of rent, in line with their income and household composition.

This approach was based on a household’s net income and the most recent JRF minimum income standards, tailored to the individual households on the estate. The JRF minimum income standards are devised in consultation with the general public to accurately reflect what income households of different types need in order to reach a living standard currently considered minimum in the UK (Hirsh 2019). Dolphin adjusted JRF MIS for local council tax and a base rent for each size of home. To calculate an appropriate rent, Dolphin assessed an MIS against each household and subtracted it from their verified income. The amount of money left over was called residual income and was subsequently used to generate a household rent. Households were incentivised to switch to an income-linked rent model with the offer of longer tenancy agreements.

This rent model was applied across the New Era estate and resulted in one of three outcomes.

1. Where the residual monthly income is equal or less than £nil, a rent increase of CPI +1 per cent will be applied at the start of the tenancy.
2. Where the residual monthly income is greater than £nil, the monthly rent will be increased annually by the equivalent of 50 per cent of the residual monthly income after current rent.
3. Where increasing the rent results in an increase greater than CPI +4.5 per cent, rent increases will not exceed CPI + 4.5 per cent (Dolphin Living 2015).

The Dolphin Living rent approach represents the most granular form of an income-linked rent model. The process for verifying incomes requires Dolphin to collect basic information on income and earnings from their tenants and link this to their property (ibid). This is collected through an information form administered every three years; the cost of collecting the data equates to £50 per household per annum. While this imposes an administrative cost on housing providers who would wish to follow a similar model, Dolphin reported that the administration and operation of the model was not burdensome and closely resembled the type of income verification checks that are common place in the private rented sector.

Overall, Dolphin argue that the current model is viable within the rent envelope for the New Era estate and the prospect of applying income-linked rents across future developments is being explored. However, as with other such granular models, the administrative load of operating such a scheme across a larger housing stock may prove too burdensome or costly for some providers.

## CHS GROUP INCOME-LINKED RENTS PROJECT

The Cambridge Centre for Housing and Planning Research (CCHPR) have undertaken research into how an income-linked rent might operate across the stock of CHS Group, a Cambridge-based housing association that manages around 1,800 homes across Cambridgeshire. CCHPR's analysis focussed on understanding the relationship between rent setting and the welfare benefit system, using examples from both the current social rent formula approach and JRF's living rent approach. The analysis used data on affordable rents across the areas where CHS Group operated, data on incomes and employment status, and CCHPR's own modelling of rents at the local authority level.

CCHPR modelling work (University of Cambridge) used data derived from the Family Resources Survey. This was used to reflect the characteristics of individual local authority areas. Tenant income data was drawn from the CORE database of new lettings in the six areas where CHS operates. The impact of current rents on affordability for tenants was ascertained using CHS Group data.

The findings of the modelling showed that, while no single rent level was affordable to everyone, reducing the rent of smaller properties and increasing the rent of larger properties increased tenants' disposable income. Larger households who would need to pay more in rent could draw on further benefit support to meet the increased rent level that single occupancy households could not. The report concluded that, in the absence of fundamental restructuring of the benefit system, the room for manoeuvre in setting by social landlords is very narrow. Based on this, CCHPR recommended two possible approaches.

1. Use the 5 per cent tolerance level permitted by the government's freeze on the ability of social landlords to raise rent. This could be used to restructure patterns of rent, with higher rents for family homes and lower rents for bedsits and one-bedroom homes.
2. Invest to reduce the costs of running a home so all tenants benefit (Jones et al 2018).

While no single approach to rent setting in line with incomes was advocated, this research highlighted the importance of adjusting rents in line with property size. This is because single bed properties were found to be proportionally more expensive than larger properties. This reinforces the importance of ensuring rents are appropriately equalised, in line with household size.

**TABLE 5.1: A SUMMARY OF SUB-MARKET HOUSING MODELS DETAILED IN THIS REPORT**

Type	Overview	Rent setting formula	Scale
<b>Social rent</b>	Historically dominant form of sub-market housing in England. The introduction of affordable rent has resulted in the number of homes being built at a social rent level dropping below affordable rent in recent years. Despite this, it remains the dominant form of sub-market tenure.	<p>30 per cent of a property's rent should be based on relative property values compared to the national average.</p> <p>70 per cent of the property's rent should be based on the relative local earnings compared to the national average.</p> <p>A bedroom factor should be applied so that, other things being equal, smaller properties have lower rent.</p>	Offered across England and the rest of the UK.
<b>Affordable rent</b>	Introduced in 2011 as a sub-market housing product. Affordable rent can be offered in the same way as social rent. However, unlike social rent, which has its own distinct rent setting formula, affordable rent can be set at up to 80 per cent of market rate. Since 2012, affordable rent has surpassed social rent in terms of the number of new homes completed.	<p>Affordable rent is set at up to 80 per cent of the market rate in local areas. Rents frozen in cases where tenants can't afford to pay more.</p>	Offered across England
<b>Trivallis living rent</b>	This living rent model applies the original methodology of the JRF living rent approach across Trivallis' 9,868 tenancies.	<p>Calculation of local area earnings using sources on earnings data via the Annual Survey of Hours and Earnings. Where more detail is needed, further data using ONS small area income estimates for middle layer super output areas was consulted.</p> <p>Rents set accordingly and frozen annually if tenants couldn't afford to pay more and rents would rise significantly if current rents are above the living rent. Where they could, rents increased on average by 2.4 per cent + 65p, to link rents more closely with earnings to converge to the higher living rent amount.</p>	Across provider's stock

<p><b>Dolphin Living personalised rents</b></p>	<p>This personalised rent model was devised for the New Era estate in London. The estate itself was a unique case that saw rents set at an affordable level, despite the tenants being private rented tenants.</p> <p>Rent takes into account both household composition and income. Joseph Rowntree minimum income standards are used to calculate the household living costs excluding rent.</p>	<p>Data was collected on individual tenant income using income verification checks.</p> <p>Where rents were adjusted, they increased. Rent increases are based on a calculation of a household's residual income after JRMIS and base rent. Where the residual monthly income is £nil, a rent increase of CPI +1 per cent will be applied annually. Where the residual monthly income is positive, the monthly rent will be increased annually by CPI +4 per cent up to the equivalent of 50 per cent of the residual monthly income plus base rent.</p>	<p>Across New Era estate and more recently applied at a Dolphin Living new build housing development in Westminster</p>
<p><b>Flexi rent approaches</b></p>	<p>This model operates on a flexible basis whereby an overall rent envelope is set for an estate or local area. A provider can then meet this total rental income through a combination of market rent and affordable rent homes. The provider also can switch units between tenancies if necessary.</p>	<p>A mix of affordable rent and market rent homes operating to reach an overall rent envelope.</p>	<p>On a local area basis</p>
<p><b>Optivo supported rent flexibility</b></p>	<p>Allows tenants to pay more or pay less at different times of the year, depending on when financial pressure points were likely to occur.</p>	<p>Rent setting formula applies a set rent to a housing unit that falls within an estate rent envelope. This can be increased or decreased, depending on current financial pressures.</p>	<p>Pilot study basis</p>
<p><b>London affordable rent</b></p>	<p>London affordable rent is set at a benchmark level across London. This is increased annually with the CPI.</p>	<p>Rent benchmarks for 2019/2020 are:  1 bed = £155.13  2 bed = £164.24  3 bed = £173.37  4 bed = £182.49</p>	<p>London</p>
<p><b>London living rent</b></p>	<p>London living rent is targeted at middle-income households to assist them in saving for a housing deposit.</p>	<p>Rents are typically set at two-thirds of the median market rent.</p>	<p>London</p>

Source: Author's analysis

## FLEXI RENT APPROACHES

Flexi rent is a model which has been co-developed by Home Group and the New Economics Foundation (NEF). The basic principle of this model requires setting a total target for rental income across a housing estate. A provider can then meet this total rental income through a combination of market rent and affordable rent homes. If necessary, they could switch units from affordable to market rent to protect investors from a fall in real rents of up to 20 per cent. This would make the product more attractive to institutional investors by guaranteeing a stable return on investment (Inside Housing 2015). More broadly, flexi rent was also devised to ensure that housing not only remained affordable, but that providers could put forward a credible plan to increase supply in the absence of sufficient government grant, alongside providing investors with increased certainty (Hedley and Morrill no date).

Flexi rent shares a common purpose with other living rent approaches in that it seeks to broaden the demographic of sub-market housing beyond low-income households and key workers. It explicitly aims to help struggling renters in their 20s and 30s who might currently be in the private rented sector. When assessing where a prospective tenant should be placed, the model considers income and, where possible, aims to keep rent below a reasonable affordability threshold – set at around one-third of a tenant’s income. Eligible tenants are assigned to an available property and their rent is set accordingly, at a rate that is below market value. For young professionals and other groups who earn a reasonable salary but still struggle to afford market rent, this product provides them with an alternative.

Given that no precise manifestation of the flexi rent model articulated by Home Group exists, an evaluation of flexi rent schemes that adhere to the same principles has been undertaken instead. This evaluation looked at the Dolphin Living income-linked rent (outlined above), as well as the ‘Cheyne model’ and rent setting on William Street Quarter (Beswick and Mamhoud 2018).

The Cheyne model is designed to deliver housing below LHA levels, averaging around 74 per cent of market rate across the High Town area of Luton. The financing arrangements of the development are designed to give Luton Borough Council a degree of flexibility in terms of how they set their rent. Under this arrangement, the council are expected to provide the private financier a rent envelope of £500,000 per year which will increase in line with CPI. However, they are given complete discretion regarding rent setting policy to meet this level. This means they can charge more to some tenants who can afford to pay more, while ensuring rents are always linked to a fair proportion of income that is below market rate (ibid). While this model is attractive for investors, as it guarantees a stable return, and attractive for local authorities, as it allows them the flexibility to ensure their revenue streams are stable, the need to have flexibility and raise rents as and when to continue to meet the rent envelope for the development means that tenants have generally been offered assured shorthold tenancies. This trade-off between length of tenure and rent setting flexibility is a feature of most flexible rent style products.

The other model looked at in the flexi rent evaluation was the rent setting policy on William Street Quarter in Barking and Dagenham. This model was a partnership between London’s Barking and Dagenham Council – through a special purpose vehicle called Reside – and Atlantic Regeneration who provided the capital. Housing can, in theory, be let at up to 100 per cent of market rate, but the council found that the estate was viable with 20 per cent of homes let at council rate, 6 per cent have been let at 65 per cent of the market rent, and the rest at 80 per cent of market rents (ibid). Despite being viable, concerns have been raised about whether the development is

genuinely affordable. Due to the high levels of poverty and low pay in the borough, homes set at a social rent level would be most appropriate for those households below average incomes (ibid). In addition, like the Cheyne Model, security of tenure is relatively weak to allow the council flexibility in setting their rents (ibid).

The flexi rent model provides good evidence demonstrating how income-linked rents can improve the stability of income streams, reduce investor exposure and encourage investment in housing providers. The model works best when landlords have a strong mix of market and sub-market rent units. The mix of these units will vary across housing providers and some will have a less diverse mix of market and sub-market housing units than others. In the cases where the mix is poorly balanced, this model may be less viable. Furthermore, the required flexibility that is necessary to make flexi rent models work may force lower-income households out of sub-market housing because a mix of both lower-income and higher-income tenants is needed to meet the rent envelope. This and the decreased levels of security offered through flexi rent products are both significant drawbacks. One solution to this problem would be for government to provide 'gap funding', as is often the case in the US. This means that the government agrees to ensure a certain percentage of housing remains affordable and will meet the difference between generated income and an estate rent envelope to ensure low-income tenants are not pushed out.

In October 2017, the government announced its intention to set a long-term rent deal for both local authority landlords and housing associations, which would permit annual rent increases on both social rent and affordable rent properties of up to CPI + 1 per cent from 2020, for a period of at least five years (MCHLG 2019b). The housing sector has challenged this policy for being too restrictive (NHF 2017). While flexi rent approaches are not without their weaknesses, it is important to give housing providers a degree of flexibility to determine the rent envelope for different estates, provided they are still able to guarantee enough genuinely affordable housing for the lowest income tenants. This would help improve the financial position of providers and allow them to cater to a broader demographic of renters through a mix of social housing, genuinely affordable housing and market housing.

Recent developments have seen the flexi rent approach pioneered by the Home Group backed with a £500 million build-to-rent fund – the BMO UK Housing Fund. This will see up to 1,000 new flexi rent homes delivered and targeted at key workers (Inside Housing 2020).

### **OPTIVO'S 'SUPPORTED RENT FLEXIBILITY' PILOT**

Optivo's flexible rent model was devised by the Centre for Responsible Credit, Well Thought, and Optivo Housing Association. The pilot was focussed in London and the South East. To be eligible, tenants needed to not be in receipt of full housing benefit, have dependent children, and have outstanding rent arrears of up to £500. Unlike the other income-linked rents examined so far, the idea behind this pilot was to allow tenants to pay more or pay less at different times of the year, depending on when financial pressure points were likely to occur (Gibbons 2018). For example, this would mean that a household which expects a big non-rent household cost, such as a final fuel bill or a quarterly council tax payment, could choose to pay a lower rent for that month provided they made up the rent elsewhere. The same policy would also allow tenants who work variable hours and whose monthly pay checks vary to tailor their rental payments according to when they might earn more or earn less.

An evaluation of the pilot found that the rent model reduced tenants' reliance on credit to meet essential needs, improved living standards and reduced money worries (ibid). Tenants who went through the full evaluation process were found to reduce their arrears. Those tenants who saw their rent arrears rise found this to be a result of circumstances beyond the rent model, such as a loss of employment or changes to their benefit entitlement. Compared to a study control group, more tenants on the flexi rent model were found to pay the minimum amount of rent needed to avoid arrears. At the same time, the added need to inform housing staff of their changing circumstances was felt to build trust between tenants and the provider (Gibbons 2018).

## **LONDON LIVING RENT**

The London living rent is an intermediate housing product designed to support those on average incomes into home ownership. New homes for London living rent are normally funded through grant subsidy and will remain affordable in perpetuity. To be eligible, households must have an income of £60,000 or less and intend to and be capable of saving for a deposit and entering home ownership within 10 years. Rents are set at below market rates by each borough and are based on local wages and house prices. The overall cost of the rent must be 80 per cent of the market rent or lower. For every neighbourhood in London, there is a published benchmark for rent levels which are based on one-third of average local household incomes and adjusted for the number of bedrooms in each home. In most boroughs, this will represent a significant discount to the market level rent.

## **SUMMARY**

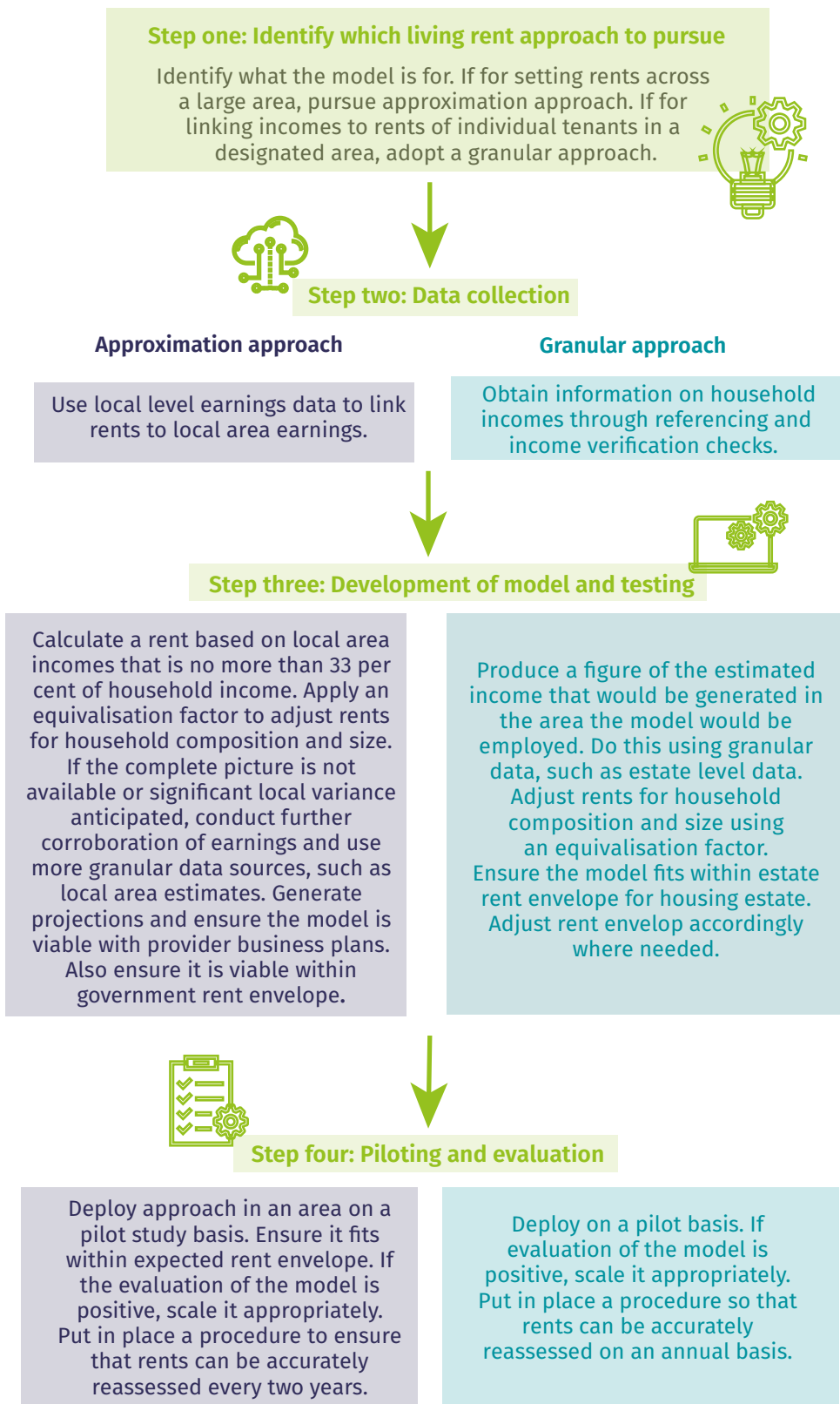
This section has outlined several examples of different income-linked rent models. It has demonstrated how these have operated and outlined the basic principles of each approach to provide insight into how they might be replicated and scaled elsewhere. This review has demonstrated that no single approach to devising a living rent works in all cases. Even the basic living rent methodology can only provide an approximation and a more genuinely personalised rent would require providers to work closely with tenants on individual estates to understand how a living rent might be set. Furthermore, clear challenges in terms of the financial viability of these approaches and ensuring they don't further reduce the available housing for those households with the lowest income in favour of attracting higher-earning tenants is a key point for consideration. However, the evidence presented here suggests that living rents could help broaden the demographic of renters in sub-market housing and operate as an effective intermediate product.

To implement a living rent approach and take account of significant regional variations in affordability and housing need requires giving local housing markets and the actors within them the power to shape the design of housing products, as is the case in London. The London example shows how regional and local authorities can move away from providing a single intermediate rent policy and begin to think more carefully about how a rental product can be geared towards different groups of tenants. These devolved rent setting regimes would need to be matched with significant grant levels that go beyond the current limits (GLA 2019b).

More broadly, the presented case studies suggest that income-linked rent models can be tailored to improve affordability amongst key groups. For example, the Dolphin Living model is aimed at key workers within London, who might otherwise struggle to afford private sector rents. A living rent could prove particularly effective as an intermediate product for this group. The presented evidence suggests that given that a 'one size fits all' model doesn't exist; different models are likely to have use in different local contexts.



**FIGURE 5.1: RECOMMENDED STEPS FOR DEVELOPING A LIVING RENT MODEL**



Source: Author’s summary of model reviewed in this report

## 6. RECOMMENDATIONS

The principle of linking rents to income is not only fairer and more equitable, but it can help provide a fairer rent model for households currently struggling to afford rents in both the social housing sector and the private rented sector – what matters is how it is delivered and how it is targeted.

As this report has shown, there are households struggling with unaffordable rents living in social rent, affordable rent and privately rented housing. A blanket approach, switching all forms of affordable housing over to a living rent approach, could see substantial rent rises for many households living in social housing. However, there is merit in the idea of using the living rent approach as a rent ceiling or a target for those hundreds of thousands of households who live in the social sector but are paying more than one-third of their incomes in rent.

There are of course questions about how a living rent should be applied, and whether to use incomes at the local level or at the household level. Using incomes at the local level is more bespoke and delivers more affordable rents than relying on private rents set by the market, but it's not as targeted and is less flexible than a personalised rent which can take into account the individual circumstances of households. However, the latter is certainly more burdensome and requires high levels of engagement with tenants across a housing provider's stock. Moreover, both approaches present risks to housing providers revenue should incomes fall across the board.

Our discussions with stakeholders also unearthed some concern around the implementation and viability of a living rent model, but several case studies demonstrate how a living rent model could be administered in a way to ensure providers are guaranteed a revenue stream that is attractive to both their business plans and seen as viable in the eyes of credit lenders. A living rent model can help improve affordability for lower-income earners.

In addition, it is important to recognise – as we have done throughout this report – that just changing the rent model will not be enough to address affordability in the housing market. For this reason, we make several recommendations, based on our analysis of the key factors affecting affordability, for how a living rent model could be implemented and operate in the housing market.

### RECOMMENDATIONS FOR THE MINISTRY OF HOUSING, COMMUNITIES AND LOCAL GOVERNMENT AND THE TREASURY<sup>9</sup>

#### 1. Redefining affordability

An important step to address housing affordability is to agree a definition of what affordable means. Despite this, and despite having its own model of 'affordable' housing, there is no adopted definition of housing affordability within English housing policy. Tackling affordability problems is difficult without ensuring a shared understanding and agreed definition of housing affordability exists.

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9 Covering the English housing market only as housing is devolved.

**We recommend that the government should adopt a definition of housing affordability, which recognises that a household faces an affordability problem when more than 33 per cent of their income is spent on rent.** This definition would provide a good starting point for exploring wider issues related to housing affordability.

## **2. Rent models and rent setting**

Chapters 2 and 3 demonstrated how despite its name, ‘affordable housing’, is often nothing of the sort for too many households. It is important that the definition of affordability outlined above be implemented across all forms of housing classified as social or affordable housing by the government. In practice, this means taking the following action.

### **a. Abolishing ‘affordable rent’**

Analysis by the Affordable Housing Commission has shown that, outside London, 30 per cent of those in a one-bed property and not claiming housing benefit would be spending more than one-third of their income on rent (AHC 2020). Ultimately, the current affordable rent product is not affordable for many lower-income households. **We recommend that the affordable rent product be abolished. All funding for this product should come to an end as soon as realistically possible and existing homes that are charged at affordable rents should be converted either to social rents or to an intermediate living rent product (see below), with funding provided to support the transition.**

Furthermore, if the government is to adopt a definition of housing affordability as outlined above, it should be a definition that is applied throughout all forms of affordable housing that receives subsidy. This must include homes for social rent, which although it is the most affordable form of housing in England, still has a significant minority of households which are paying more than third of their income on rent (18 per cent) (AHC 2020).

### **b. Applying the principles of a ‘living rent’ approach across affordable housing**

To ensure it operates effectively and remains affordable for all low-income households, **we recommend reviewing the social rent formula. A target for all social housing to be capped at the new affordability threshold should be set out as part of this review.** This review should include how best (rather than whether) to incorporate a maximum target affordability threshold of one-third of income for all households living in the social rented sector. This might include holding down rent increases in those areas where rents are a higher proportion of income than the target.

Such a change cannot take place overnight as it would have a significant impact on the revenues of housing providers and cause uncertainty, but it is a measure that should be introduced over time. Part of the review should involve wide consultation with the housing sector to ensure that any rent settlement agreed after 2025 results in rents remaining affordable for those tenants who continue to be vulnerable to affordability problems, *and* allows sufficient revenue for housing providers.

### **c. Developing a ‘living rent’ model**

Alongside adopting a definition of affordability and implementing it within social housing, **we also recommend that the government support the development of a living rent product. This product should be delivered as an intermediate housing product for those on low incomes who are struggling with high housing costs in the private rented sector, have no immediate prospect of buying their own home, and yet would not be eligible for social housing.**

Offering a living rent product alongside an expanded social rent offer could help widen the tenure of social housing and help address some of the issues of stigma raised by the participants in our focus group. Expanding the social rented sector in this way would help rebalance the housing system and promote a better blend of tenures, which meets the needs of different households. It would furthermore help avoid the private rented sector becoming the 'default' tenure for those people who might not qualify for social housing currently but who cannot afford to buy their own home.

### **3. Increasing the supply of green affordable homes to rent**

At the centre of the current affordability crisis is the undersupply of sub-market housing. Improving the supply is vital to meet housing need and ensure lower-income earners have access to the affordable housing they need. In practice, this means:

#### **a. Investing in zero carbon homes for social rent**

The evidence presented in this report demonstrates that for those lowest income earners, social rented housing provides the most affordable form of housing and provides people with increased security of tenure when compared to private renting.

Building more social rent homes will increase the supply of housing for low-income earners and reduce pressure in other parts of the market. We recommend the government **invests to build 90,000 social rent homes per year in England to boost supply and help those on the lowest incomes, costing an estimated £12.8 billion in government funding per year.**

#### **b. Investing in zero carbon homes for living rent**

In addition to the social rent programme outlined above, **we recommend that 30,000 'living rent' homes should be built per year, costing an estimated £1.5 billion in grant funding a year.** The rent setting formula underpinning this model should be linked to local incomes to ensure it addresses affordability within local housing markets. All these homes must be zero carbon ensuring the government meets its net zero target and provides lower energy bills for households.

A vibrant and responsive housing market that provides for both low-income earners and struggling renters, who currently feel trapped in the private rented sector, requires a housing market that offers an appropriate mix of tenure. Our analysis has suggested that a living rent could play a valuable role in helping those lower-income earners who might not be at the very lowest end of the income spectrum and therefore would not qualify for social housing, but who are still struggling to rent in the private rented sector. These households are stymied by a lack of choice and spend significant proportions of their income on rent. A living rent model could play a vital role in helping improve housing affordability for this group.

**We also recommend that delivery organisations of the living rent should consider prioritising 'key workers' for the allocation of any new 'living rent' model of homes.**

## **INVESTING TO INCREASE THE SUPPLY OF GENUINELY AFFORDABLE HOMES TO RENT**

Ensuring adequate investment in social housing is vital to offer choice and ensure people have a range of housing options that match their financial circumstances. Current underinvestment in the housing sector by the UK government has significantly reduced the access to the housing tenure that best meets the needs of those households on low incomes.

£15 billion in capital grants (13.2 billion in today's prices) is required every year from government to support the delivery of zero carbon sub-market housing. The average grant required to build social rent homes is £183,000 and the number of homes that will need to be built through grant funding is 68,590 (NHF 2019b). In addition, £250 million is needed to ensure these homes are zero carbon. In total, **an estimated £12.8 billion of this should be dedicated for social rent homes** (ibid). Alongside this, 14,377 Living Rent homes need to be delivered through grant funding at a grant rate of £99,000 per home. £60 million should be made available to ensure these homes are zero carbon. In total, **£1.5 billion should be made available through grant funding to fund Living Rent homes** (ibid). The remaining budget from the £15 billion per year should go towards building zero carbon affordable ownership homes. Alongside this grant funding, section 106 planning agreements should be used to deliver the remaining social rent housing and living rent housing.

There is a strong investment rationale for the government to fund new social rent housing given the potential long-term saving generated by moving families in receipt of housing benefit from the private rented sector, into the social rented sector (Chaloner et al 2019). Increasing grant funding to subsidise sub-market housing would reduce reliance on housing benefit because more genuinely affordable housing options would exist. As a result, fewer households would need to draw on housing benefit to pay their rents due to the wider availability of more affordable housing options.

Recent estimates based on an assumption that 10,000 new social rent homes could be built a year and that these homes would be occupied by people currently renting privately, suggest an average annual saving of between £22,752,682 and £26,736,170 would be achieved by reducing housing benefit expenditure (CIH 2019).

### **4. Reducing the loss of social homes through the Right to Buy**

Over 1 million homes have been sold off through the right to buy scheme since the 1980s. While popular, the policy has contributed significantly to the long-term decline of social housing.

**We recommend that the government suspend the right to buy with immediate effect before devolving the necessary powers to local authorities to determine the rules around right to buy for their area including the discount rate, eligibility, and ability to let after sale. Local authorities and housing associations should also be given complete control over receipts from any housing sales.**

### 5. Improving the housing safety net

Housing benefit expenditure has increased from 0.8 per cent of GDP in 1983/84 to 1.5 per cent of GDP in 2013/14 (OBR 2019). However, simply capping the amount of housing benefit households can draw down is not a long-term solution to solving the root cause – the chronic undersupply of affordable housing and stagnating incomes. In addition, the rolling of housing benefit into universal credit has been fraught with complications resulting in missed payments and delays for recipients.

In the first instance, the government must ensure that housing benefit is sufficient to adequately cover the cost of housing for claimants. Up until recently, the levels of local housing allowance had not been adequate to help low-income households meet their housing costs in areas where rents are high.

In response to the Covid-19 crisis, however, the government announced that it was increasing universal credit and housing benefit from April 2020 so that it will pay for at least 30 per cent of market rents. However, it's become increasingly clear that there are now a significant number of people needing to claim housing benefit whose rents are significantly above the 30 per cent rate and for whom their rent is unaffordable.<sup>10</sup>

**We recommend that the government should raise the local housing allowance so that it covers the 50th percentile of local market rents in each area. After the pandemic subsides, the government should review after one year (in April 2021) whether this support is the right level.**

In the long run, LHA should be able to flex to adapt to local markets where current rents may run significantly above the cap, allowing it to be adjusted to local rents and household incomes.

**We also recommend that housing benefit be paid directly to housing providers as the default, with an option for tenants to opt out and receive the payment themselves.** This would not only avoid current problems of many universal credit claimants falling into rent arrears, it would also help implement living rents by enabling housing providers to better calculate how much income a tenant is likely to have each month from work and benefits.

Knowing this would allow housing providers to adapt their rents accordingly when incomes rise and fall. This is difficult under the current system as all rent payments generally go directly through the tenant, who themselves might be exposed to expenditure shocks or cyclical changes in their income.

### 6. Earnings and housing costs

Affordability is the result of the relationship between rents and incomes. When rents grow but incomes stagnate or go down, affordability becomes significantly worse. The composition of a household's total income is often a combination of both their household earnings and any additional household benefits they receive. In some parts of the country, incomes are simply not high enough to meet the cost of housing. Lifting the current cap is a significant step to helping those low-income households who rely in housing benefit to meet their housing costs. Regarding earnings, there is a need to make sure that local rents are not detached from residential-based earnings.

**We recommend ensuring all people in work are paid a real living wage, that allows them to meet their housing costs.** The wage should be calculated by referencing minimum income standards and adequately take into account regional variations

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<sup>10</sup> For more information, see: <https://blog.shelter.org.uk/2020/04/government-must-go-further-to-make-sure-renters-can-pay-their-rent/> and here [https://england.shelter.org.uk/media/press\\_releases/articles/1.7\\_million\\_renters\\_expect\\_to\\_lose\\_their\\_job\\_in\\_the\\_next\\_three\\_months](https://england.shelter.org.uk/media/press_releases/articles/1.7_million_renters_expect_to_lose_their_job_in_the_next_three_months)

to ensure that it is consistent with the cost of living locally (Johns et al 2019). Ensuring wages keep up with wider housing costs can enable people to secure a decent standard of living.

While some employers in London add a weighting to their salaries to account for the cost of living, this is not commonplace across the rest of England. Regional and local authorities should explore how they might encourage employers to offer salaries in line with local rents that are relevant for the bottom quartile of earners. For example, the use of procurement strategies by Preston City Council has encouraged employers to provide a living wage (ibid).

### **7. Devolving powers and resources**

Because housing affordability varies significantly across the country and is primarily determined by conditions within local housing markets, any attempt to address affordability will need to be delivered through local and combined authorities armed with adequate powers and resources. Positive steps have recently taken place to enable local authorities to borrow more and develop their housing stock through the lifting of the borrowing cap of the housing revenue account.

However, government beyond Westminster needs far more powers and resources to provide the appropriate mix of tenure, sub-market housing and plan their local areas. Moreover, there is a compelling, positive case for devolution too with regional, city and local government being more accountable, transparent and traceable and more efficient coordinators of economic policy, including housing policy within a place (Raikes et al 2019). The mayor of London has far greater powers over housing than any other devolved area in England and as a result has been able to tailor and deliver the housing that is most appropriate for the capital – all areas outside of London should be able to do the same.

**We recommend that a package of powers including rent setting powers, flexibility to develop their own housing products and housing funding should be devolved to sub regional combined authorities (and their equivalent structures).** These powers should be supported by a range of other powers to support development that might include planning powers and transport capital infrastructure funding. Any budget made available should allow local areas to fully determine what mix of social rent and intermediate living rent housing is necessary to help both the lowest income households, and lower-income households who might currently be struggling in private sector housing.

## **RECOMMENDATIONS FOR HOUSING PROVIDERS**

### **8. Working towards a living rent model**

There needs to be greater understanding of the living rent model across the housing sector if it is to be introduced as a more widespread housing product. **We recommend that local authorities, housing associations and their membership organisations should explore further the viability of a living rent product in different local housing markets across England.** This process should help identify where appetite exists for deploying a living rent approach, as well as where it is most needed to help those lower-income earners struggling in the private rented sector.

A key barrier to implementing a living rent model is the need to ensure living rent models match the business plans of housing providers. An approximation approach offers the best means for housing providers to pursue a rent setting approach that is focussed on incomes.

However, we also recognise that some providers, particularly those acquiring new housing, will be interested in developing a more granular approach. Both these approaches require greater flexibility in the way rents are set in the social rented sector.

**Ahead of a new rent settlement in 2025, we recommend the housing sector and UK government work together to develop greater flexibility in the way housing providers can set their rents to allow for the delivery of a living rent model.**



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## GLOSSARY

**Tenure:** The legal rights under which people have the right to occupy their accommodation. The most common types of tenure are homeownership and renting.

**Living rent:** A proposed rent setting approach where rents are set in line with people's incomes.

**Private rented sector:** Housing delivered by private landlords where rent is set at market rates.

**Social rented housing:** Social rented housing tends to be owned by local authorities or other non-profit private registered providers (PRPs). Commercial organisations are now able to build and manage social housing. Normally funded through grant subsidy, they will remain affordable in perpetuity, except where properties are sold through the right to buy scheme (RTB).

**Intermediate housing:** Housing provided at costs above social rent housing but below market housing. Intermediate housing includes both housing for rent and for ownership.

**Private registered providers (PRP):** An organisation established for the purpose of providing low-cost social housing for people on a non-profit basis. For example, a housing association.

**Sub-market housing:** Housing provided by PRPs that is offered at below market rates, whether for rent or ownership.

**Grant funding:** Capital provided by government to support the construction and development of sub-market housing. This investment is usually delivered through a structured programme. For example, the Affordable Homes Programme (AHP) is the current policy instrument used to provide capital and develop sub-market housing.

**Housing subsidy:** Government economic assistance towards alleviating housing costs. Subsidy can take two forms. *Capital subsidy* refers to the government grant funding, which is used to subsidise the construction and development of sub-market housing. *Personal subsidy* refers to the provision of housing benefit and other welfare entitlements to support individual households in meeting their housing costs.

**Local housing allowance (LHA):** LHA is used to work out how much housing benefit private renters can claim. The calculation takes into consideration how much it costs to rent privately in a local area and the size of the home being rented to determine the amount of housing benefit a recipient receives.

**Households below average income:** Data based on the Family Resources Survey which provides an estimates and information on the number of and percentage of people living in low-income households based on disposable income.

**Special Purpose Vehicle (SPV):** a type of company that can be set up to hold a property. An SPV is company that can be used on one project only and therefore represents fewer risks and liabilities for the lenders.

## METHODOLOGY NOTE

The findings of this report draw on an analysis and synthesis of existing evidence, quantitative analysis of existing data sets, discussions with recognised experts and focus groups conducted with people renting across different tenures.

The existing evidence used includes both academic and 'grey' policy literature from reputable sources. This evidence includes both qualitative material and quantitative estimates, such as economic modelling. This evidence was evaluated by the researchers involved in this project and in consultation with external experts who were consulted during the research process.

The quantitative analysis for this report draws mostly on UK government data sets from the Ministry of Housing, Community and Local Government (MHCLG), as well as other data sets provided by the Office for National Statistics (ONS) on private renting and earnings. Data on Households Below Average Income and the Family Resources Survey is managed by the Department of Work and Pensions (DWP). To improve the robustness of the estimates made in this report, where possible data has been drawn consistently across a year. For example, 2018 rents are compared to 2018 lower household incomes to improve the accuracy of the estimations and assumptions made.

Our estimated costs for ensuring all new sub-market housing is zero carbon draws on the National Housing Federation's (NHF 2019b) modelling work. This information is related to Energy Saving Trust's (EST) 2014 estimates of building new homes to zero carbon standards (EST, 2020). We took a mean estimate of the costs per type of home. Because these don't correspond directly with the types of home outlined in the NHF's modelling work, we have tried to align property types as best as possible. As a result, we have assumed any four-bedroom house would roughly correspond with EST's detached housing estimates.

We have been consistent with the NHF methodology and recognised that the percentage of homes that will need to be grant funded varies across the different housing options. We have rounded all figures.

Our economic impact multiplier draws on the NHF's (2019b) modelling work. We have not adjusted this up to account for ensuring all new homes are zero carbon. We assume our total multiplier will fall within the range given in the NHF report. Ensuring these homes are zero carbon will not drastically add more jobs - Modern Methods of Construction (MMC) allow for zero carbon homes to be built without adding significant costs and time on to the construction process.

The focus group data used in this report draws on evidence from three focus groups of approximately 25 people. These focus groups were conducted in London, Manchester and Newcastle and contained a mix of private renters and social renters.

The case study section of this reports draws on desk-based research of relevant organisational and policy literature. It is also informed by discussions with key people in the organisations that have implemented the profiled models.





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