# BRIDGING THE AFFORDABILITY GAP

## Who can afford affordable rent?

Kathy Ellis, July 2011

Affinity Sutton

# WHAT IS THE POTENTIAL DEMAND FOR AN INTERMEDIATE RENT PRODUCT AT 80% OF PRIVATE RENT AND WHAT WOULD A HOUSEHOLD NEED TO AFFORD IT?

**Analysis of new research by the Cambridge Centre for Housing and Planning Research (CCHPR) shows that charging a rent between social and market rent could ease the strain of soaring private rents for thousands of families if they are able to obtain a new housing association home. However, those dependent on benefits and some working families would still find this new rent model unaffordable.**

## ABOUT THE RESEARCH

Affinity Sutton commissioned the Cambridge Centre for Housing and Planning Research (CCHPR) to assess how the government's proposed market-pegged social rents might affect lower income households[1].

Rather than rely on rent estimates at the local authority or Broad Rental Market Area level, Affinity Sutton commissioned property consultancy Jones Lang LaSalle (JLL) to calculate local market rents specifically for their properties, which reflected property size, type and street-level location.

CCHPR modelled these local rents to determine the proportion of local working households who would be able to afford these properties at different proportions of market rent.

CCHPR took account of a range of factors to carry out their affordability modelling. The widely used rent-to-income ratio measure was the starting point for analysis using a ratio of 35% net-rent-to-net income. Modelling of the Labour Force Survey and Family Resources Survey provided estimates of local household net incomes and economic activity rates. This was supplemented by taking account of different household compositions and the minimum residual incomes required after housing costs. The study compared five areas: Brighton and Hove, Bromley, Hertsmere, Mid Sussex and Plymouth.

### DEFINING LOCAL MARKET RENT

The JLL assessments of local rents have enabled Affinity Sutton to develop a more nuanced understanding of the appropriate rent levels for properties to be let through the Affordable Rent programme. In areas where rents in the private rented sector are typically higher, wider market averages would otherwise be misleading.

For example in Southwark, the median Local Reference Rent for a two-bedroom property is £288pw, whereas JLL modelling estimates that the typical Affinity Sutton two-bedroom flat would let at £260pw at market levels.

In an area like Kensington & Chelsea, the difference is even more pronounced: the median Local Reference Rent for a two-bedroom property in the borough is £575pw, whilst an Affinity Sutton two-bedroom flat in the area would let at £312pw, were it let at market levels.

JLL's work also demonstrated the degree of variation that can exist even within housing association stock in a single area: for example, the weekly market rent on an Affinity Sutton two-bedroom house in Bromley could vary between £160 and £230 depending on the property. This variation needs to be taken into account when setting Affordable Rents.

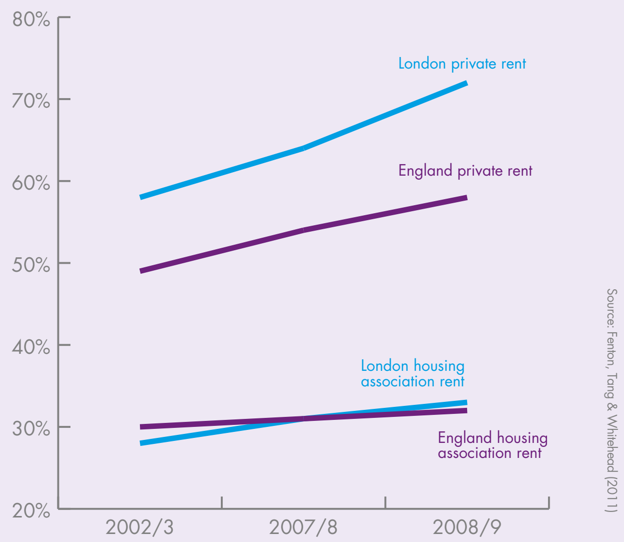
[1] Fenton, A., Tang, C. and Whitehead, C. (2011) Market-pegged social rents & local income distributions Cambridge: Cambridge Centre for Housing Planning Research at www.cchpr.landecon.cam.ac.uk/Projects/Start-Year/2011/Market-pegged-rents-in-the-social-sector/Project-Report

# MIND THE GAP – AFFORDABILITY IN THE PRIVATE SECTOR

The private rented sector is increasingly unaffordable for many low income working families. Private sector rents in England have increased to 58% of lower quartile gross weekly wages and in London they have reached 72%. Social rents have increased at a much slower pace, meaning that an already considerable gap between affordability in the private and social rented sectors has expanded.

For an increasing number of working households, this leaves them struggling to afford private rents whilst being unlikely to be prioritised for access to social housing. Making properties available to these households as Affordable Rent (up to 80% of market rent) is an opportunity to increase the affordability of housing for thousands of families.

### Average percentage of wages required to pay rent for working households in the lower quartile of earnings (England and London)




| Local Authority area | Bromley | Brighton and Hove | Hertsmere | Plymouth | Mid Sussex |
|---|---|---|---|---|---|
| Small working families unable to afford Affinity Sutton property if let at market rents | 4,200 | 3,900 | 1,500 | 1,100 | 1,800 |
| Proportion of these able to afford at 80% of market rent | 57% | 49% | 47% | 55% | 44% |

## BRIDGING THE GAP

The CCHPR assessed whether Affinity Sutton properties let at the government's proposed Affordable Rents would be genuinely affordable to working households. Using JLL modelling of equivalent rents in the private sector, they looked at the affordability for small working families in the five areas studied.

The study found that around half of the low-income working households who would struggle to afford an equivalent private rented property would find an Affinity Sutton property let at 80% of market rent within their reach without Housing Benefit. This demonstrates that Affordable Rents, if let to small working families, have the capacity to help make housing more affordable for a significant number of households.

- Brighton and Hove is the least affordable of the five areas with one in five small working families unable to afford equivalent properties in the private rented sector. Nearly half of these families would be able to afford an Affinity Sutton property with rent set at 80% of market rent.
- In Bromley there are 4,200 small families (with one or two children) in work who could not afford a property let at private market rents without recourse to benefits. Of these, 57% would be able to pay 80% market rent.
- In Brighton and Hove a single parent with two children would require a gross annual salary of £51,910 if market rent was charged on one of Affinity Sutton's two bedroom flats without support from benefits. At 80% rent this drops to £39,450. However, if the household was dependent on benefits the net income required to meet the 80% rent would result in a shortfall of £3,200 p.a. following introduction of the £26,000 benefit cap.
- In Plymouth a couple with no children would require a net income of £13,607 to rent an Affinity Sutton one bedroom flat if it was charged at market rent or £10,260 at a rent of 80%, both figures sit comfortably inside the benefits cap should they require support.
- A family needing one of Affinity Sutton's four bed houses in Hertsmere would require a gross salary of £67,560 to pay market rents without any support from benefits. The same family would need a gross income of £30,780 for the equivalent home in Plymouth.

* Household "gross salary" is based on a sole earner.

# FAMILIES ON BENEFITS

Analysis of the data provided by CCHPR shows that in Brighton and Hove and Mid Sussex any benefit dependent household with two or more children would find itself in breach of the £26,000 benefit cap if renting the equivalent of an Affinity Sutton home in the private sector. In Hertsmere and Bromley, this is extended to those households including even one child. Setting rents at 80% improves this scenario and the new rent model is largely affordable for small families dependent on benefits. Some households however will struggle to pay 80% rents when the government's proposed £26,000 benefit cap is introduced.

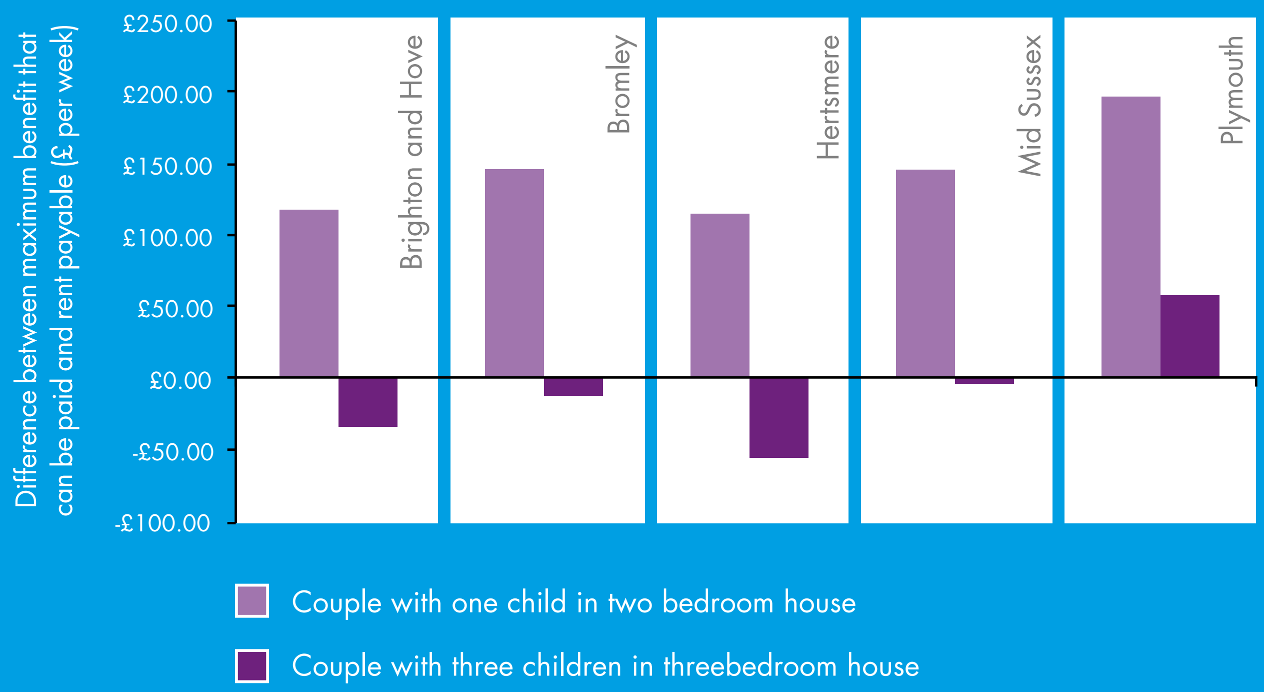
As the chart below demonstrates, a benefit dependent couple with three children in Hertsmere would face a shortfall of £56.18 per week in their rent if 80% rents were charged on our properties.

In the same area, a couple with one child in a two bedroom house would have a £114.61 cushion against the proposed benefits cap. The only area where 80% rents could be sustained by a larger family dependent on benefits without resulting in hardship is Plymouth.

This indicates that although the new affordable rent model works for some families there is a continued need for lower rents in some areas.

- A small family (a couple with one child) dependent on benefits would be able to meet 80% market rents under the £26,000 benefits cap in all five of the areas CCHPR focussed on.
- Perhaps surprisingly, Brighton and Hove and Hertsmere are less affordable than the London Borough of Bromley for a benefit dependent couple with two children: they would be at risk of being affected by the benefits cap if renting a two bedroom house from us at 80% market rent in these areas. Charging 80% rents to families of this size that are out of work or at risk of unemployment in either Brighton and Hove or Hertsmere is likely to lead to unsustainable tenancies.
- In Bromley however, 80% rent on a two-bedroom house would be comfortably under the benefit cap for the same family with two children.
- Following the benefits cap, a family in need of a four-bedroom house and dependent on benefits would not be able to afford 80% rents in four of the five areas studied: Plymouth would be the only area which remained affordable.

## EFFECT OF 80% RENTS COUPLED WITH PROPOSED £26K BENEFITS CAP




Source: Fenton, Tang & Whitehead (2011)

## NEXT STEPS

While the flexibility introduced by the affordable rent programme may be welcome, it is clear that it is not appropriate to increase rents to 80% of market levels across the board. It could cause acute affordability problems for new residents and this research has shown that it simply will not work for larger families.

Affinity Sutton wants to keep building new homes that people can afford and this piece indicates that there are thousands of working families struggling to afford soaring private sector rents. In the past, such families have rarely been awarded priority for social housing but it is hoped that the new affordable rent model will enable housing providers to meet the need for well-designed homes for those on modest incomes. However, for this to succeed, new thinking is needed around how local authorities prioritise applicants when making nominations to new homes.

In response to the findings of this report (that 80% rents on larger family homes are less affordable) Affinity Sutton plans to focus affordable rent on smaller properties, which will be affordable for large numbers of potential residents. Larger properties will be retained as closely as possible to lower social rent levels.

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