Living Rents: a new framework for delivering affordable rents in social housing

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The National Housing Federation

- representative body for the housing association sector;
- represent over 1000 housing associations who manage 2.5 million homes that house over 5 million people;
- ambition by 2033 to:
  - own / manage 6 million homes housing 12 million people;
  - develop up to 120,000 homes per year (60k for ownership and 60k for rent)

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purpose / background

- commissioned by NHF and JRF, carried out by Savills - Mark Lupton and Helen Collins
  
  Link to report

- aim:
  
  - Build more homes that are genuinely affordable and;
  
  - Re-establish link between housing and labour markets and ability of people on low incomes to afford them
why affordability matters

- key benefit of social housing – secure tenancy and sub market rents can act as a platform for low income households;
- high / low rents can increase / reduce rates of poverty;
- high / low rents can reduce / improve work incentives;
(brief) history to social rent setting

• 2001: “formula rent” with aim for similar rents for similar social rents properties in the same local area;
• based on ratio property values (30%) and local earnings (70%) – restructured / converge over 10 year period;
• 2011: “affordable rents” based on % of market rents (up to 80%) on new development and conversions;
• 2013: 10 year rent settlement CPI + 1%;
• 2015: 4 year rent reduction of 1%, end to rent convergence;
• a mandatory Pay to Stay: “market or near market” rents for higher income social tenants (above £40k)
the case for Living Rents

- social rents have outstripped earnings growth over last decade – 46% Vs 28%;
- affordable rents not affordable for many in low pay in certain areas or for benefit regime;
- affordable rents increasing the HB bill;
- potential for LRs to ensure affordability for different households over time whilst keeping HB bill down;
Living Rents – an explanation

• based on lower quartile earnings from the Annual survey of Hours and Earnings (ASHE);
• adjusted for size of property;
• starting rent at 28% net local earnings (33% gross);
• rents based on local authority areas;
• updated by CPI annually and rebased to earnings 5 yearly
Living Rents – examples (I)

Source: Living Rents Report, 2015
Living Rents – examples (II)

Source: Living Rents Report, 2015
Living Rents – examples (III)

Source: Living Rents Report, 2015
Living Rents – impact on business plans

• key challenge  LRs = lower rents = lower HA income = less new affordable homes;

• 7 case study HAs;

• application to relets and new lets was achievable but challenging;

• three things required:
  (i) landlords ability to mix relets between Living Rents and intermediate rents;
  (ii) use LRs mix within wider rent / benefit “envelope”;
  (iii) higher levels of capital grant to maintain development
conclusion

• current rent setting problematic;
• LRs re-establish link between housing / labour markets & ability to pay;
• potential LRs to achieve and maintain affordability over time and reduce HB costs;
• challenge for HA business plans but flexible implementation could minimise this though…
• still need for higher grant to compensate for lower rent revenues