HOUSE OF COMMONS LIBRARY

BRIEFING PAPER

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What is affordable housing?

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Summary

This briefing paper considers how affordable housing is defined in England and looks at key trends in the affordability of different tenures.

The need for subsidised housing provision has long been recognised. The cost of private sector housing that meets acceptable standards, compared with the level and distribution of incomes and assets, means that significant numbers of households lack the resources to make a demand for decent housing effective in the market. Without subsidised housing, these households can fail to obtain housing of a decent standard.

Commentators are increasingly making the point that, in addition to a crisis in housing supply, England is in the grip of a crisis of affordability. In the foreword to the June 2017 IPPR report, What more can be done to build the homes we need?, Sir Michael Lyons said: "We would stress that it is not just the number built but also the balance of tenures and affordability which need to be thought through for an effective housing strategy."

The most commonly referred to definition of affordable housing is set out in Annex 2 to the National Planning Policy Framework (NPPF). This is the definition that local planning authorities apply when making provision within their areas to meet local demand/need for affordable housing. The most recent version of the NPPF was published, following consultation, in July 2018. The revised NPPF states that where major development includes the provision of housing, at least 10% of the housing provided should be for affordable home ownership, subject to some exceptions.

Home ownership has become increasingly difficult to access, particularly for first-time buyers, while access to social housing is constrained by a lack of supply. The private rented sector has been the beneficiary and now houses more households than the social rented sector. Private sector rent levels in high pressure areas have increased in response to demand. One Government response has been to restrict levels of assistance through Housing Benefit. Some London authorities argue that there is no affordable private rented accommodation available in their areas for households who are reliant on Housing Benefit.

Historically, homes for social rent (with rents set at around 50% of market rents) and affordable home ownership have been the main source of new affordable housing. However, the introduction in 2011 of social sector development with rents of up to 80% of market rents has, according to some, undermined the ability of even the social sector to supply housing that is truly affordable.

Sector submissions to the 2016 Autumn Statement called for a reconfiguration of the Affordable Homes Programme to allow providers more flexibility over the type of housing developed. There were calls to encourage development at social rent levels to reduce pressure on Housing Benefit expenditure and to increase housing options for people on a low income without having to rely on Housing Benefit to assist with rent payments. The Autumn Statement *did* announce the relaxation of restrictions on grant funding "to allow providers to deliver a mix of homes for affordable rent and low cost ownership, to meet the housing needs of people in different circumstances and at different stages of their lives." Subsequently, the Housing White Paper (February 2017) set out "a comprehensive package of reform to increase housing supply and halt the decline in housing affordability."

The NHF's submission to the Autumn Budget 2017 called for the additional £1.4 billion of investment announced during the Autumn Statement 2016 to be made available for

bidding "at the earliest opportunity" and for the "unallocated" £1.1bn from the Starter Homes programme to be applied to "sustained capital investment in genuinely affordable homes for rent."

In October 2017, the Government announced an increase in funding for the Shared Ownership and Affordable Homes Programme of £2 billion, bringing total funding up to £9.1 billion – this additional funding will commence in 2021/22. The announcement extended support for the development of social rented housing. Subsequent developments include the Chancellor announcing the lifting of borrowing caps from local authority Housing Revenue Accounts with effect from 29 October 2018. This was expected to enable councils to increase house building by an additional 10,000 homes per year.

The Smith Institute launched an Affordable Housing Commission in October 2018 which is looking at several issues, including an examination of "the causes and effects of the affordability crisis". A final report is expected in early 2020.

Data in this briefing paper

Some of the data behind the charts and tables in this briefing paper is available for download as an Excel file from the landing page (researchbriefings.parliament.uk/researchbriefing/summary/CBP-7747)

1. Defining affordable housing

There is no all-encompassing statutory definition of affordable housing in England. Indeed, there is a good deal of ambiguity in the way the term 'affordable' is used in relation to housing. Aside from covering housing provided with public subsidy, it is used in a general way to describe housing of any tenure that is judged to be affordable to a particular household or group by analysis of housing costs, income levels and other factors. Such is the lack of consensus over what affordability means in housing terms, that there have even been suggestions that the concept should be abandoned on the basis that it has become unhelpful when considering the difficulties faced by households in meeting their housing needs.[1]

In 2002 the Chartered Institute of Housing (CIH) submitted evidence to the Transport, Local Government and the Regions Select Committee's Affordable Housing inquiry in which it argued for precise and appropriate definitions of affordable housing where there is a need to achieve and measure specific outcomes.[2] The Office of the Deputy Prime Minister (ODPM): Housing, Planning, Local Government and the Regions Select Committee conducted an inquiry into Affordability and the Supply of Housing over 2005-06 and chose to define affordable housing as:

> …subsidised housing that meets the needs of those who cannot afford secure decent housing on the open market either to rent or buy.[3]

Historically, the term affordable housing tended to be interchangeable with references to social housing, i.e. housing developed with an element of government subsidy (grant) and let at sub-market rents by local authorities or housing associations. Social housing rents are generally around half of market rents.

1.1 A statutory definition of social housing

Sections 68-71 of the *Housing and Regeneration Act 2008* define social housing for the purposes of regulating social landlords as low-cost rental *and* low-cost homeownership accommodation. The 2008 Act refers to accommodation at rents below market rates and let to people whose needs are not adequately served by the commercial housing market. Under section 70(2) of the 2008 Act, low-cost home ownership is defined as incorporating shared ownership, equity percentage arrangements and shared ownership trusts. As with low-cost rented housing, these dwellings must be "made available to people whose needs are not adequately served by the commercial housing market"[4] to qualify as social housing.

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1 Lydia Marshall, NatCen, Defining and measuring housing affordability in the PRS using the minimum income standard, August 2016
2 HC 809-II 2001-02, July 2002, Memorandum by Chartered Institute of Housing
3 HC 703-1, Third Report of 2005-06, 20 June 2006, p5
4 Section 70(3) of the 2008 Act.

1.2 Affordable rents

During the October 2010 Spending Review the Coalition Government announced an intention to introduce a new 'intermediate rent' tenure. Under this model, which is known as 'affordable rent,' housing associations can offer tenancies at rents of up to 80% of market rent levels within the local area. The additional finance raised is available for reinvestment in the development of new social housing. Essentially, this model has replaced capital grant supply subsidy for social housing with a revenue subsidy. The then Housing Minister, Grant Shapps, provided some additional information in a written statement on 9 December 2010:

> Affordable Rent is designed to:
>
> - maximise the delivery of new social housing by making the best possible use of constrained public subsidy and the existing social housing stock; and
> - provide an offer which is more diverse for the range of people accessing social housing, providing alternatives to traditional social rent.
>
> Affordable Rent falls within the definition of social housing in section 68 of the Housing and Regeneration Act 2008 (and, in particular, the definition of low cost rental accommodation in section 69 of that Act). Affordable Rent properties will therefore be subject to regulation by the Tenant Services Authority - and its Homes and Communities Agency successor - where they are provided by a Registered Provider.[5]

In addition to building to let at affordable rents, housing associations can re-let social rented homes that fall vacant to new tenants at affordable rent levels. The rate at which these conversions were carried out peaked in 2014 and is now at its lowest level for five years.[6] The Greater London Authority has prohibited conversions to affordable rents in London.[7]

In 2017, the former Housing Minister, Alok Sharma, conducted a wide-ranging consultation exercise with social housing tenants to inform the development of the forthcoming Social Housing Green Paper. A letter sent by the Minister to tenants, in which he summarised the issues raised, included, according to *Inside Housing* magazine, reference to tenants feeling that "affordable rents are not really affordable."[8]

Peabody housing association, which merged with Family Mosaic in 2017, announced an intention to reduce the rent on homes currently let at affordable rents once they become void. The CEO, Brendan Sarsfield, told *Inside Housing:*

> Rents let at the 'affordable rent' level introduced by the government in 2010 typically cost between £65-£80 more per

5 HC Deb 9 December 2010 cc31-4WS
6 Stephens M; Perry J; Williams P; Young G: 2019 UK Housing Review, Chartered Institute of Housing and Heriot Watt University, table 1.1.2 p22.
7 *Inside Housing*, "Khan confirms end to affordable rent conversions," 19 June 2016
8 *Inside Housing*, "What Alok Sharma was really told by tenants," 26 January 2018

> week compared to traditional social rents for an equivalently sized property in an equivalent area.
>
> As well as potentially causing hardship, the increase obviously adds to the housing benefit bill, which has now ballooned to more than £25bn a year.
>
> Higher rents are not just a burden for our residents, but also for the general population and the government.
>
> At Family Mosaic I wasn't a supporter of the higher rents, and our 'affordable rents' were set at a target associated with social rent levels.
>
> From 2010, like most of the sector, Peabody charged higher rents – typically at around 65% of the market rate.
>
> This has created quite a serious anomaly.
>
> While 75% of its rents remain at £150 a week or lower, newer residents – mostly younger residents – are paying more for homes of the same size in the same place.
>
> We are now in the bizarre position of having long-term tenants in well-paid employment paying very low rents while newer, younger tenants who earn less could be paying about £80 more each week for a virtually identical property in the same area. It doesn't make sense.
>
> So, starting now, here is what we intend to do. We are aiming over time to set affordable rents at the mayor's London Affordable Rent – ie more genuinely affordable rents.[9]

1.3 The London Affordable Rent (LAR)

The Greater London Authority allocates funding from the Affordable Homes Programme 2016-21 in London. Homes funded under this programme are expected to be primarily composed of three affordable products:

- London Affordable Rent;
- London Living Rent;
- London Shared Ownership.

The GLA's bidding guidance provides advice on the setting of London Affordable Rents:

> Government rules require that, nationally, Affordable Rent homes cannot be let at more than 80 per cent of market rents, inclusive of service charges. The Mayor does not consider 80 per cent of market rents to be genuinely affordable in most parts of London and he therefore expects most homes let for London Affordable Rent to be substantially below this level.
>
> The starting point for London Affordable Rent should be the benchmarks for homes which are let in 2017/18, set out in the table below. These benchmarks reflect the formula rent cap figures for social rents uprated by CPI for September 2016 plus one per cent. These benchmarks will be uprated each April by the increase in CPI (for the previous September) plus one per cent and

9 Inside Housing, "*Why we are freezing or cutting rents on thousands of homes*", 2 May 2018

updated benchmarks will be published by the GLA on an annual basis.

LONDON AFFORDABLE RENT BENCHMARKS FOR 2017-18 Weekly rents, exclusive of service charge	
Bedroom size	2017-18 Benchmark
Bedsit and one bedroom	£144.26
Two bedrooms	£152.73
Three bedrooms	£161.22
Four bedrooms	£169.70
Five bedrooms	£178.18
Six or more bedrooms	£186.66

Other rent levels for London Affordable Rent will also be considered, where the provider is able to demonstrate to the GLA's satisfaction that the homes would be genuinely affordable.[10]

MHCLG reported that during 2017-18, a total of 347 new homes for London Affordable Rent were completed and 2,653 were started.[11]

1.4 Defining affordable housing for planning purposes

Local planning authorities may require developers to include an element of affordable housing on a site as a condition of granting planning permission. These planning obligations, sometimes known as section 106 agreements or - affordable housing levies -, are legally enforceable obligations entered into under section 106 of the *Town and Country Planning Act 1990* (as amended) to mitigate the impacts of a development proposal.[12] In 2016/17, section 106 secured £4 billion for affordable housing.[13] Provisional data for 2017/18 indicates that almost 23,000 units of affordable housing were secured through section 106, representing around 48% of total affordable housing provision.[14] For these purposes, the current definition of affordable housing is found in Annex 2 to the National Planning Policy Framework (NPPF, July 2018). The definition incorporates social rented housing, housing let at affordable rents and low-cost home ownership products:

> Affordable housing: housing for sale or rent, for those whose needs are not met by the market (including housing that provides a subsidised route to home ownership and/or is for essential local workers); and which complies with one or more of the following definitions:
>
> a) Affordable housing for rent: meets all of the following conditions: (a) the rent is set in accordance with the Government's

[10] GLA, Homes for Londoners – Funding Guidance, November 2106
[11] MHCLG, Live Tables 1000S and 1000C, 29 November 2018
[12] For more information see Library Briefing Paper 07200, Planning Obligations
[13] Affordable Housing: Construction: Written question – 136879, 27 April 2018
[14] Stephens M; Perry J; Williams P; Young G: 2019 UK Housing Review, Chartered Institute of Housing and Heriot Watt University, p62

> rent policy for Social Rent or Affordable Rent, or is at least 20% below local market rents (including service charges where applicable); (b) the landlord is a registered provider, except where it is included as part of a Build to Rent scheme (in which case the landlord need not be a registered provider); and (c) it includes provisions to remain at an affordable price for future eligible households, or for the subsidy to be recycled for alternative affordable housing provision. For Build to Rent schemes affordable housing for rent is expected to be the normal form of affordable housing provision (and, in this context, is known as Affordable Private Rent).
>
> b) Starter homes: is as specified in Sections 2 and 3 of the Housing and Planning Act 2016 and any secondary legislation made under these sections. The definition of a starter home should reflect the meaning set out in statute and any such secondary legislation at the time of plan-preparation or decision-making. Where secondary legislation has the effect of limiting a household's eligibility to purchase a starter home to those with a particular maximum level of household income, those restrictions should be used.
>
> c) Discounted market sales housing: is that sold at a discount of at least 20% below local market value. Eligibility is determined with regard to local incomes and local house prices. Provisions should be in place to ensure housing remains at a discount for future eligible households.
>
> d) Other affordable routes to home ownership: is housing provided for sale that provides a route to ownership for those who could not achieve home ownership through the market. It includes shared ownership, relevant equity loans, other low cost homes for sale (at a price equivalent to at least 20% below local market value) and rent to buy (which includes a period of intermediate rent). Where public grant funding is provided, there should be provisions for the homes to remain at an affordable price for future eligible households, or for any receipts to be recycled for alternative affordable housing provision, or refunded to Government or the relevant authority specified in the funding agreement.[15]

During the consultation process on the draft NPPF (March 2018) the removal of explicit reference to social rented housing in the definition of affordable housing attracted criticism.[16] The final version (July 2018) *does* include reference to social rented housing.

Responses to the draft revised NPPF expressed concern over the lack of explicit reference to social rented housing in the definition of affordable housing.

A separate consultation paper on Planning and Affordable Housing for Build to Rent was published alongside the Housing White Paper in February 2017 which sought views on planning measures to support an increase in Build to Rent schemes across England, and which included proposals to change the NPPF to support and increase the number of new Build to Rent homes. Planning and affordable housing for Build to Rent: summary of consultation responses was published on 3 August 2017. With reference to the proposed changes to the definition of affordable housing, the following outcomes were recorded:

> The consultation responses also indicated clear support for the introduction of an "affordable private rent" concept, and for this

15 HM Government, National Planning Policy Framework, July 2018, Annex 2 p64
16 LGA Response to the MHCLG consultation on the draft revised NPPF, 10 May 2018

> to be part of an affordable housing definition specifically tied to build to rent schemes.
>
> Responses also indicated, however, a level of concern that there could be unintended consequences if affordable private rent is accepted as a form of affordable housing for non-build to rent schemes.
>
> There was no consensus on the definition of build to rent and affordable private rent. No clear cut position emerged for either.
>
> Similarly, there were varied results in respect of the parameters for operating affordable private rent (such as eligibility criteria, discount levels, and about how clawback could work).[17]

In response to questions posed in the Housing White Paper, the Government noted "considerable support" (69%) for widening the definition of affordable housing with some caveats:

- An expanded definition would give flexibility in relation to the provision of affordable housing.
- Concerns were raised that the suggested definition would not address the needs of those with greatest housing need, and might reduce social and affordable rented housing.
- A number of respondents suggested that the definition needed to work in conjunction with viability assessments, to ensure it leads to sufficient delivery of affordable housing.
- Others would like caveats within the definition: for example, a perpetuity clause to enable affordable homes to remain affordable indefinitely, and the linkage of affordable homes to local incomes, house prices and rents.[18]

The Communities and Local Government Select Committee conducted an inquiry into the Government's proposals on planning policy over 2015-16 and published a report on 1 April 2016.[19] The Committee expressed concern over a broadening of the definition of affordable housing:

> Home builders will understandably seek to build the products with the highest return, and we are concerned that the Government's policy should not lead to fewer truly affordable homes to rent being built. There is a finite amount of money available from developers to deliver affordable housing, and the duty placed on councils is likely to mean that building Starter Homes could be prioritised over other types of affordable housing. Local authorities will be under pressure to satisfy their legal obligations, and this could make negotiations with developers extremely difficult and could undermine Local Plans. Starter Homes should not be built at the expense of other forms of tenure; ***where the***

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17 DCLG, Planning and affordable housing for Build to Rent: summary of consultation responses, 3 August 2017, p14

18 Ministry of Housing Communities and Local Government (MHCLG), Government response to the housing White Paper consultation: Fixing our broken housing market, 5 March 2018, Question 31

19 Communities and Local Government Select Committee, Department for Communities and Local Government's consultation on national planning policy - Third Report of Session 2015–16, HC 703, 1 April 2016

> ***need exists, it is vital that homes for affordable rent are built to reflect local needs. The definition of affordable housing should better reflect individual and local circumstances.***[20]

The Government's response, published in February 2017, reflected the changes announced in the Housing White Paper set out above.[21]

1.5 Planning to provide affordable housing

The revised NPPF states:

> Where a need for affordable housing is identified, planning policies should specify the type of affordable housing required, and expect it to be met on-site unless:
>
> a) off-site provision or an appropriate financial contribution in lieu can be robustly justified; and
>
> b) the agreed approach contributes to the objective of creating mixed and balanced communities.
>
> Provision of affordable housing should not be sought for residential developments that are not major developments, other than in designated rural areas (where policies may set out a lower threshold of 5 units or fewer). To support the re-use of brownfield land, where vacant buildings are being reused or redeveloped, any affordable housing contribution due should be reduced by a proportionate amount.
>
> **Where major development involving the provision of housing is proposed, planning policies and decisions should expect at least 10% of the homes to be available for affordable home ownership**, unless this would exceed the level of affordable housing required in the area, or significantly prejudice the ability to meet the identified affordable housing needs of specific groups. Exemptions to this 10% requirement should also be made where the site or proposed development:
>
> a) provides solely for Build to Rent homes;
>
> b) provides specialist accommodation for a group of people with specific needs (such as purpose-built accommodation for the elderly or students);
>
> c) is proposed to be developed by people who wish to build or commission their own homes; or
>
> d) is exclusively for affordable housing, an entry-level exception site or a rural exception site.[22]

The requirement for 10% of homes to be available for affordable home ownership is controversial. For example, the LGA said:

> We do not agree with a minimum national requirement as it remains our view that LPAs, through their local plans, should determine any site size threshold and proportion of affordable home ownership units that are required on sites based on their objectively assessed need and taking into account site viability. The 10% target also risks displacing provision of genuinely affordable homes, for example social/affordable rented homes. There is also a risk that the affordable home ownership units

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20 Ibid., pp17-18
21 Cm 9418, February 2017, paras 32-39.
22 HM Government, National Planning Policy Framework, July 2018, paras 62-64

> provided will not be affordable for many as it doesn't address the key challenge for new home buyers, which is raising the deposit. We are concerned that in some housing market areas, the affordable home ownership houses will remain unsold, and so will be reverted to market sale homes. It should not be for national policy to dictate local housing need in terms of tenure split.[23]

A consultation paper issued alongside the draft NPPF on reforms to developer contributions to affordable housing and infrastructure, floated the possibility of nationally set and non-negotiable contributions to affordable housing and infrastructure.[24] The Government response to reforming developer contributions was published in October 2018. After considering responses, the Government said it would build on reforms in the NPPF by "introducing legislative reforms to developer contributions."[25] Consultation on Reforming developer contributions: technical consultation on draft regulations ran between 20 December 2018 and 31 January 2019 – responses are being analysed.

1.6 Alternative measures and definitions

The failure to link affordability with real income levels and prices within a locality results in definitions which 'lack credibility'.

Although the definitions of affordable housing outlined above refer to housing that meets the needs of those who cannot secure accommodation on the open market, there is no attempt to specify a maximum percentage of income/earnings that a household should spend on housing costs. Planning Policy Guidance Note 3: Housing (now repealed and replaced by the NPPF), said that authorities should define what they considered to be affordable in their areas in terms of the relationship between local income levels and house prices or rents for different types of households.[26] There is a view within the housing sector that a failure to set income related affordability targets results in definitions of affordability which are lacking in credibility.[27]

Housing cost to income ratio

The housing cost to income ratio (HCIR) is the proportion of a household's disposable income that is spent on housing. This measure is widely used in studies of affordability.

The HCIR has been used by the Resolution Foundation in its research on affordability.[28] In a 2016 report the Resolution Foundation identifies four phases in housing affordability. Between 1995 and 2003, the HCIR measure was broadly stable as incomes and housing costs grew at the same rate. The average HCIR then grew from 17% in 2003 to 22% in 2009 as house prices grew faster than earnings. After the financial crisis, house prices dropped faster than earnings, bringing the HCIR

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23 LGA Response to the MHCLG consultation on the draft revised NPPF, 10 May 2018
24 MHCLG, Supporting housing delivery through developer contributions, 5 March 2018, para 10
25 MHCLG, Government response to supporting housing delivery through developer contributions, October 2018, p1
26 HL Deb 9 June 2005 cWA99
27 Duncan Bowie, Senior Lecturer in Spatial Planning and Housing at the University of Westminster, speaking at the Policy Forum for London, 11 October 2016
28 Resolution Foundation, The housing headwind, June 2016; Resolution Foundation, Home affront: housing across the generations, September 2017

back down to 20% by 2012. The report predicts that the HCIR will remain stable going forward, although at a higher level than in the 1990s.[29]

The report also looks at regional trends in the same period, noting that the North-South divide has grown less pronounced:

> …there was a discernible North-South divide [in 1994-95], with London, Eastern England the South West and South East having HCIRs in the range 19 per cent to 21 per cent – some 3 percentage points higher than anywhere else in the country. The North-South gap has subsequently narrowed across most regions, with HCIRs rising much more rapidly in Scotland, the North West, North East and Midlands than in the South East for example […]
>
> However, the standout region is London. Here, the average HCIR increased by more than 7 percentage points over the period (or just over one-third). As a result the average HCIR reached 28 per cent, leaving it 6 percentage points higher than the area with the next highest ratio and 11 percentage points (or roughly two-thirds) higher than the North East.[30]

A further report in 2017 looked at differences in the HCIR across generations – this involved analysis of a longer time-series of data. This analysis found differences in the HCIR trends in different tenure groups:

> Increases have been recorded across most tenures, but there has been a striking divergence in the scale of these between those who own and those who rent. Among private renters for instance, the average HCIR has increased from 9 per cent at the start of the 1960s to 36 per cent today. In contrast, the average HCIR among outright owners is just 5 per cent. That's still a doubling from the figure of 2.5 per cent in 1961, but it is just a fraction of the ratio recorded among renters. Moreover, it is worth noting the relative decline in the average HCIR after 1990 among those buying a property with a mortgage – with a particularly marked reduction from 2009. [31]

The 2017 report also notes that the HCIR has tended to rise with each generation – with people born between 1981-2000 spending a higher proportion of their income on housing costs than the generations before them. [32]

The Resolution Foundation notes that the HCIR measure does not account for whether residual income after housing costs is enough for a household to live on, or whether a household is making trade-offs to keep costs low (e.g. by choosing overcrowded housing). It also relies on a normative judgement about the proportion of income that should be spent on housing for the housing to count as 'affordable'.[33]

Research by Savills, carried out on behalf of the National Housing Federation and the Joseph Rowntree Foundation, Living Rents – a new development framework for affordable housing (2015) proposed the

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29 Resolution Foundation, The housing headwind, June 2016, p15
30 Ibid., pp23-24
31 Resolution Foundation, Home affront: housing across the generations, September 2017, p30
32 Ibid., p31
33 Resolution Foundation, The housing headwind, June 2016, p14

development of rented homes which would be accessible to a household in employment with rents based on the bottom quarter of local earnings, starting at a level based on 28% of that figure. Theresa May's Social Reform Cabinet Committee was urged to consider an approach linking rents with local wage levels.[34]

Housing cost to earnings ratio

A disadvantage of the HCIR measure is that reliable income data is not available for small areas. A common approach for looking at affordability at the local level is to compare housing costs with *earnings* (i.e. the before-tax salary of employees). This data is available for small geographic areas. However, earnings data is an incomplete measure of income, particularly for low-income households.

The revised NPPF includes a standard method for calculating housing need which incorporates a housing costs to earnings ratio – specifically, the ratio of the median house price in the area to the median annual earnings of a full-time employee working in the area. The standard method takes a baseline measure of projected household growth and adjusts this upwards, based on the size of the house price to earnings ratio, to generate a final housing need figure.

Local planning authorities are currently expected to use the standard method to determine the level of overall housing need in the area. [35]

Sections 2.1 and 2.2 of this briefing paper use housing cost to earnings ratios to explore geographic trends. The limitations of the measure are also discussed in more detail.

A residual income approach

In the summer of 2016, Lydia Marshall of NatCen presented a paper at the European Network for Housing Research conference in which she used data from the Family Resources Survey 2013/14 to examine the state of housing affordability in the private rented sector. She proposed a residual income approach to defining and measuring housing affordability, based on a Minimum Income Standard (MIS).

This residual income approach defines housing as affordable if "a household is able to afford to meet their other basic or essential needs after paying for their housing." The Minimum Income Standard details the income that different households are believed to need to reach a minimum socially acceptable standard of living in the UK.[36]

The analysis presented to the conference showed:

> …at least one in five households in the private rented sector has unaffordable housing – which means that they have high housing costs and have insufficient income left over to afford a minimum acceptable standard of living after paying their rent.[37]

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34 *The Guardian,* "May is urged to consider policy of 'living rents' linked to wage levels, 1 September 2016

35 MHCLG, Guidance: Housing and economic needs assessments, 20 February 2019

36 Work on the MIS programme is conducted by the University of Loughborough with funding from the Joseph Rowntree Foundation.

37 Lydia Marshall, NatCen, Defining and measuring housing affordability in the PRS using the minimum income standard, August 2016

National Housing and Planning Advice Unit (NHPAU)

This Unit, established by the Labour Government and subsequently closed by the Coalition Government, developed three new affordability indicators to show the ability to access home ownership and the affordability of maintaining a mortgage or renting in the private sector. The Unit identified two basic issues associated with housing affordability:

> **Can you get on the housing ladder in the first place?** The issue here is whether you can find the deposit required.
>
> **Can you afford the ongoing costs of owning or renting** – or are the mortgage payments or rent going to eat up too much of your income?[38]

The NHPAU thought that the 'standard' housing affordability indicator – the ratio of lower quartile house prices to lower quartile earnings – did not address these questions and developed the following three indicators

- **The deposit measure:** deposit required as a proportion of take home household income.
- **Mortgage costs:** mortgage costs as a proportion of take home household income.
- **Rents:** rent as a proportion of take home household income.

The NHPAU applied these measures and published its findings in Housing Affordability – a fuller picture in 2010.

The Labour Party's proposed definition

The Labour Party's Green Paper, Housing for the Many (April 2018) set out an intention to amend the definition of affordable housing:

> By an 'affordable home' we mean a house or flat built with some public backing at a price that means those who live in it have enough money left after housing costs for the other things they need. However, the term 'affordable' has been so abused and misused by Conservative Ministers in recent years that we must establish a new Labour definition of 'affordable', linked to people's incomes not to market prices. One common yardstick for the maximum rent or mortgage payment that meets this test is a third of after-tax household income.[39]

Labour's affordability standard would have three elements:

> **Social rented homes.** As now, homes for social rent will typically be well below market rent levels and set using an established formula based on local incomes, property values and the size of the property. On an average new let, a social rented home is often around half the rent level of the market equivalent. Homes for social rent will form the core of Labour's affordable housing programme.

[38] NHPAU, Housing Affordability – a fuller picture, 2010
[39] The Labour Party, Housing for the Many, April 2018

Living rent homes. Living rent homes which will have rents set at no more than a third of average local household incomes. These homes will be aimed at low-to-middle income working families, key workers and younger people who want a better alternative to renting from a private landlord, or who want help saving for a deposit for a home.

In Manchester, a property let at a living rent could be around £130 cheaper each month than a private flat, allowing a couple to save £4,700 extra towards a home to buy over three years. In Crawley, a living rent home could be £179 cheaper than the prevailing market rent allowing a household to save almost £6,500 extra towards a house to buy.

Low-cost ownership homes. FirstBuy homes will be a new type of home to buy, discounted so the mortgage payments are no more than a third of average local household incomes. The discount will be locked into the home so that future generations of first-time buyers benefit too. These homes will be aimed at working families on ordinary incomes, key workers and younger people. Shared-ownership and rent to buy homes will be other low-cost options included in this category.

A FirstBuy home in Warwick could be sold to first-time buyers at a 17% discount to the going market rate, allowing a first-time buyer almost £5,000 off a deposit as well as lower mortgage repayments. In Exeter, a FirstBuy home could mean a 26% discount and £7,000 off the money needed for deposit.[40]

[40] Ibid.

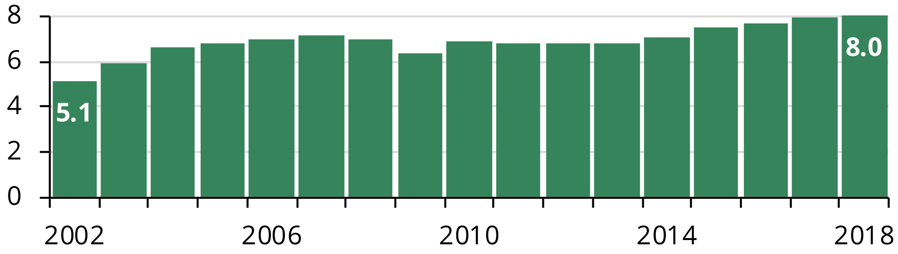
2. Affordability by tenure type

2.1 Home ownership

House price to earnings ratio

One way of looking at affordability is to compare individual earnings with house prices. The Office for National Statistics (ONS) tracks affordability in England over time by comparing median house prices with median earnings. As the chart below shows, the ratio has increased since 2002 and is now at its highest recorded level: median house prices are eight times higher than median earnings.

England's house price to earnings ratio has increased
Median house price to median earnings ratio, England, 2002-18

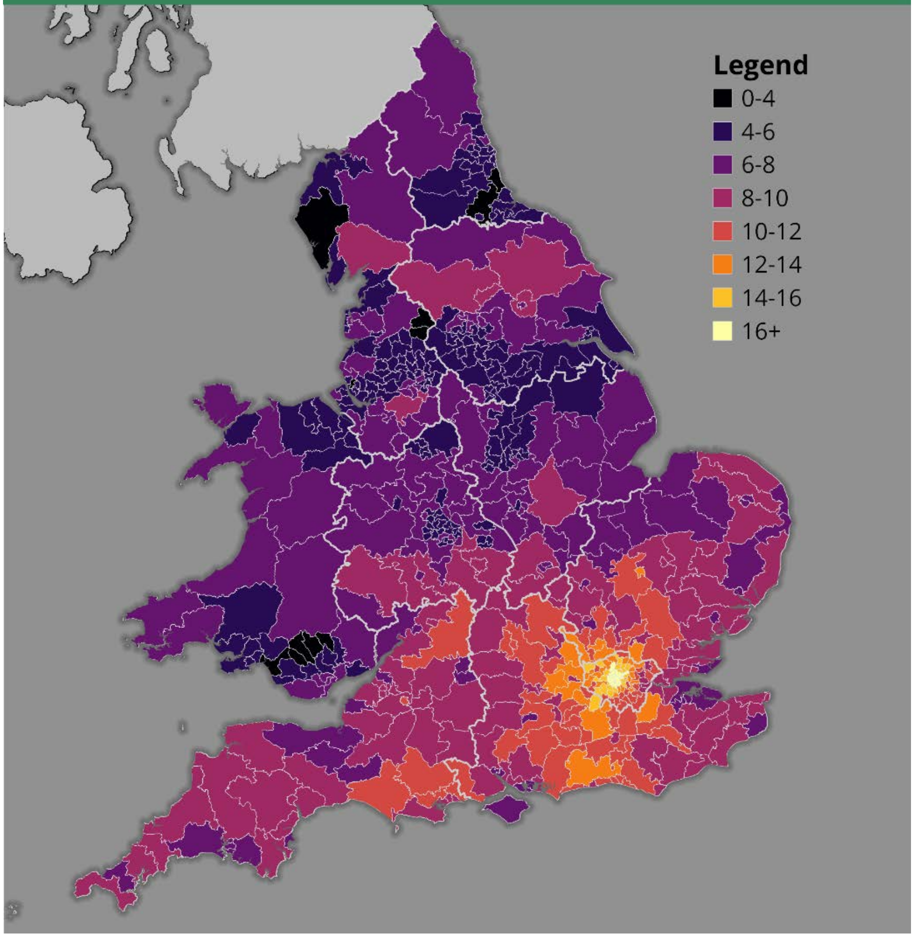


Notes: Earnings are based on the before-tax annual salary of a full-time employee living in England. The median is the point at which half of earnings are higher and half are lower.
Source: ONS, *Housing affordability in England and Wales: 2018*, House price to residence-based earnings ratio dataset.

There are some limitations to the earnings measure used in this ratio. It is an average of the before-tax salary of a full-time employee living in England. This means that part-time and self-employed workers are not included. The measure doesn't include the effect of other income sources (e.g. benefits) or deductions (e.g. tax and National Insurance). The measure is for individuals, but many households have multiple earners which affects the accommodation they can afford. The ratio is best understood as an indicator of how house prices have grown relative to wages, rather than a descriptor of real households' experience with housing costs.

The map overleaf shows how the housing costs to earnings ratio varies across parliamentary constituencies in England and Wales, using a slightly different methodology. Earnings data is based on a small sample of workers living in each constituency, which means that the estimates are not as reliable as the national-level figures. A three-year average of earnings between 2016 and 2018 is used to improve the reliability of the measure, and for comparability is also applied to house prices. The earnings figures are weekly earnings multiplied up to create an annual estimate, because this data is more complete than annual salary data.

House price to earnings ratio: parliamentary constituencies in England & Wales, 2016-18



Notes: Ratios are calculated from a three-year average of median earnings and median house prices. Earnings figures are annualised weekly earnings of a full-time employee living in the constituency. The median is the point at which half of earnings are higher and half are lower.

Sources: Annual Survey of Hours and Earnings (ASHE), via ONS Nomis; ONS, House Price Statistics for Small Areas, Dataset 24

House price affordability data for your constituency

The Commons Library publishes an interactive dashboard, Constituency data: house prices which shows trends in house prices for constituencies in England and Wales as well as house price to earnings ratios. To access it, click on the link or visit commonslibrary.parliament.uk/local-data

Using the three-year average measure, the ratio for England and Wales was 7.6. The least affordable constituency by this measure was Kensington, where median house prices were 32.2 times median earnings. The 30 constituencies with the highest affordability ratios were in London. The lowest affordability ratios were in Rhondda (2.7), Easington (3.2) and Cynon Valley (3.3).

The house price to earnings ratio is now included in the NPPF as part of the 'standard method' for determining housing need within a local planning authority (see section 1.6). The methodology for calculating the house price to earnings ratio prescribed by the standard method is slightly different from the method used in this briefing paper. The key difference is that the standard method uses average earnings for people *working* in the area, rather than people *resident* in the area. [41, 42]

Affordability for first-time buyers

The ONS has published a statistics release looking at affordability for first-time buyers. Its main measure compares the lower quartile house price in a given year with the median annual earnings of 22-29-year-olds working in the area.[43] This is intended to measure affordability for prospective first-time buyers.

The ONS uses the lower quartile house price on the assumption that first-time buyers will be aiming to purchase properties towards the lower end of the housing market. Data for 22-29-year-olds is used because the ONS assumes many prospective first-time buyers are in this age group (the average age of a first-time buyer is 30). Only workplace-based (not residence-based) earnings data is available by age group.

The ONS commented on regional variations in this affordability ratio in 2017:

> Prospective first-time buyers could expect to spend 13 times their workplace-based annual earnings to purchase a property in London in 2017, compared with 5.5 times their earnings to purchase a property in the North East (the least and most affordable regions respectively).
>
> […]
>
> Out of all the English regions and Wales, the third most affordable for prospective first-time buyers was Wales, with a prospective affordability ratio of 6.5. Amongst English regions, there is a noticeable geographical divide, with regions in the north and midlands ranging from 5.5 (North East) to 8.0 (East Midlands) and those in the greater South East and South West ranging from 10.1 (South West) to 13.0 (London).[44]

UK Finance (previously the Council of Mortgage Lenders) publishes data on the number of new first-time buyer mortgages made by mortgage lenders. The chart below shows annual trends in England since 2005. First-time buyer mortgages reached a low point of around 158,000 in

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41 MHCLG, Guidance: Housing and economic needs assessments, 20 February 2019

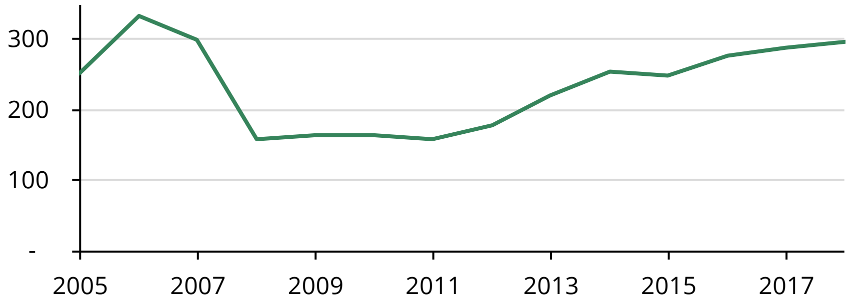
42 Other key differences are that the standard method uses single-year data rather than a three year average, and uses an annual earnings figure rather than annualised weekly earnings. This briefing paper uses annualised weekly earnings because there are some gaps in the annual earnings data at constituency level; the annualised weekly earnings data also includes more workers in its sample.

43 The lower quartile is the point at which 25% of prices are lower and 75% are higher.

44 ONS, First-time buyer housing affordability in England and Wales: 2017

2008 but started to show an increase from 2012 onwards. In 2018 there were around 297,000 new first-time buyer mortgages.

Mortgages made to first-time buyers
England, 2005-2018 (thousands)



Source: UK Finance, Industry Data Table RL1R

Affordability of Starter Homes

Starter Homes are new-build homes sold at a minimum of 20% off the market price. Sales prices are capped at £250,000 (£450,000 in London). In response to a PQ tabled in March 2019 asking how many Starter Homes had been built, the Government said:

> The revised National Planning Policy Framework, published in July last year, brought starter homes within the definition of affordable housing, as per our Housing White Paper commitment. We intend to lay the secondary legislation to enable the delivery of starter homes before Parliament later in the Spring.[45]

Analysis by Shelter (2015) looked at three typical households (earning a range of salaries) in local authorities within England to assess whether they are likely to be able to afford to buy a Starter Home. The research assumed the cost of a starter home would be 80% of the median house price in the area. It concluded that:

- Starter Homes for families earning average wages will be unaffordable in over half (58%) of local authorities across the country in 2020.
- Families on the National Living Wage will only be able to afford a Starter Home in 2% of local authorities.
- Single people on low or average wages will struggle to afford a Starter Home in 2020 in the majority of local authorities. Even those on a higher than average salary would be restricted from affording to buy in three quarters of local authorities.[46]

According to Shelter, Starter Homes would be unaffordable for average working families across all of London and most of the South of England, the areas where housing is most unaffordable. Those on very high salaries, or couples without children, would benefit from the policy, but Starter Homes would not help the majority of people on average wages (they would not currently be affordable to most families on low and

45 Written question – 226539, 18 March 2019
46 Shelter, Starter Homes: Will they be affordable?, August 2015, Summary

middle incomes). Shelter concluded that Starter Homes should be built in addition to and not in place of existing affordable housing.[47]

The then Minister for Housing and Planning, Brandon Lewis, dismissed Shelter's research, arguing that it was based on median prices in each local authority while the Government expected first-time buyers to join the market at below the average house price for the local area:

> The average market price for homes bought by first-time buyers in 2014 was £173,000 in England, excluding London. That compares with an average house price for England last year of £243,000. In London, first-time buyers paid £364,000 on average compared with an average house price for London of £470,000...
>
> If they were to buy in the lower quartile of the first-time buyer market, outside of London, up to 64% of households currently renting privately would be able to secure a mortgage on a typical starter home, compared with just 50% who could buy a similar property now at full market value.
>
> Within London, up to 55% of households currently renting privately would be able to secure a mortgage on a starter home in the lower quartile of the first-time buyer market, compared with 43% who could buy a similar property now priced at full market value.[48]

As section 1 of this paper explains, the Government has decided that planning authorities should apply income restrictions to Starter Home applicants.

The Government's commitment to increase housing supply has been widely welcomed. However, concerns have been expressed by a variety of organisations about Starter Homes including the importance of providing a mix of housing tenures for people on lower incomes, the potential reduction in the delivery of other types of affordable housing and the impact of Starter Homes on local housing markets.[49] The Local Government Association predicted that for every 100 starter homes built through section 106 agreements, between 56 and 71 affordable or social rented homes would not be built.[50]

Brandon Lewis emphasised that the Government still expected a mix of types of affordable housing to be delivered:

> We are very clear that we think an affordable home does not need to be limited to a home that is to rent. It is as important to have affordable homes to purchase, and we are very consciously making that statement to people: that we will make sure homes are affordable for purchase as well as rent. I think we will see a good mix coming through, because the way housing developments have worked, particularly when you get to the larger scale sites, there is a very good track record and history of

47 Ibid., Conclusion
48 PCB 19 November 2015 cc165-6
49 Starter Homes for First-Time Buyers (England), Commons Library Research Paper 07643, 5 July 2016, Summary
50 Ibid., para 7.4

> joint working between housing associations, particularly, and the larger developers.[51]

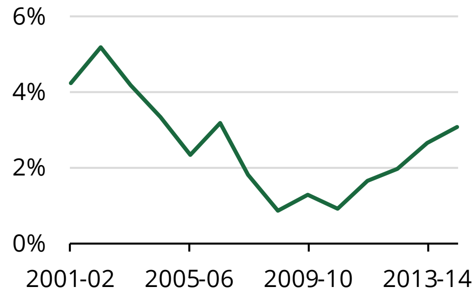
Ministers rejected the charge that they were solely focusing on home ownership and reiterated that they were helping people to access homes in a number of ways. Local authorities are still expected to provide other forms of affordable housing, such as home for social rent, and should be exploring options with developers to ensure they are delivering housing of all tenures.[52]

Affordability of shared ownership

Shared ownership is a product that lets buyers purchase a share of a property (25% to 75%) and pay rent on the remaining share. It is intended as an intermediate tenancy for households which would not otherwise be able to afford home ownership. The supply of new shared ownership homes has increased in recent years, with shared ownership making up an increasing proportion of new homes for affordable home ownership (see section 3).

Shared ownership has been identified by some sources as one of the more affordable housing options available. For example, a 2013 Resolution Foundation report[53] found that shared ownership was more affordable than private rent or full ownership for many households, assuming that the household spends 35% of its income on housing costs. For example, a couple with one child and £19,000 per year in income could afford shared ownership in 78% of local authorities, compared with 38% of local authorities if privately renting and 27% if owning with a mortgage.

How many staircase to 100%?
Number of shared ownership households staircasing to 100% each year, as a % of all shared owners



Source: Savills, *Spotlight: Shared Ownership, April 2016*, Figure 1

However, other reports suggest that shared ownership is growing less affordable. A 2015 report by Viridian Housing, a housing association, analysed data from the DCLG.[54] They found that the average income of a shared ownership buyer had increased from around £26,000 in 2003 to around £35,500 in 2014. Buyers also became less likely to have social housing as their previous tenure – 13% were in this group in 2003 compared with 5% in 2014. The London Assembly Labour Group's response to the Mayor's 2017 draft London Housing Strategy expressed doubts over the success of the model in London:

> • Those living in Shared Ownership accommodation are the least satisfied of those living in any tenure;

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51 House of Commons Communities and Local Government Committee, Housing and Planning Bill one-off evidence session, HC 529, 12 November 2015, Question 1

52 HL Deb 3 March 2016 c954

53 Resolution Foundation, One foot on the ladder: How shared ownership can bring owning a home into reach, November 2013

54 Viridian Housing, *A fair share? Understanding residents' experiences of shared ownership*, September 2015

> - The evidence for Shared Ownership owners being able to afford the 'staircase' options available to progress to full ownership is scant and a full assessment needs to be made;
> - Shared Ownership as a model does not work for most of Zones 1 & 2 where the average cost of a shared ownership property would require a salary of £90,000 a year;
> - The costs of service charges on top of rent and mortgage are in some cases making Shared Ownership the most expensive tenure.
>
> We would like to see this Strategy commit to a full and rigorous assessment of the Shared Ownership model and its operation in London.[55]

Shared ownership buyers can progressively buy more of their property until they 'staircase' to owning 100% of the equity. In a given year, a small proportion of shared owners will staircase to 100%. The chart on the right shows the proportion who staircased in each year as a proportion of all shared ownership households. In 2014-15, the number who staircased represented 3.1% of all shared owners – a smaller proportion than at the start of the 2000s, but an upward trend from a low point of 0.9% in 2008-09.

2.2 Renting and affordability

The private rented sector

The decline in the affordability of home ownership together with pressure on the social rented sector has prompted a growth in the private rented sector. Around 19% of English households were private renters in 2017-18 (4.5 million households) – a slight decrease on the year before but an increase on ten years previously. Around 14% of households rented privately in 2008 (3 million).[56]

Private rental prices have grown in recent years, although the rate of growth has slowed recently. According to the Office for National Statistics' (ONS) Index of Private Housing Rental Prices, in England rental prices grew by 1.2% in the year to March 2019, and by 7.7% between March 2015 and March 2019.[57]

Income to rent ratios

The rise in rents has been close to the rise in individual earnings at national level. For example, rents in Great Britain rose by around 15% between 2011 and 2018 while earnings for full-time employees rose by around 14%. Rents have outpaced earnings in some regions. In London, rents grew by 22% between 2011 and 2018 compared with 10% growth in earnings. In the South East, rents grew by 17% while earnings grew by 11%.[58], [59]

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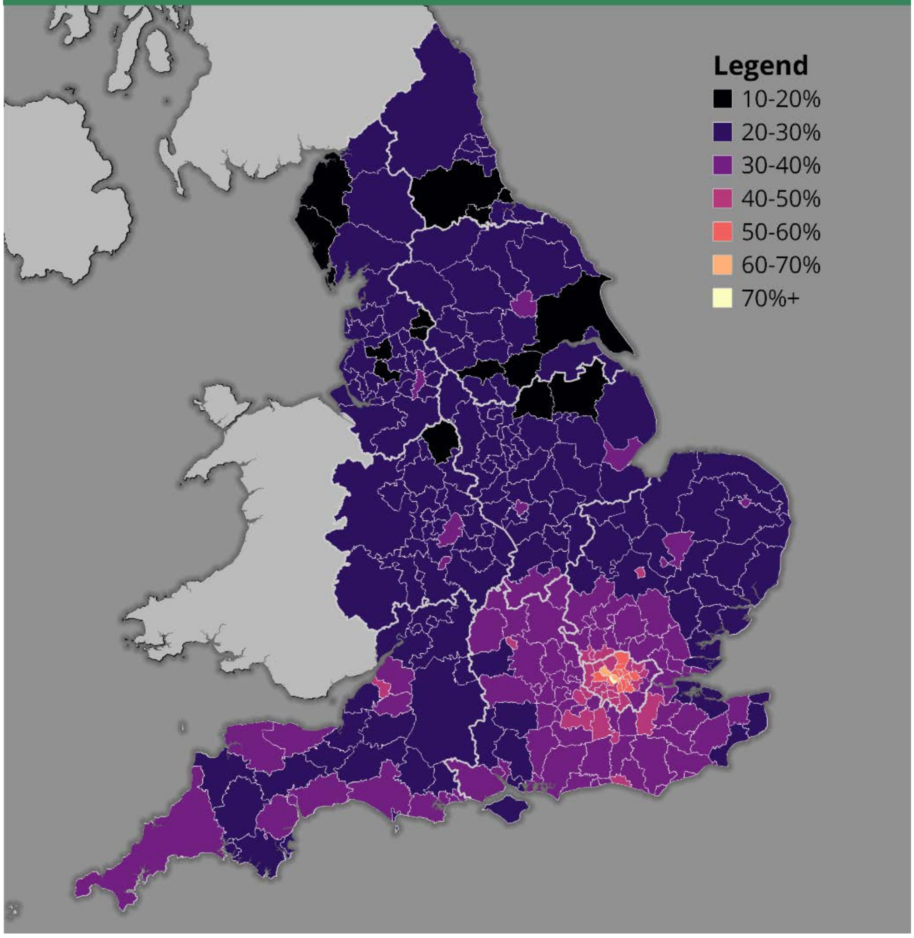
55 London Assembly Labour Group's response to the Mayor's draft London Housing Strategy, 2017, p9
56 MHCLG, English Housing Survey Headline Report, 2017-18, 31 January 2019
57 ONS, Index of Private Housing Rental Prices, UK: March 2019, 17 April 2019
58 Ibid. Change is between index values for April 2011 and April 2018.
59 Annual Survey of Hours and Earnings (ASHE), via Nomisweb.co.uk. Change is for weekly earnings of full-time employed people between April 2011 and April 2018.

The map below shows median private rents as a proportion of median earnings for local authorities in England. The median rent in a given area is affected by the mix of sizes of properties available, so rents for two-bed properties are used as a way of making figures for different areas more comparable.

Private rents for 2-bed homes as a proportion of earnings: local authorities in England, 2017/18



Notes: Monthly earnings are scaled-up weekly earnings of full-time employees living in the local authority. The median is the point at which half of earnings are higher and half are lower. Median rents are based on a survey sample which does not include Housing Benefit recipients.

Sources: Annual Survey of Hours and Earnings (ASHE), via [ONS Nomis]; Valuation Office Agency, [Private rental market summary statistics – April 2017 to March 2018]

In England, the median rent for a two-bed property was £650 in 2017/18, while median monthly earnings were around £2,490 (based on scaled-up median weekly earnings). Median rents represent around 26% of median monthly earnings.

Most local authorities in England also had median rents for two-bed homes that were 20-30% of median monthly earnings. However, the proportion can be higher, particularly in London, the South East and parts of the South West. The 24 areas with the highest proportions were in London. The highest was in Kensington and Chelsea, where median rents were 75% of median monthly earnings.

There were 16 areas with rents at less than 20% of median earnings, all of which were in the North and Midlands. The local authority with the lowest proportion was Copeland (13%).

As discussed in section 2.1 above, there are some limitations to this approach. The measure applies to employees only and doesn't take additional income sources or deductions into account. It measures individual salary rather than accounting for the combined income of households. The small sample size means that areas should be compared with caution – some of the variation will be due solely to fluctuation in the sample.

Affordability in the social rented sector

The above analyses for owner-occupiers and private renters use earnings data to measure affordability. This measure does not account for the effect of benefits income. When measuring affordability in the social rented sector, it is more useful to look at household incomes after taxes and benefits, even though less geographical detail is available. Data from MHCLG and the Regulator of Social Housing allows for analysis of affordability at the regional level.

The table below compares the median income of social rented sector tenants with mean social and affordable rents in each region (housing association and local authority rents are combined to get an overall mean). Affordable rents represent a higher proportion of median incomes, particularly in London, the South East and East of England.

This analysis doesn't account for any income differences that might exist for tenants on affordable compared to social rents.

Affordability of social and affordable rents

Mean social and affordable weekly rents (2017/18) as a % of median weekly income for social tenants (2016-18)

		Social rent		Affordable rent	
Region	Median income	Mean rent	*As % of income*	Mean rent	*As % of income*
North East	£370	£78	*21%*	£93	*25%*
North West	£360	£76	*21%*	£102	*28%*
Yorks & the Humber	£340	£76	*22%*	£96	*28%*
East Midlands	£350	£80	*23%*	£102	*29%*
West Midlands	£350	£81	*23%*	£105	*30%*
East of England	£380	£95	*25%*	£126	*33%*
London	£380	£112	*29%*	£179	*47%*
South East	£400	£101	*25%*	£146	*37%*
South West	£370	£84	*23%*	£120	*32%*

Notes: Median incomes are for households living in local-authority or housing-association homes, regardless of their rent type. They are based on a three-year average for 2015/16 to 2017/18 expressed in 2017/18 prices. Figures are based on three years of data to improve their reliability. They are however still subject to some survey sampling uncertainty.

Income figures are based on equivalised incomes - incomes adjusted for household size and composition (to a benchmark of a couple without children).

Incomes are disposable measured after taxes and benefits but before housing costs.

Analysis is based on rounded data – this may mean that the results are a little different to any equivalent figures published by the Government.

Mean rents are a weighted average accounting for both local authority and housing association homes. Housing association 'social rent' homes are all rents apart from those let at affordable or intermediate rents, or subject to High Income Social Tenant arrangements.

Sources:

Income: Department for Work and Pensions. (2019). Households Below Average Income, 1994/95-2017/18. [data collection]. 12th Edition. UK Data Service. SN: 5828, http://doi.org/10.5255/UKDA-SN-5828-10

Local authority rents: MHCLG, Local authority housing statistics data returns for 2017 to 2018, Sections A and H

Housing association rents: Regulator of Social Housing, Statistical Data Return 2017 to 2018, data release

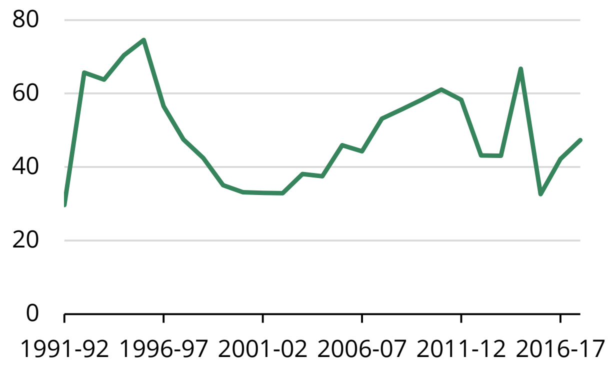
3. The supply of affordable housing

3.1 An overview

The definition of affordable housing for planning purposes includes homes for social rent, affordable rent, certain other sub-market rents and affordable home ownership (including shared ownership). Section 1.4 of this briefing explains the definition in more detail.

The chart on the right shows trends in the number of new builds and acquisitions of homes in these categories since 1991-92.

Additional affordable homes provided
Thousands of dwellings, England



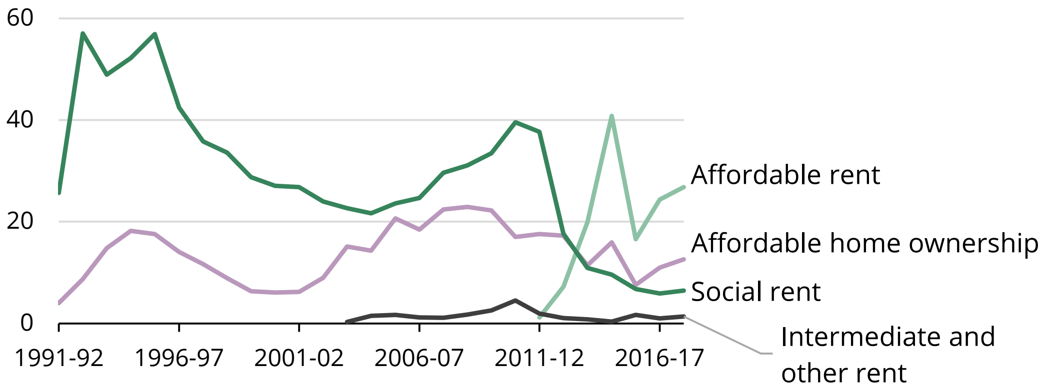
Source: MHCLG, Live Table 1000

New supply of affordable homes peaked in 1995-96 at 74,530 before declining to a low of 32,923 in 2002-03. Delivery increased again up until 2010-11, followed by a decline. 2014-15 saw a 55% increase in delivery as the 2011-15 Affordable Homes Programme ended. In 2017-18, 47,355 affordable homes were delivered.

The chart overleaf shows trends in the number of new affordable homes of each type provided. Definitions of the different types are as follows:

- Social rents are sub-market rents set through the national rent regime in England. Social rented property may be owned by local authorities or housing associations.
- Affordable rents can be set at up to 80% of the local market rent. Again, the properties may be owned by local authorities or housing associations.
- Intermediate rent is above social rent, but below market levels. It does not include properties let by local authorities or housing associations at affordable rents. London Affordable Rent (see section 1.3) is counted in the same category for this chart.
- Affordable home ownership includes homes for sale at a cost below market levels provided to eligible households whose needs are not met by the market. There must be provision for the housing to remain at an affordable price for future eligible households or for the subsidy to be recycled for alternative affordable housing provision. Shared ownership homes are counted as affordable home ownership in the chart.

Additional affordable homes provided by type
Thousands of dwellings, England

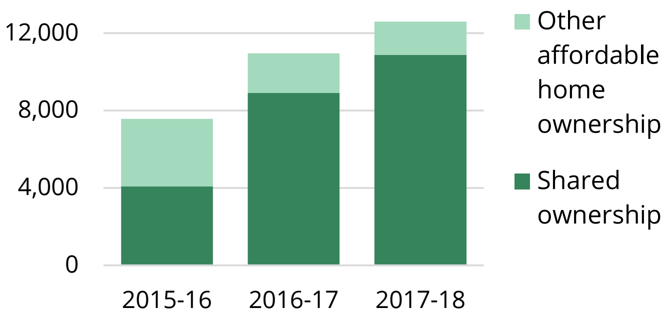


Source: MHCLG, Live Table 1000
Notes: 'Affordable home ownership' includes shared ownership. 'Intermediate and other rent' includes both London Living Rent and London Affordable Rent.

Homes for Affordable Rent were the most common type of affordable housing supplied in 2017-18, making up 57% of the total. Affordable home ownership made up 27%, while homes for social rent made up 14%.

Shared ownership homes were more common than other forms of affordable home ownership. Shared ownership made up 23% of overall affordable housing supply, while other affordable home ownership made up 4%. As the chart below shows, shared ownership supply has been growing faster than other forms of affordable home ownership supply in recent years.

Affordable home ownership supply is increasingly driven by shared ownership
Shared ownership and other affordable home ownership supply, England



Source: MHCLG, Live Table 1000

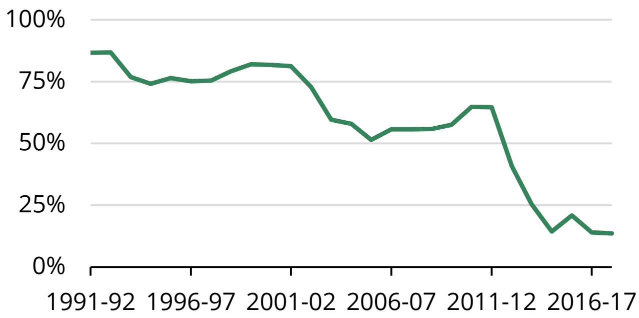
Local data on affordable housing supply

The Commons Library publishes an interactive dashboard, Local authority data: housing supply with data on affordable housing supply for local authorities in England. The dashboard also shows total social housing stock and overall new supply of housing. To access it follow the link or visit commonslibrary.parliament.uk/local-data

3.2 The demise of social rented housing?

Decline in social rented supply

New homes for social rent as a % of all new affordable housing supply, England



Source: MHCLG, Live Table 1000

Historically, homes for social rent and affordable home ownership have been the main source of new affordable homes. However, the number of homes let at affordable rents (which can be up to 80% of market rents) initially increased rapidly after their introduction in 2011-12. Delivery of affordable rent homes peaked in 2014-15, when they made up 61% of the total new supply. The number of new affordable homes declined sharply in 2015-16, but has increased year-on-year since then.

The introduction of affordable rents coincided with a decline in the supply of new homes for social rent (see chart). A total of 6,463 new homes for social rent were supplied in 2017-18, making up 14% of all new affordable housing supply. By contrast, in 2011-12 there were 37,677 new social housing units supplied (65% of all new affordable housing), and the early 1990s social rent made up over 75% of new affordable housing supply.

For the decade 2002-2012 social rented housing stock had been stable at around 4 million homes but has declined in recent years. The supply of social rented homes has been under pressure due to several factors, including:

- Higher levels of Right to Buy sales following the introduction of increased discounts in 2012. There is no requirement to replace these homes on a like-for-like basis, e.g. to replace a home let on a social rent with another let on a social rent. Statistics show that the commitment to replace the sold properties within a three-year period is not being met.
- The switch of new-build output under the Affordable Homes Programme towards affordable rent lettings.
- The conversion of social rented homes to affordable rents when re-let. Between 2012 and 2018, a total of 111,570 units were concerted to Affordable Rent from other social housing types.[60] As previously noted, the rate of conversions has fallen to its lowest level for five years.[61]
- There were over 3,000 demolitions in 2017-18.[62]
- The requirement on local authorities and housing associations to reduce rents by 1% every year from April 2016 up to 2020[63] is reducing landlords' investment capacity.

60 Regulator of Social Housing, Statistical data return 2017 to 2018, 23 October 2018, p18
61 Stephens M; Perry J; Williams P; Young G: 2019 UK Housing Review, Chartered Institute of Housing and Heriot Watt University, table 1.1.2 p22.
62 MHCLG, Live Table 684, 28 March 2019
63 The relevant provisions are contained in the *Welfare Reform and Work Act 2016.*

- The 'voluntary' extension of the Right to Buy to assured housing association tenants. No implementation date has been announced yet. A large-scale pilot of the scheme has opened in the west midlands.
- The requirement on local authorities to sell 'higher value stock' in order to compensate housing associations for selling their housing assets at a discount under the extended Right to Buy. **The Government has announced that this policy will not be implemented.**

There is widespread agreement in the housing sector that an increase in the supply of social rented housing is required to tackle the crisis in housing affordability. Crisis and the NHF have called for 90,000 units to be built in England in each year for fifteen years to meet new need and to address the backlog.[64]

There has been a shift in Government focus. As noted above, several measures which would have further depleted the social housing stock are not being taken forward. In October 2017, the Government announced an increase in funding for the Shared Ownership and Affordable Homes Programme of £2 billion, bringing total funding up to £9.1 billion.[65] This funding will extend support for the development of social rented housing.[66] Subsequent developments include the Chancellor announcing the lifting of borrowing caps from local authority Housing Revenue Accounts with effect from 29 October 2018.[67] This was expected to enable councils to increase house building by an additional 10,000 homes per year. However, the 2019 UK Housing Review notes that "the balance of government investment still heavily favours intervention in the private market, with support for affordable housing forming just 21 per cent of total investment over the period".[68]

64 Bramley G, Housing supply requirements across Great Britain: for low-income households and homeless people, November 2018, Crisis & NHF, p6
65 Budget 2017, November 2017, para 5.23 (note that this funding commences in 2021/22)
66 DCLG Press Release, 4 October 2017
67 HMT, HC 1629, 2018 Budget, para 4.56
68 Stephens M; Perry J; Williams P; Young G: 2019 UK Housing Review, Chartered Institute of Housing and Heriot Watt University, p57.

4. The role of Housing Benefit

Housing Benefit is a personal subsidy which enables non-working households and those on a low income to pay for rented accommodation. When the *Housing Act 1988* deregulated[69] private sector rents for new tenancies created after 15 January 1989, a likely outcome was identified as an increase in expenditure on Housing Benefit. The then Minister for Housing, Sir George Young, responded to concerns saying that Housing Benefit would "take the strain":

> **Sir George Young:** I do not accept the premise on which the hon. Gentleman based his question. Housing benefit will underpin market rents-- we have made that absolutely clear. If people cannot afford to pay that market rent, housing benefit will take the strain.[70]

There have been several changes to Housing Benefit entitlement since 2010 which mean that it is more likely that a claimant's Housing Benefit entitlement may not cover the full amount of the rent due. This has implications for low income households' ability to access and retain rented housing.

The key changes include:

- Since April 2011, Local Housing Allowance rates (Housing Benefit for claimants living in the private rented sector) have been calculated with reference to the 30th percentile of market rents within a Broad Market Rental Area. Prior to this date LHA rates were based on median rent levels. National LHA caps were introduced at the same time.
- The uprating of LHA rates has been subject to restrictions since 2012. **LHA rates are currently frozen for four years from April 2016 with some exceptions for the most expensive areas.**
- The Shared Accommodation Rate, which limited Housing Benefit for single people aged under 25 to the LHA rate for a room in a shared house or flat, was extended to the under 35s from January 2012.
- Since April 2013 under-occupying households of non-working age in social rented housing have experienced a reduction in Housing Benefit entitlement.
- From September 2013, total household benefit entitlement was capped at £500 per week for a family and £350 for a single person (exemptions apply in some cases). Households with benefit entitlement above these levels experienced a reduction in their Housing Benefit entitlement. The caps were reduced from 7 November 2016 to £20,000 per year outside of London and £23,000 within London for a family (a lower cap applies to single people).

69 Removed rent controls.
70 HC Deb 30 January 1991 cc939-40

- From April 2017, those out of work aged 18 to 21 making new Universal Credit claims, with some exceptions, were no longer automatically entitled to the housing element. On 29 March 2018, the Government issued a Written Statement which announced that the regulations would be amended "so that all 18-21 year olds will be entitled to claim support for housing costs in UC." This change came into force at the end of December 2018.

Commentators have argued that the freezing of LHA rates is making access to private rented housing, particularly in London, increasingly unaffordable for people on a low income. For example, research published by the Chartered Institute of Housing (CIH) in August 2018 found:

> …more than 90 per cent of Local Housing Allowance (LHA – housing benefit for private renters) rates across Great Britain now fail to cover the cheapest rents, as they were originally designed to do.
>
> LHA rates were frozen for four years in 2016 and CIH is warning that they have fallen so far behind even the cheapest rents that private renting has become unaffordable for most low income tenants – putting them at risk of homelessness as they are forced to choose between basic living expenses and paying the shortfall. The organisation is calling on the government to review the policy and to end the freeze immediately.[71]

Commons Library briefing paper 05638, Housing Benefit measures announced since 2010, contains a detailed assessment of Housing Benefit measures and some modelling of the impact of these changes on Housing Benefit claimants, particularly the freezing of LHA rates.

[71] CIH, Missing the Target? August 2018

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