AFFORDABILITY: A STEP FORWARD

Establishing principles for rent setting

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Affinity Sutton

EXECUTIVE SUMMARY

Affinity Sutton is a national Housing Association and as a business for social purpose it wants to ensure that Affordable Rents are set in a way that is genuinely affordable to low income households whilst continuing to build new and maintain existing homes. This research was set up to consider what the principles of setting a rent policy should be and what their new Affordable Rent policy might look like. The lessons learned here and the principles of rent setting identified will be equally relevant to other developing Housing Associations although not all will be able to maintain development capacity at the same time as reducing rents to affordable levels.

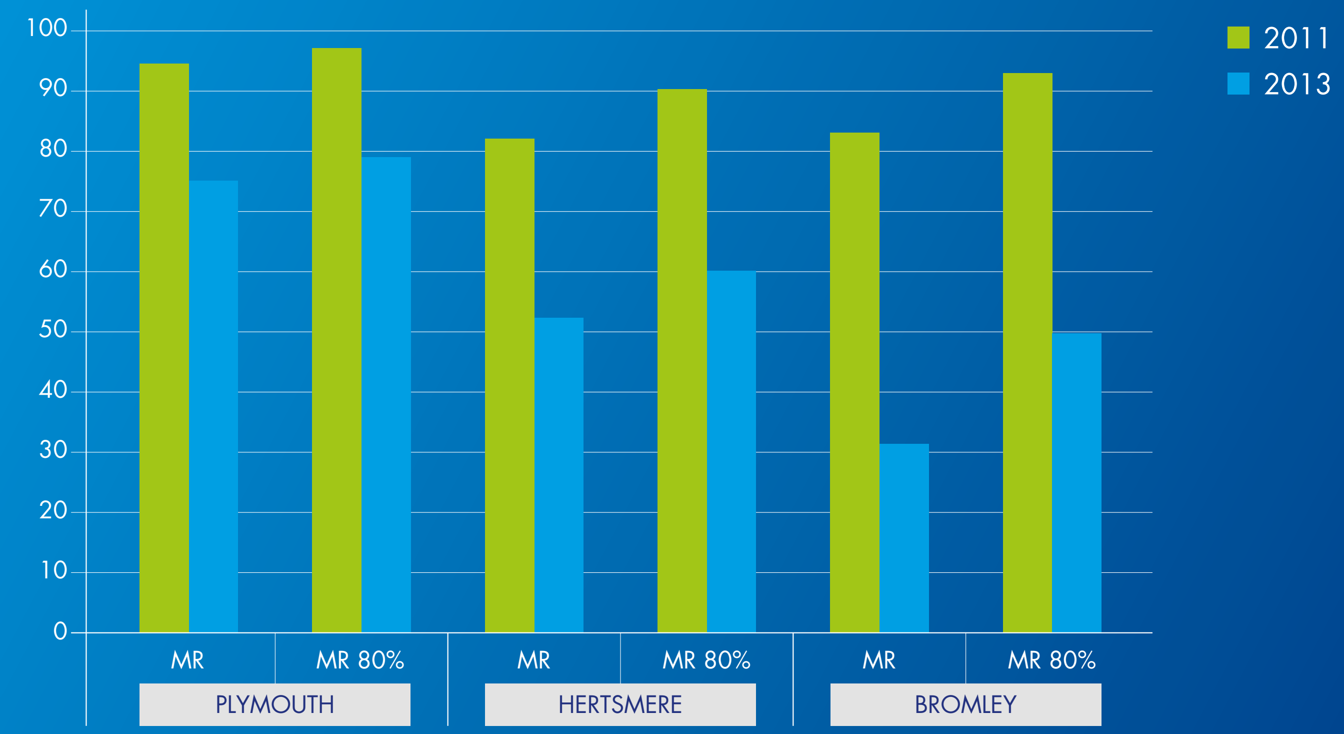
We know that affordability is complex – it depends on incomes, rents, household composition, geography and benefits – as well as on how we define it. As Figure 1 shows, housing affordability has worsened for renters since we last looked at it in 2011 and more working households are dependent on housing benefits to pay their housing costs.

Rents have risen faster than incomes so the affordability of any given proportion of market rent has fallen; but Affordable Rents set as a proportion of these higher market rents also raise more revenue. For Housing Associations there is a tension between putting resources towards housebuilding and holding down rents, as shown in Figure 2. The challenge of this trade off will need to be addressed by different organisations in the context of their charitable mission, vision and values.

This paper follows the 2014 research paper Housing Costs, Affordability and Rent Setting, produced by the Cambridge Centre for Housing and Planning Research (CCHPR), and commissioned by Affinity Sutton.

It is produced by Professor Emeritus Christine Whitehead, London School of Economics, and Kathy Ellis, Affinity Sutton, with thanks to Chihiro Udagawa, CCHPR.

Figure 1
Percentage of local working population able to afford rents 2011 and 2013



MR = private market rents
MR80% = 80% of private market rents (the maximum rent permitted under the government Affordable Rent programme)

Figure 2

We have identified a number of key principles for setting an affordable rent:

1 Affordability is complex and options for rent setting can become complicated and tangled when investigated. It was agreed early in the process that a rent policy must be simple to understand and implement.

2 If priority is given to making rents affordable to low income households there is a case for lowering rents to help the significant minority of tenants paying their own rent without Housing Benefit.

3 Because they have a lower minimum residual income requirement it is easier to help single people off benefit by reducing rents than larger households. Therefore it makes sense to move away from current policies where rents are proportionately higher for smaller units. This would improve affordability for couples in one bed homes who are most likely to be paying all of their rent without Housing Benefit.

4 The research has found that rents in low demand areas are often higher proportions of local wages than in higher demand areas – suggesting that rents should not be set nearer to market levels as is generally the case at the present time. It is not always the case that higher wages are paid in higher rent areas. The analysis therefore suggests moving to a simpler flatter approach across different areas.

5 Universal Credit will push income thresholds to escape benefits higher so helping people off benefits by reducing rents will become even harder in the longer term – suggesting that a further rethink on rent levels will be required once it is established.

As clarified in the previous research[1] there are benefits to increasing the provision of intermediate products for those in stable employment. But these must not be used to replace housing that is genuinely affordable without benefits for lower income households. Local Authorities have, in the main, continued to nominate applicants for Affordable Rent vacancies, using it to house those who might otherwise have been accommodated in social rented homes.

For all developing Housing Associations there is a trade-off to be made between:

- higher rents resulting in more capacity to build homes but reduced affordability for those paying rent and greater long-term risk to rental income from downward pressure on welfare costs; and
- lower rents resulting in improved affordability for the significant minority of tenants who pay their own rent and for those able to escape Housing Benefit (largely single person households) as a result of these lower rents but it also means less capacity to build homes and ultimately fewer affordable homes.

Affinity Sutton was able to demonstrate that by using its own funds it could maintain its existing development capacity whilst reducing rents even though grant rates would not be increased in order to make good any shortfall. It is acknowledged that not all developing Housing Associations will be in a position to do this.

This paper does not offer a silver bullet to answer the question of how to set an Affordable Rent policy but we hope that it adds something to the debate and helps others who are looking at the topic.

1 Whitehead, C. et al *Market pegged social rents & local income distributions* CCHPR (2011) and Ellis, K. *Bridging The Affordability Gap* Affinity Sutton (2011)

INTRODUCTION

For many years Housing Associations have had little choice over setting their rent policy because they were required to set rents in relation to target rents and to increase them annually only up to RPI plus 0.5%. This left little scope for a proactive approach to rent setting. The introduction of the Affordable Rents regime in 2011 changed this position as government encouraged Housing Associations wanting to develop new homes to increase rents to up to 80% of market rents to counter reduced rates of grant funding, thus enabling some choices to be made by the association regarding where rents should be pitched for new homes and a portion of re-lets.

At that point Affinity Sutton set its Affordable Rents in London and the South East at 80% of market rents on smaller properties in line with GLA and HCA guidance. In light of the research into affordability undertaken in 2011[2] Affinity Sutton chose to limit the rent charged on larger units to 65% as these were judged to be unaffordable at 80% to larger households with higher outgoings. At the time there was an expectation that allocations to Affordable Rent properties would be to working households. Nominations have however been almost identical to those for social rent vacancies.

As the impact of Affordable Rents and other changes - notably those to the welfare regime - have become more obvious it is now an appropriate time to assess what has happened since the policy was introduced; to review the principles and evidence on the impact of different rent structures; and set out possible future approaches to rent determination.

Affinity Sutton is one of the largest providers of affordable housing in England with over 57,000 homes across 121 Local Authority areas. In 2011, Affinity Sutton initially saw the government's proposed Affordable Rents at 80% of market rents as an opportunity to provide an affordable alternative to private sector rents. It was viewed as an intermediate rent offer for those who would struggle to afford increasing private rents but who would not ordinarily have access to social housing - a core group of lower income working households. To test this approach Affinity Sutton commissioned a team from the Cambridge Centre for Housing and Policy Research (CCHPR) led by Christine Whitehead to look at whether there would be demand for such a product and, if so, which households would be able to afford to pay affordable rents.

The resulting paper, Market pegged social rents & local income distributions (2011)[3] confirmed that there were a significant number of households who would benefit from an intermediate rent such as this. It highlighted that, although London stood out with the highest rent to income ratios, affordability issues in the private rented sector were by no means limited to the capital.

Affinity Sutton's subsequent research paper, Bridging the Affordability Gap (2011)[4], built on the findings of the CCHPR report to conclude that making properties available to working households at rents set at 80% of market rents would provide an opportunity to increase affordability for small households. However, it found that larger households requiring three or more bedrooms would generally find 80% of market rents unaffordable on median incomes. This affordability gap would be faced by both those dependent on benefits and those in work. The then imminent introduction of the £26,000 benefit cap would mean that for families with three or more children dependent on benefits the cap would 'kick in' before covering the rent on 3 and 4 bedroom homes and even for those in full time work, gross household earnings had to be substantially higher than local averages to avoid some dependence on Housing Benefit.

Having learnt that rents pegged at 80% of market rents could help smaller households but were not affordable for larger working households, Affinity Sutton responded by setting a rent policy with 80% of market rents for one and two bedroom properties, and reduced rents to 65% of market rents for larger homes. To let these intermediate rent homes Affinity Sutton created a brand "Rent4Less", to market these Affordable Homes directly to working households who would not normally be eligible for social housing or Housing Benefit.

2 Ellis, K *Bridging The Affordability Gap* Affinity Sutton (2011)

3 Whitehead, C. et al. Market pegged social rents & local income distribution CCHPR (2011)

4 Ellis, K. *Ibid*

WHY REVISIT OUR AFFORDABLE RENT POLICY NOW?

There are a range of reasons why Affinity Sutton wished to revisit affordability and the association's policy for setting Affordable Rents:

Affordable Rent properties are not being let to the households anticipated in Bridging the Affordability Gap

Whereas Affordable Rent was initially viewed by Affinity Sutton and was thought to be promoted by government as an additional intermediate tenure offer, with the removal of the higher grant subsidy to support traditional lower rents it soon became clear that this was not going to compliment new social housing but largely replace it. Rather than being seen as a means of providing a cheaper alternative to private rents, Affordable Rents are increasingly taking the place of traditional social rents as residents are housed predominantly from Local Authority housing registers. From December 2012 to November 2013 just 175 of Affinity Sutton's 2,624 Affordable Rent lets (7%) were made outside of Local Authority nominations. This means that the household demographics of Affordable Rent are very similar to those for social rents rather than those modelled in the earlier research.

The proportion of households in work who require Housing Benefit to meet the increasing cost of private rents is large - and increasing

The 2011 research focused on those in work who could afford to pay 80% market rents themselves and the subsequent analysis in Bridging the Affordability Gap looked specifically at benefit dependent households. Now a third group is increasing in size and significance – those who are in paid work but still require Housing Benefit to afford their rent. In 2012 the Building and Social Housing Foundation published analysis of DWP statistics highlighting that 93% of new housing benefit claims made between January 2010 and December 2011 were made by households containing at least one employed adult[5]. It is essential that any new affordable rent policy takes this group into account – particularly when considering how rent policies might enable some of these households to avoid Housing Benefit.

Feeling that the existing rent policy (65%/80%) might not be helping low income smaller households

The increase in market rents in many parts of the country means that 80% of private rents may be becoming increasingly out of reach for households. One issue that the Affinity Sutton rent policy of 80% and 65% of market rent did not take into account was the fact that market rents already adjust for affordability differences between different sized households – for example, the rent on a one bed flat is a lot more than a third of the rent on a three bed flat. So although by reducing the percentage of market rents on larger properties the policy was assisting some larger families, by retaining 80% rents on smaller units the policy was adding to the disproportionate expense of living in a smaller home. It also resulted in the perverse scenario that in some areas the rent on a 3 bedroom house was less than a 2 bedroom property. In this research Affinity Sutton wanted to consider whether reducing some rents might enable residents to escape Housing Benefit and therefore retain more of their earned income, improving their standard of living.

National considerations

Our earlier research was limited to considering five areas in London and the South, in four of which market rents were high so affordability of 80% of private rents could be problematic even for those in full time work. As this piece of research looks to inform rent policy more generally it is necessary to consider a broader range of areas where Affinity Sutton has a significant interest. While Affinity Sutton works in over 120 Local Authorities, this piece of research focusses on the 27 areas where the association has 80% of its housing stock.

Who benefits from different rent levels?

Most importantly the original work concentrated on identifying groups of potential tenants that could benefit from Affordable Rents. This round of analysis aims to address whether the rents as set are helping the types of tenants who Affinity Sutton is actually housing – a very different group from that identified in the original research who could afford Affordable Rents without benefits but not market rents.

5 Pattison, B. *The growth of in work Housing Benefit claimants: Evidence and policy implications* BSHF (2012)

WHAT DOES A RENT POLICY NEED TO DO?

When looking to optimise an Affordable Rent policy at a Housing Association we walk a tightrope. It must ideally:

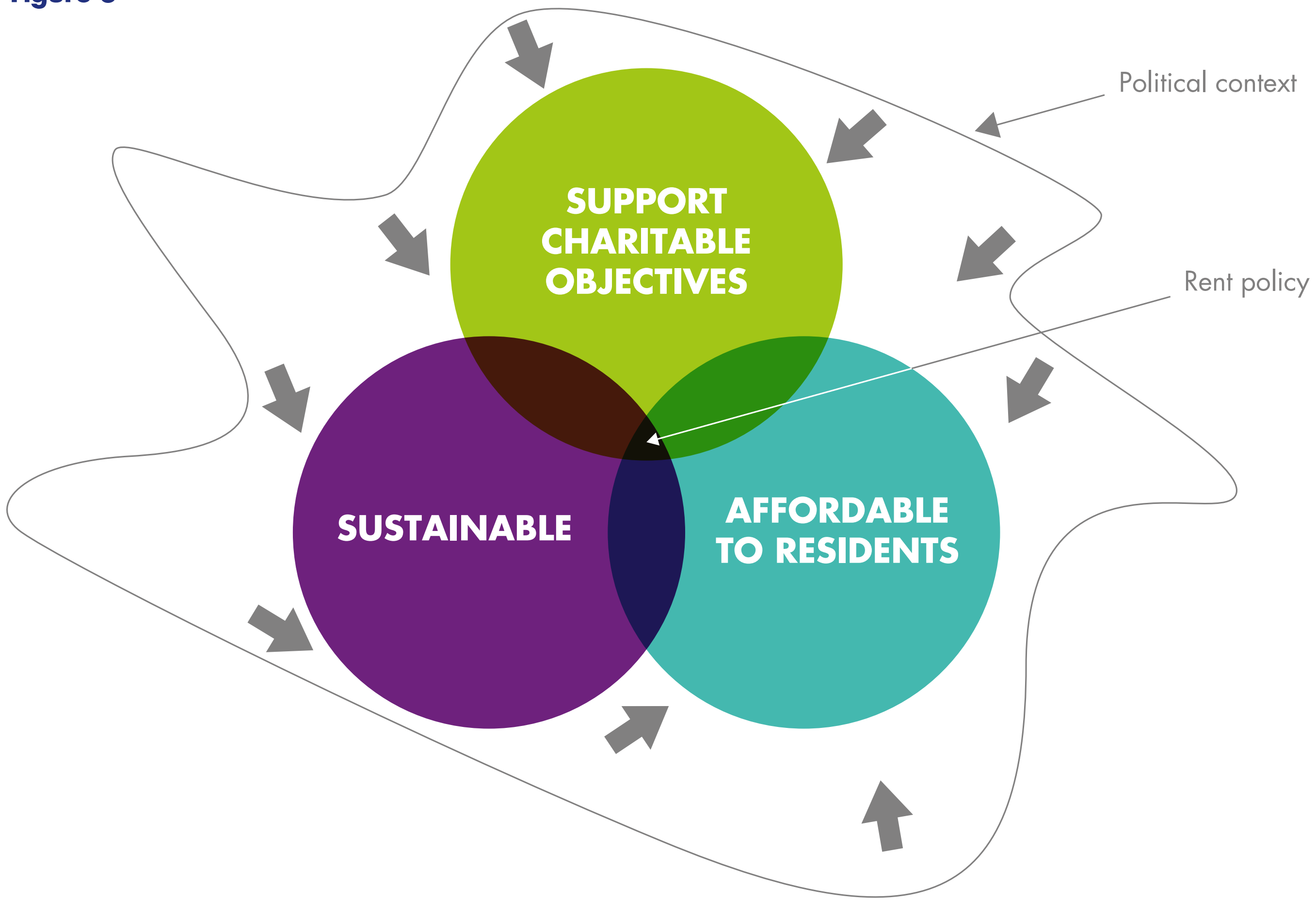
- be affordable to residents (meeting the needs of all three groups – fully benefit dependent/working and paying all rent/ working but in receipt of Housing Benefit);
- be sustainable (must cover costs of debt funding, property maintenance and investment); and
- support charitable objectives (build more homes, invest in communities).

Figure 3 demonstrates the complex balance that needs to be struck in a shifting political context.

Decisions then need to be made by Housing Associations over where these areas overlap, which circles can/should be larger/smaller and indeed at what point the model stops working. The challenge of this trade off will be different in each organisation and fundamentally, any policy must be politically aware both in terms of national policy and Local Authority requirements.

Many large developing Housing Associations will conduct their own affordability research and all will find their own delicate balance between what people can afford to pay and what they need to receive in rent to keep building and to sustain existing stock. Other associations may not have the resources to undertake extensive research of this kind so it is hoped that by sharing our experience and the learning we have gained, others can benefit.

Figure 3



STAGE 1: THE STARTING POINT

CCHPR were asked to examine Local Authority by Local Authority the proportions of different household types that could afford three different rent levels – the average social rent; Affinity Sutton's average Affordable Rent or 80% of market where Affinity Sutton does not have such properties; and market rent. Local income distributions by different household types of working age were estimated[6] and the household types were allocated to the most usual size of dwelling and its associated rent.

There are a number of ways to measure affordability such as requiring a maximum percentage of household income spent on rent (commonly 35%) or a minimum residual income after rent[7]. The definition used for this study is that a rent will be considered affordable where the household income remaining after rent is at least 20% more than a household's minimum residual income requirement (120% of a household's Income Support amount).

The findings were fairly clear-cut:

In the 27 authority areas examined, the largest proportions of working households unable to afford market rents without Housing Benefit support were usually among lone parent households. However the largest numbers were generally among couples and single person households. Table 1 below provides an example with the high numbers of working singles and couples unable to afford market rents highlighted in yellow and the high proportions of working lone parents unable to afford these rents highlighted in orange.

Working couples without children generally find market rents more affordable than other types of working household. This is in part because they are here assumed to need only one bedroom. However even on this basis, in London (Islington, Kensington and Chelsea, Lewisham, Croydon and Southwark) over 25% of all working couples without children could still not afford market rents.

Across the country, the picture of unaffordability for couples with one child (who are allocated a two bed property) is less geographically concentrated - with over 20% unable to afford market rents in Kensington and Chelsea, Islington and Croydon in London but also in Kingston upon Hull, Brighton and Hove and Middlesbrough – so including both higher income/ higher rent and lower income/lower rent areas.

Even among those working, lone parents can rarely afford the rent, with proportions unable to afford market rents rising to 78% in Lewisham for those with one child and 75% plus for those with two children in Dacorum and Croydon.

Single person households in full time employment face particular difficulties in paying market rents in the North East and Yorkshire and Humberside as shown in Table 2. For instance over a third of such households are unable to pay in Middlesbrough even though rents are low by national standards. This reflects the low wages available in this area.

The proportion of households in each Local Authority area able to afford Affinity Sutton's affordable rents (or 80% market where this is not available) but who could not afford market rents is generally estimated as considerably smaller than in the earlier research. This is in part because we included part time workers for households with more than one person. But importantly, we looked at areas outside of those very high rent areas in London and the South East where a 20% reduction against market rent is more significant.

Among couples and single people it normally makes the rents affordable for around 2–3% more households – sometimes even less. This is enough to support investment in an intermediate tenure product in higher rent areas but not enough to support the use of 80% rents more generally.

Because wages are so low in some areas, even the impact of reducing rents to social rents is often not large. Among single people working full time (the largest group of working households accommodated), over 30% cannot afford social rents in the North East. The figure is still 20% plus in much of the East and Yorkshire and Humberside.

The impact on couples with children and especially 2 or 3 children was a little more for affordable rents and considerably larger for social rents. The benefits of social rents were far greater for working lone parent households.

Most importantly from the point of view of rent policy, if a household is in receipt of full Housing Benefit it does not matter what the rent is. Wherever they are in the country their income after rent is the same – and any rent increase or decrease will be fully offset by Housing Benefit up to the Local Housing Allowance ceiling. The same applies to any household on partial benefit – any increase or decrease in rent will be fully offset. The only difference is that if they are on partial Housing Benefit, a low enough rent will enable the household to come off Housing Benefit at a lower income.

The three most important findings from the point of view of setting a general rent policy are:

1. The rent set does not make any difference to households who are dependent on full benefits or those working and on partial Housing Benefit. Holding rents down in this context simply reduces the Housing Benefit bill. A small number can be assisted by holding rents down low enough for them to escape Housing Benefit altogether if they are working and receiving partial Housing Benefit.
2. Affordability problems are by no means always concentrated in the highest rent areas. This is because the spatial distribution of affordability reflects both the levels of incomes and the levels of rents – so low rent/ low income areas such as Middleborough can be just as unaffordable as higher rent areas. However it is in these areas that reducing rents especially for those in one bed units has the best chance of helping those on low wages to escape Housing Benefit.
3. Those in larger units are much more likely to be in receipt of Housing Benefit – and it is almost impossible to help low income households in these larger dwellings – couples and lone parents with more than one child – to escape Housing Benefit by reducing rent. So holding rents down on larger units can only help the minority paying all their own rent.

Table 1
Working households who cannot afford market rents in Hertsmere (120% of IS, Summer 2013)

LA	Household type	% of households	Number of households
Hertsmere	Couple	22.1	1,093
Hertsmere	Couple + 1 child	16.2	506
Hertsmere	Couple + 2 children	23.6	791
Hertsmere	Couple + 3 children	35.6	549
Hertsmere	Lone Parent + 1 child	69.8	631
Hertsmere	Lone Parent + 2 children	72.7	452
Hertsmere	Single person household	30.2	1,082

Table 2
Proportion of single person working households unable to afford market, affordable and social rents (Full time working singles, 120% of IS, Summer 2013)

Region	LA	Market Rent	80% Market Rent	Social Rent
London	Bromley	8.6	6.0	3.7
London	Islington	25.6	19.3	8.0
NE	Middlesbrough	35.9	32.8	32.1
SE	Basingstoke and Deane	13.5	9.9	7.2
SW	Plymouth	22.6	18.9	15.7
WM	Stoke-on-Trent	20.1	17.0	15.9
YH	Leeds	23.3	20.0	16.8
		% of working households for whom the rent is unaffordable		

6 For details of how household incomes by type were modelled see Whitehead, C. et al *Housing Costs, Affordability and Rent Setting* CCHPR (2014)
7 For a discussion of different measures of affordability see Whitehead, C. et al, *Market* pegged social rents and local income distributions CCHPR (2011)

STAGE 2: WHO IS BEING HOUSED AND WHAT CAN THEY AFFORD?

As Affordable Rents have now been in place for some time Affinity Sutton can now consider whether rents set at 80% (1 and 2 beds) and 65% (3 and 4 beds) of market are affordable for those actually being housed as opposed to those modelled in the 2011 research – or whether there are better options available. The proportionately lower Affordable Rents at 65% of market for larger homes followed the earlier research findings that families paying their own rent would struggle to afford the maximum 80% of market. However, one year on, fewer families are being housed in Affinity Sutton's Affordable Rent properties than anticipated and the two largest groups housed in 2013 were those entitled to one and two bedroom properties: singles and lone parents. It is therefore essential that the rent policy works for these groups and that the affordability of smaller properties is fully considered.

Single person households comprised 31% of Local Authority nominated Affinity Sutton Affordable Rent lettings in 2013 (where household composition is known) and 66% of these pay their rent themselves without recourse to Housing Benefit. Those paying their rent themselves would benefit from a lower rent and any increase in rent would have a direct negative impact on their household finances.

The remaining 34% of singles in receipt of Housing Benefit are the group most able to be helped by a reduction in rent because their comparatively lower residual income requirement means that they are likely to be able to escape Housing Benefit altogether and therefore keep more of any increase in earnings they gain.

Lone parents with one child accounted for 22% of Affinity Sutton Affordable Rents via Local Authority nominations in 2013 and 76% of these rely on Housing Benefit for at least some of their rent as Table 3 shows.

To test whether a rent policy could be achieved that assisted these large groups we looked at where rents would need to be set for a single person household and a lone parent with one child to afford rents without needing Housing Benefit assuming they work a 37 hour week and earn the living wage.

Note on Figures 4 and 5:

Using London Living Wage (LLW) and National Living Wage (NLW) provide a very flat income proxy as they are based on two different hourly wages across all regions.

Table 3
Affinity Sutton Affordable Renters via Local Authority nominations 2013 (known as the waiting list/Choice Based Lettings)

Family Comp	No of Tenancies	In receipt of Housing Benefit
Single person	**681**	447
Single parent + one child	**494**	376
Single parent + two children	240	165
Couple + one child	211	84
Couple + two children	157	61
Couple + three children	124	59
Single parent + three children	112	87
Couple	69	32
Couple + four/more children	45	29
Single parent + four/more children	29	23
Older couple	25	20
Older single	21	15

Figure 4
Percentage of market rent singles on living wage can afford without Housing Benefit

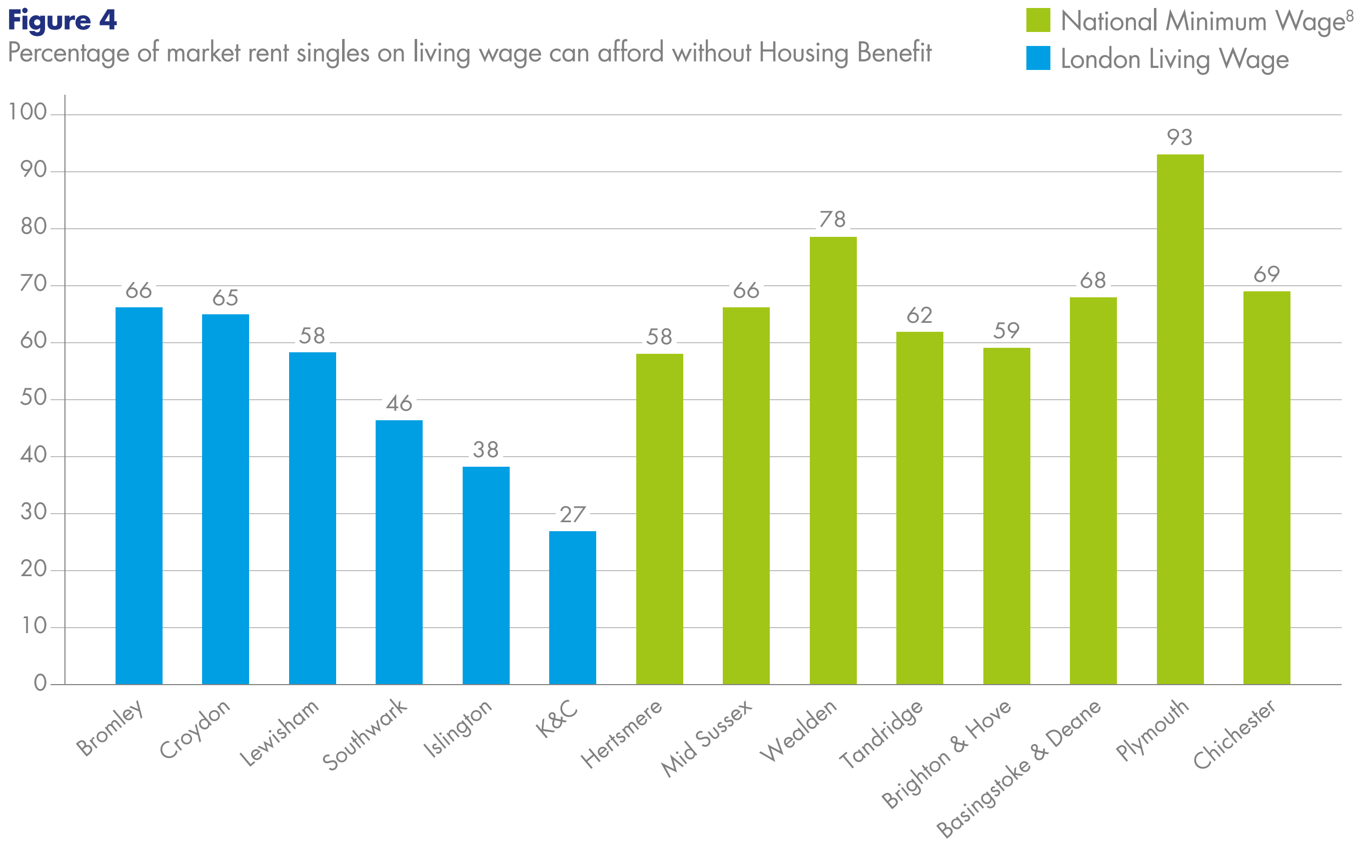
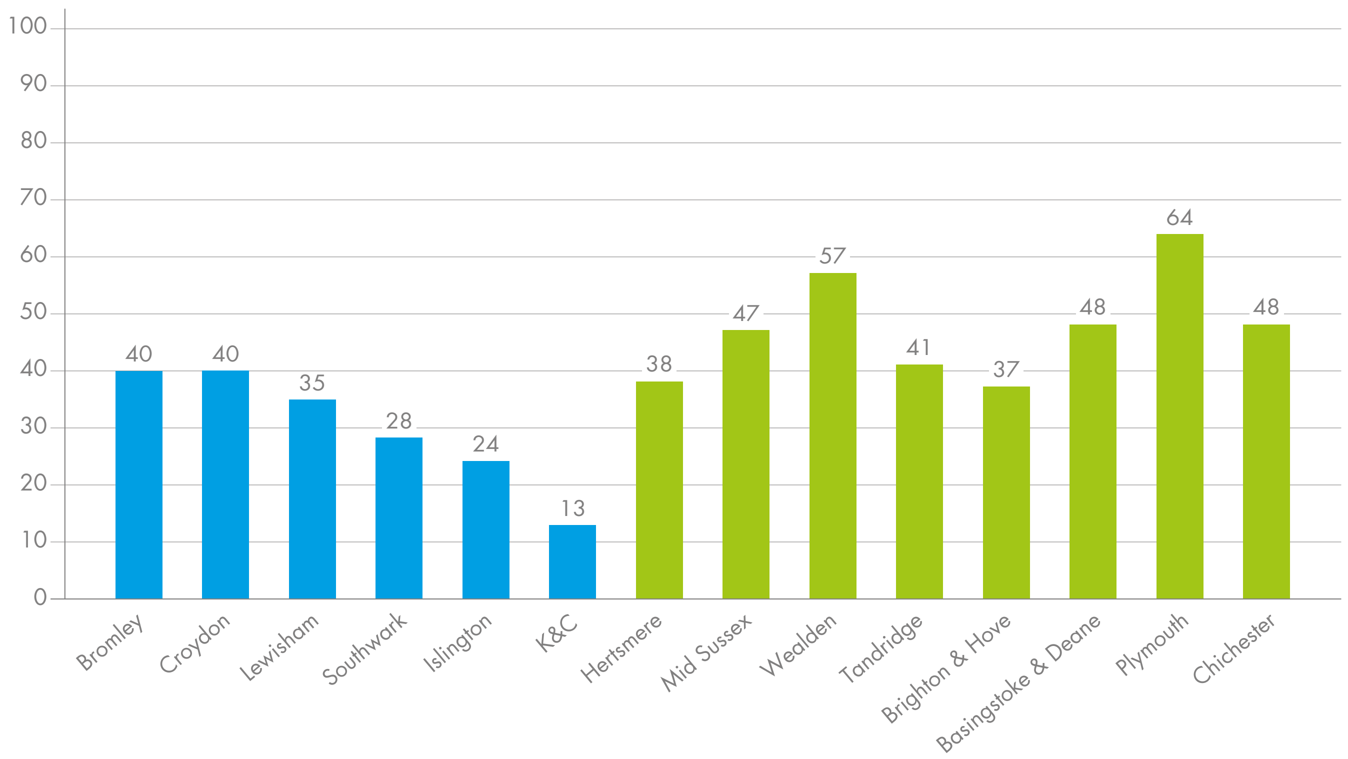
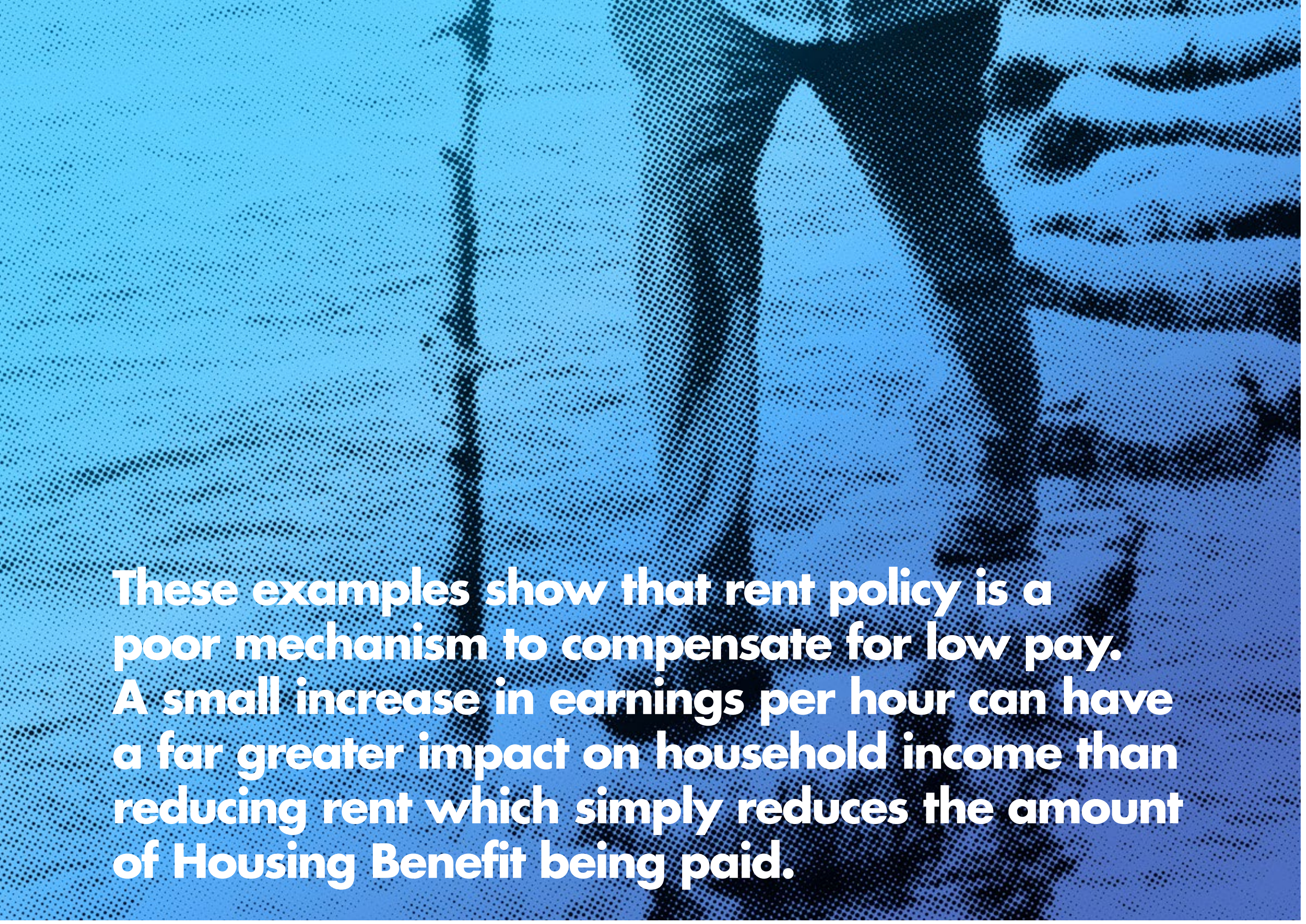


Figure 5
Percentage of market rent a lone parent on living wage can afford without Housing Benefit



8 2014/15 Living Wage and tax figures



These examples show that rent policy is a poor mechanism to compensate for low pay. A small increase in earnings per hour can have a far greater impact on household income than reducing rent which simply reduces the amount of Housing Benefit being paid.

WORKED EXAMPLE 1

SUNITA, A FICTIONAL CASE STUDY

Sunita, 35, is single and works locally earning £325 per week (42.5hrs a week at national living wage).

On her 1 bedroom privately rented flat in Hertsmere she requires over £50 a week from Housing Benefit to pay her rent. If she were in an Affordable Rent property let at 80% of market rent she would still require Housing Benefit as her rent would need to be at 58% of market to be affordable to her. However, if Sunita had a pay rise of 90p per hour she could afford an Affordable Rent at 80% of market locally without relying on Housing Benefit.

WORKED EXAMPLE 2

MARIE, A FICTIONAL CASE STUDY

Marie, 32, is single and has two boys aged 9 and 12. She works 37 hours across 4 days a week and earns £325.

The boys are settled in at their school and Marie's mum picks them up in the afternoons except on Fridays when Marie collects them. The family live in a 2 bedroom Affordable Rent flat and although Marie considers herself lucky to have the support of her mum and a steady job paying the London Living Wage, Housing Benefit currently still has to cover most of the rent. To afford her rent without Housing Benefit, Marie's rent would need to be set at just 40% of market rent.

If Marie were to rent privately her rent would be significantly higher but it would make no difference to the amount of money she has after paying rent as Housing Benefit would increase to cover this additional cost (up to Local Housing Allowance).

PRINCIPLES FOR SETTING A RENT STRUCTURE

As we have noted above, the current approach to setting rents has been to keep rents low in higher rent areas and on larger properties with the aim of helping those in the greater need. However the principles behind this approach – that of trying to ensure people have adequate incomes after rent - only hold if households are paying their own rents and rent to income ratios and incomes after rent payments are lower for larger households in higher rent areas. Under the current welfare regime - and indeed current market conditions across the country - these principles often do not hold. A different approach to rent setting may be a better way both to improve affordability and ensure appropriate revenue levels to maintain the Association's development programme.

Rents and Housing Benefit

The fundamental principle of Housing Benefit (subject to some issues around service charges) is that every social tenant household in receipt of Housing Benefit and living in an appropriately sized unit receives at least the relevant Income Support Applicable Amount as 'residual' income as long as the rent remains below the Local Housing Allowance (LHA). Thus if the rent is increased, as long as the new rent is below the relevant LHA, 100% of the increase will be covered by Housing Benefit regardless whether the household is in receipt of full or partial benefit. The same applies to any reduction in rent – Housing Benefit entitlement simply reduces by exactly same amount to leave the household with the same residual income.

- Some two thirds of social tenants receive Housing Benefit either full or partial and are therefore unaffected by the rent set as long as it is below the LHA. This could apply to a much larger proportion of tenants under Universal Credit (UC) (although there are additional complications).
- The proportion of those living in larger homes who are in receipt of Housing Benefit is also much higher than average.
- The logic is therefore to set rents in such a way as to help the minority of tenants who are paying their own rent and those who, as a result of lower rents, could escape Housing Benefit.
- For those paying their own rents, lower rents give them more income to spend on other essentials. So reducing rents where rents are high appears to make the most sense. But, as we saw above, very few family households in larger units are able to afford their rent without the help of at least partial Housing Benefit. Proportions paying their own rent are highest in smaller units – especially among couples without children and to a lesser extent in proportionate terms (but more in absolute terms) single people in full time work.
- Looking at whether it is possible to reduce rents to levels where higher proportions of tenants are able to pay their own rents depends on the relationship between rents and incomes – with each additional £1 of income reducing the Housing Benefit the tenant receives by 65 pence. So rents in high rent areas would have to be reduced by much greater proportions to enable a tenant on a given income to avoid Housing Benefit as a result of the reduction. It is much more likely to be a successful strategy in low rent areas. This is particularly true if it is assumed that tenants in work earn the minimum wage which is invariant across the country or the living wage which varies only between London and elsewhere so low rents increase the chances of avoidance.
- The welfare system therefore generates a number of counter intuitive implications: there is little benefit to tenants in keeping rents down for larger units and there is more to be gained from lowering rents for small units; equally it may be more effective to reduce rents in lower rent areas unless in high rent areas residents can earn disproportionately higher incomes – which tends not to be the case for those currently entering social housing.

One way by which Associations can avoid some of these issues is to house higher proportions of households able to afford to pay their own rents, even in larger units. This provides a rationale for providing an intermediate tenure (of the sort under discussion when the first research was done) but does not meet the core mission of providing good quality housing for lower income vulnerable households.

IMPLICATIONS FOR SETTING A RENT POLICY

Rents for new lettings in the marketplace have risen faster than incomes in many parts of the country, so any given proportion of market rent raises more revenue. It is therefore possible to lower the overall proportion of market rent to help affordability, while still maintaining adequate income for the organisation.

More difficult is the decision as to whether to maintain current rent structures which favour larger units and higher rent areas. One possible way forward might be to devise a complex rent structure policy which takes account at local level of exactly who is being housed and their likely rent to income ratios. However, rents and affordability vary so greatly over even small areas it is not possible for a rent structure effectively to take account of such differences. Even if it managed to do so at a given point in time, some local conditions would change and the rationale would disappear.

The general principle is therefore to keep it simple – while seeking to remove those aspects of current rent policy that are reducing revenues without helping tenants. A simple approach is particularly appropriate at the present time because the introduction of Universal Credit will almost certainly change the parameters and require a further rethink about how best to help current tenants.

- To help those paying their own rent and to help tenants avoid Housing Benefit it is desirable to move away from current policies with respect to property size perhaps towards an approach which reflects relative market values more closely. This will help those in smaller units while very few tenants in larger units are likely to be affected.
- Equally it would be better to move towards a more proportionate approach to rents by area as at the present time many working households, especially single people in full time employment in lower rent areas remain on Housing Benefit because rents are set much closer to market levels than in high rent areas.
- The analysis at this point therefore suggests moving to a simpler rent setting approach based on a single, lower proportion of market rents across all areas.
- Finally there remains a strong case for increasing provision of intermediate products for those in stable employment who can pay 80% of market rents from their own pocket but who find market rents unaffordable.

STAGE 3: PRINCIPLES INTO POLICY

Having established some guiding principles for a rent policy, Housing Associations need to go through a number of additional steps in order to generate a structure that can be put into practice and works for them.

There are many different ways that organisations can use research to inform or shape policy and this section explains some of the steps Affinity Sutton took in its bid to move from research principles towards an operational policy[9]. It is not a blueprint or an advocated approach; it is simply a record of avenues explored and further lessons learned. It is hoped that others in the sector will benefit from this account.

In an ideal world the route from principles to a coherent rent policy would be clear, direct and uninterrupted. In reality we found it to be rather like a game of Snakes and Ladders: we experienced 'light-bulb' moments that appeared to shoot us up a long ladder toward our goal, only to be faced with a new discovery or question that slid us down the cruel snake of alternate enquiry or worse, distraction.

Updating Target Rent

With the view to creating a simple policy that would be easy to communicate there was some appetite to consider what an updated target rent might look like – would it provide an off-the-shelf rent policy if we updated the data behind the 2002 formula? Proxy data would have to be used for some figures because some data sets that existed when the target rent approach was originally conceived are no longer available but these updated figures were fed into the target rent formula to see what the outcome was:

Target Rent formula: r*x*(e/E*w) + (1-x)p/P)

r	national average net rent for RSL sector
e	average earnings in the county
E	national average FT manual earnings
w	property size weight
p	property value
P	national average property value for RSL sector
x	weight allocation multiplier

WORKED EXAMPLE

We took a two bedroom house in Hertsmere with a current Target rent (excluding service charge) of £105.23 per week

Updated figures were used and for the same property. Using recent data a recalculated Target Rent for this property would be £98.24 per week.

In this example, an updated Target Rent is lower than existing Target Rent since RPI+0.5% increases have outstripped increases in the data items used to calculate the formula. Although this may be interesting to consider, it does not present a ready-made solution to the question "how to set an affordable rent". It is perhaps something that could be revisited at some point in the future with a view to identifying what the starting point 'r' should be, and what weights should be applied to bedrooms to ensure that 1 bedroom homes command rents affordable to working single person households on living wage without requiring Housing Benefit. What this experiment highlighted is that because of the way rent increases have been linked to the Retail Price Index, Target Rent no longer reflects the local labour and property markets in the way that was originally intended. In fact, the geographically flat RPI increase has so broken this link that in some areas of the country Target Rents are as high as local market rents; and in some they are unaffordable to households in full time work earning the living wage[10].

9 For a discussion of research into policy and practise see Boaz, A., Ashby, D., and Young,K. Systematic Reviews University of London (2002) and Wells, P. New Labour and evidence based policy making:1997-2007 People, Place and Policy online 1(I)I 22-9 (2007)

10 In Kingston upon Hull the Target Rent on a 1 bed flat is 90% of the median rent in the Local Authority; in Islington an income of £32,224p.a. is required to pay Target Rent (Hometrack analysis)

The granular approach

The income and property data used in the CCHPR analysis already discussed was at Local Authority level. Having presented this to the Project Board there was considerable appetite to look at these areas at a more granular level since we know that market rents can vary dramatically within Local Authorities and even within post-code districts. It was agreed to analyse the market rent value of each existing Affinity Sutton property to bring it closer to the actual values required for the business plan. We engaged property market analysis experts Hometrack to provide us with the data and analysis we needed.

Focus on market rents

The initial analysis that Hometrack provided on each Affinity Sutton home highlighted some key issues we had not considered before. For example, in many cases the Affinity Sutton properties with rents set at 80% of the individual property's market rent would be more affordable than if the rent was set at 80% of the average market rent. This is because Affinity Sutton properties do not tend to be in the areas where these higher rental values are achieved. This was particularly the case in London Boroughs where high specification riverside apartments skew average rents for some boroughs whereas Affinity Sutton homes are in more family-oriented areas with lower rents.

Focus on incomes

Having sourced more granular rental data by property, PayCheck[11] modelled household incomes were analysed by post code to see if incomes varied as significantly as rents between post codes. Echoing the finding of the Local Authority level analysis by CCHPR this showed that incomes and rents did not necessarily correspond with one another. However we noted that there tends to be much less variance in incomes than the sometimes wild ranges seen in market rents. Of course, there is no such thing as robust or correct income data at a granular level; it is always modelled, moving and often misleading. However, this is not to say it cannot be useful - it can give us an idea of relative incomes between areas and is far better than having no data at all.

CCHPR earnings data used previously was at Local Authority level, not post code level, but it had been adjusted to take account of household composition. We had some concerns that the PayCheck data which take no account of household type and size could overstate the income of single person households. This could mean that setting rents based solely on PayCheck data would lead to higher rents for the very group identified by the research as benefiting from holding rents down.

Rents and Incomes analysis

Using granular data for incomes and rents Hometrack were tasked with clustering different areas with similar affordability profiles together. Segmenting the market by post code district and individual property level were considered and whilst some clear steps between selected areas were visible, no logical clusters that would be simple enough to implement as a rent policy were apparent. Some clusters could be seen when data was rolled up to Local Authority level but these lost the nuances between individual rents and incomes that were visible at a granular level.

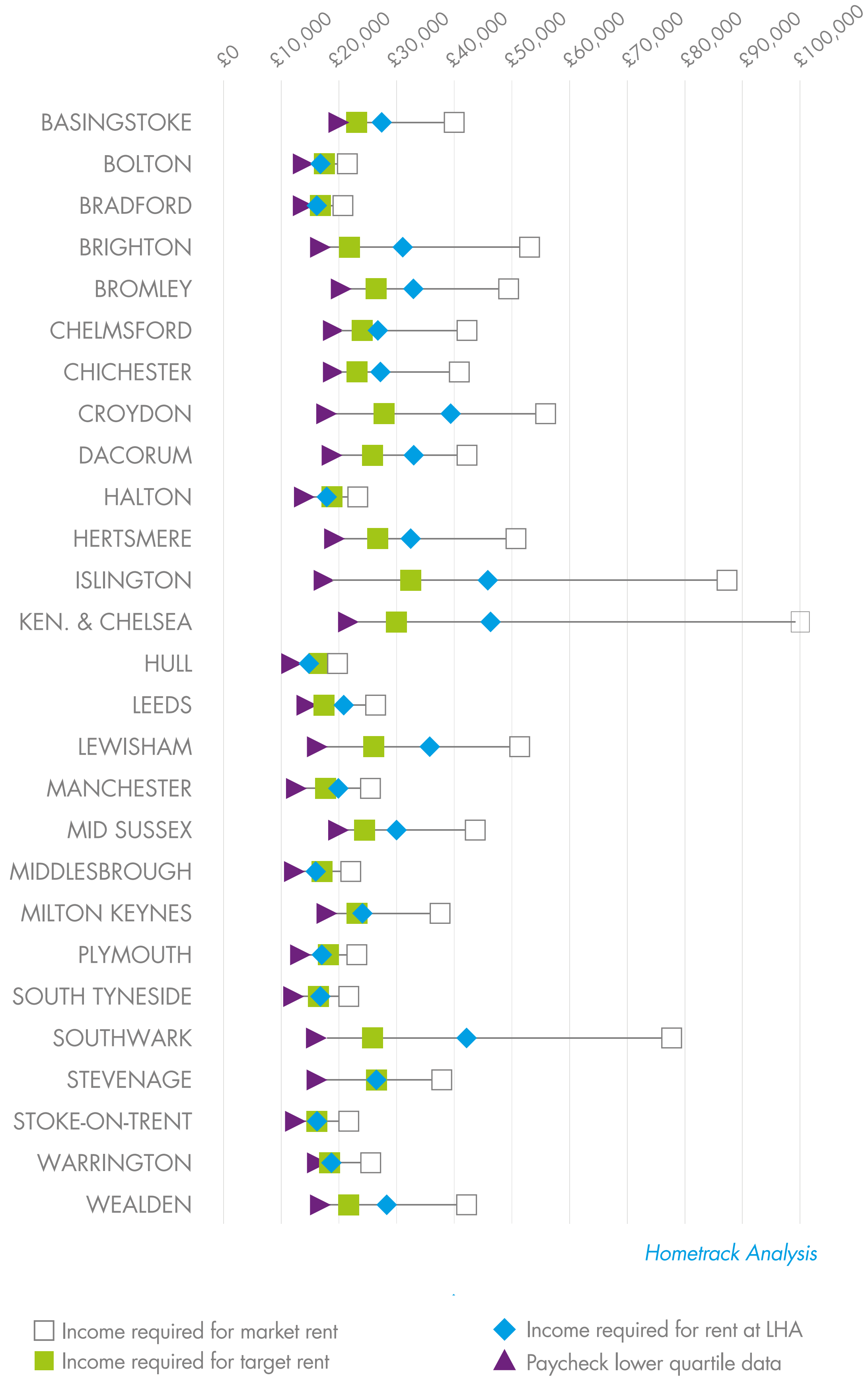
Taking a step back from the detail

We had seen that market rents vary dramatically. We found that lower quartile incomes vary much less and income wholly from benefits is completely static nationally.

Figure 6 demonstrates that lower quartile incomes (represented by the triangles) are relatively flat across all Local Authority areas whereas the clear boxes representing the income required to rent at market rates vary wildly between areas.

We re-established that the priority was to hold down rents on one bedroom homes and to keep the policy simple as recommended in the early research principles. Rather than continuing to grapple with what will always be imperfect and moving income data we started to consider what rent a single person working 37 hours a week on the living wage could afford without Housing Benefit.

Figure 6
Shows the household income required to pay target rent, market rent or rent set at Local Housing Allowance (LHA) by Local Authority with local lower quartile incomes shown for comparison (PayCheck).



Hometrack Analysis

11 PayCheck is CACI's modelled household income at postcode level based upon government data sources together with income data for UK homes collected from lifestyle surveys and guarantee card returns.

STAGE 4: A NEW AFFORDABLE RENT POLICY

Having explored numerous different rent setting options the early recommendation of the CCHPR research (to keep a rent policy simple) provided a welcome sense-check and one we returned to frequently. Affinity Sutton now plans to introduce a new simple rent policy for its Affordable Rent properties, which will reduce rents charged on many newly built and newly vacant 1 and 2 bedroom homes and over time will bring these rents within the reach of many of those earning a living wage, without requiring housing benefit.

Rents for larger properties will reflect the size of home (higher rents for more bedrooms), this will over time increase the differentials between smaller and larger properties, reflecting the value and desirability of larger homes. As highlighted by the first stage of our research, reducing the rent can rarely be sufficient to impact the net income of larger, low income families, given the structure of the current benefits system. The amount of income required to take people out of Housing Benefit is usually quite out of reach so reducing rents does not help these families.

Affinity Sutton is therefore to some extent moving away from the link between rent and the market since rents must have a stronger link to incomes to be genuinely affordable. This is particularly pertinent for Housing Associations that, in the main, let their homes to low wage households. Whereas market rents fluctuate wildly across the country, the income levels of those in the lowest quartile of earners do not vary greatly across the country and in our opinion are a better proxy for what such households can afford.

The new rents are fixed for each property size in London and each property size outside of London.

Rents for a 1 bedroom home will be set at the rent that a single person earning the current living wage could afford to pay without Housing Benefit. This is why there are two sets of flat rents – the London Living Wage is slightly higher than the National Living Wage so the London rent is slightly higher than non-London. Rents for 2, 3 and 4 bedroom homes increase from the 1 bedroom starting point in a way that reflects the market – the larger the home, the higher the rent. This corrects some of the perverse outcomes of the previous Affordable Rents where 80% of market rent was charged for smaller homes and 65% of market rent was charged for 3 and 4 bedroom homes – meaning that a 3 bedroom property could be cheaper to rent than a 2 bed one.

The overall impact of this policy will be to reduce Affinity Sutton's rental income, but they believe that it is important to set rents that work for tenants in the longer term by helping those that can to avoid benefit dependency.

Table 4

	Affordable Rent (80% market) Average (May 2015)	Proposed Rent Model for all properties	Target rent +SC Average (May 2015)
		1 bed	
London LA	£152.33	£118.00	£107.11
Non London LA	£124.54	£99.00	£101.68
		2 bed	
London LA	£192.82	£167.00	£125.66
Non London LA	£150.36	£148.00	£111.85
	Affordable Rent (65% market) Average (May 2015)	**Proposed Rent Model for all properties**	**Target rent +SC Average (May 2015)**
		3 bed	
London LA	£191.10	£204.00	£136.38
Non London LA	£161.47	£185.00	£130.65
		4 bed	
London LA	£236.51	£229.00	£153.83
Non London LA	£191.64	£210.00	£153.10

STAGE 5: NEXT STEPS

We hope that this narrative of our journey is helpful to others who are thinking about rents and will encourage the further sharing of these studies so that the sector can increase its collective understanding of these issues. As mentioned earlier in the discussion, all of this will need to be looked again in light of the benefit changes being brought about by the introduction of Universal Credit. Everyone across the sector will have concerns about this and we would be very keen to engage in collaborative working where others share these interests.

RENT POLICY CHECKLIST:

Is it legal?	✓
Does it discriminate against households with any protected characteristics?	✓
Is the rent determined by the property type, size and location (legal) as opposed to the resident (illegal)	✓
Does it fit with our charitable objectives? Can we prove it?	✓
Is it affordable to those we want to be able to house? Can we prove it?	✓
Does it support our business plan?	✓
Does it look sensible (i.e. a 1 bed is not more expensive to rent than a 2 bed in the same area)?	✓
Are we sufficiently limiting our exposure to future welfare changes?	✓
Is the data adequate?	✓
Can it be easily understood by residents and other stakeholders?	✓
Is it operationally simple to implement?	✓

LOCAL AUTHORITIES USED FOR THIS RESEARCH

Region	LA
East of England	Chelmsford
	Dacorum
	Hertsmere
	Stevenage
London	Bromley
	Croydon
	Islington
	Kensington and Chelsea
	Lewisham
	Southwark
North East	Middlesbrough
	South Tyneside
North West	Bolton
	Halton
	Manchester
	Warrington
South East	Basingstoke and Deane
	Brighton and Hove
	Chichester
	Mid Sussex
	Milton Keynes
	Wealden
South West	Plymouth
West Midlands	Stoke-on-Trent
Yorkshire & The Humber	Bradford
	Kingston upon Hull
	Leeds

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