Research Briefing

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What is affordable housing?

Summary

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Summary

Why is affordable housing needed?

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

No agreed definition of affordable housing

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 used by local planning authorities when making provision within their areas to meet local demand/need for affordable housing. The NPPF definition incorporates social rent, as well as a range of intermediate rent and for-sale products. The Affordable Housing Commission (2020) concluded "many" of these products "are clearly unaffordable to those on mid to lower incomes."

Planning for affordable housing

The NPPF says 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. There is no minimum level of provision of affordable rented housing – this is for local planning authorities to determine. The Planning White Paper (2020) proposed substantial reforms, some of which may have implications for the delivery of affordable housing. Reponses to the white paper are being analysed and an announcement is expected in spring 2022.

A crisis of affordability

Commentators increasingly refer to a crisis of affordability in England. 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."

Home ownership has been difficult to access in recent years, particularly for first-time buyers, while access to social housing is constrained by limited supply. The private rented sector has benefited, it 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 assistance through Housing Benefit/the housing element of Universal Credit. Analysis by Crisis (2022) found "housing benefit is no longer covering the cost of renting a modest property in most parts of England".

Historically, homes for social rent (with rents at around 50-60% of market rents) and affordable home ownership have been the main source of new affordable housing. The introduction in 2011 of social sector units with rents of up to 80% of market rents has, in the view of some commentators, undermined the ability of even the social sector to supply housing that is truly affordable.

The 2021-26 Affordable Homes Programme (AHP) programme will allocate £11.5 billion of grant funding over five years. This is expected to support up to 180,000 new homes, subject to economic conditions. The programme's funding will be split: 50% to fund homes at a discounted rent, and 50% for affordable home ownership products.

In February 2021 the then-Housing Minister, Christopher Pincher, confirmed the new AHP "will deliver more than double the social rent than the current programme, with around 32,000 social rent homes due to be delivered." Crisis and the National Housing Federation (2018) 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 (PDF).

There are widespread calls for increased support to develop more social rented housing. Cited benefits include potential to reduce pressure on Housing Benefit/UC expenditure, and improved housing options for people on a low income without having to rely on Housing Benefit. The Levelling Up white paper (February 2022) contains the following commitment:

> The UK Government will also increase the amount of social housing available over time to provide the most affordable housing to those who need it. This will include reviewing how to support councils to deliver greater numbers of council homes, alongside Housing Associations.

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, it's been suggested that the concept should be abandoned on the basis that it's 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's 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, ie 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 Lydia Marshall, NatCen, Defining and measuring housing affordability in the PRS using the minimum income standard, October 2016

2 HC 809-II 2001-02, July 2002, Memorandum by Chartered Institute of Housing (AFH 04)

3 ODPM: Housing, Planning, Local Government and the Regions Committee, Affordability and the Supply of Housing (PDF), 20 June 2005, p5

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.

1.2 Affordable rents

During the October 2010 Spending Review the Coalition Government announced a new 'intermediate rent' tenure. Under this model, which is known as 'affordable rent,' social landlords offer tenancies at rents of up to 80% of market rent levels within the local area. The additional finance raised is available for reinvestment to develop new social housing.

Essentially, this model replaced capital grant supply subsidy for social housing with a revenue subsidy. 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]

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4 Section 70(3) of the 2008 Act.

5 HC Deb 9 December 2010 cc31-4WS

In addition to building to let at affordable rents, social landlords can re-let vacant homes previously let at social rents at affordable rent levels. The 2021 UK Housing Review records at April 2020, local authorities held 25,503 newly built or acquired units at affordable rents. Housing associations held 268,771 units.[6] The Greater London Authority has prohibited conversions to affordable rents in London.[7] In 2021 the Mayor of London committed to focus on building at social rent levels.

In 2017, 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]

In 2018 Peabody housing association, which merged with Family Mosaic in 2017, announced an intention to reduce the rent on homes let at affordable rents when vacant. 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 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.

6 Stephens M; Perry J; Williams P; Young G; Fitzpatrick S: 2021 UK Housing Review, Chartered Institute of Housing and University of Glasgow, p78

7 Inside Housing, "Khan confirms end to affordable rent conversions," 19 June 2016 [login required]

8 Inside Housing, "What Alok Sharma was really told by tenants," 26 January 2018 [login required]

> 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 London Living Rents and London Affordable Rents

The Greater London Authority (GLA) allocates funding from the Affordable Homes Programme (AHP) in London. Homes funded under the 2021-26 programme will primarily be composed of three 'preferred' affordable products:

- Social Rent.
- London Living Rent (a Rent-to-Buy product on time limited tenancies).
- Shared Ownership.

Funding guidance for the 2021-26 programme refers to an agreement with Government "that more than half the programme will be for Social Rent".[10] There is an aim to produce 82,000 affordable units across the outgoing 2016-21 and new 2021-26 AHPs.[11]

London Living Rent "offers Londoners a below-market rent, supporting them to save for a deposit to enable them to move into home ownership."[12]

The GLA's bidding guidance for the 2021-26 programme provides advice on the setting of London Living Rents:

> The GLA publishes ward-specific benchmark rent levels for London Living Rent homes on an annual basis. These rent levels are based on one-third of the estimated median gross household income for the local borough, varied by up to 20 per cent in line with ward-level house prices, and are capped to reflect the maximum amount a household eligible for London Living Rent could afford. The benchmark rents also vary based on the number of bedrooms within the home.[13]

London Affordable Rent (LAR) homes are rented by social landlords with rents capped at benchmark levels published by the Greater London Authority. They are lower than the 80% per cent of market rents at which affordable rents can be charged.

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9 Inside Housing, "Why we are freezing or cutting rents on thousands of homes", 2 May 2018 [login required]

10 Mayor of London, Homes for Londoners: Affordable Homes Programme 2021-2026 Funding Guidance (PDF), November 2020, para 2

11 As above, para 77

12 As above, para 12

13 As above, para 13

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 impact of a development proposal.[14]

Data from the National Housing Federation's (NHF) survey of housing associations indicates the importance of section 106's contribution to affordable housing development. In the 12 months to June 2020:

- 52% (18,400) of affordable completions were delivered through Section 106 agreements.
- 42% (17,500) of affordable starts were delivered through Section 106 agreements.[15]

For these purposes, the definition of affordable housing is found in Annex 2 to the National Planning Policy Framework (NPPF). 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 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

14 For more information see Planning Obligations (Section 106 Agreements) in England, Commons Library Briefing Paper CBP07200.

15 NHF, How many homes did housing associations build in quarter one 2020/21? February 2021

> 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.[16]

Starter homes were devised by the 2015 Conservative Government but none were developed. They've been overtaken by First Homes.[17]

The NPPF's definition of affordable housing has faced some criticism. There's concern that the expanded definition, eg the inclusion of Build to Rent, does not help those with the greatest housing need and might reduce social and affordable rented housing delivery.[18]

Some 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.[19]

The Communities and Local Government Select Committee conducted an inquiry into the Government's proposals on planning policy over 2015-16.[20] 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

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16 Ministry of Housing, Communities and Local Government (MHCLG), National Planning Policy Framework, Annex 2 (accessed 21 February 2022)

17 See, First Homes for first-time buyers (England), 3 November 2021

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

19 As above.

20 Communities and Local Government Select Committee, Department for Communities and Local Government's consultation on national planning policy, 1 April 2016, HC 703 2015-16

> tenure; where the 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.[21]

The Government's response, published in February 2017, defended the widening of the definition of affordable housing for planning purposes.[22] Many of the arguments raised about Starter Homes and their potential impact on the delivery of affordable rented housing are being levelled at the current Government's First Homes policy.[23]

The Smith Institute launched an independent Affordable Housing Commission in October 2018. The Commission's final report was published in March 2020: Making Housing Affordable Again: Rebalancing the Nation's Housing System. The Commission received evidence that the NPPF definition of affordable housing "made it difficult for councils to attune affordability to local conditions" which in turn leads councils to adopt their own affordability definitions and measures. For example, the Combined West Midland Authority said:

> A 'one size fits all' approach of the NPPF definition of affordability does not reflect the multi-dimensional factors that influence the costs of housing in the West Midlands for local people. In order to address the inaccessibility of both genuinely affordable rental properties and the growing gap between income levels and house prices, a regional approach needs to reflect a whole range of factors influencing affordability and housing market demand.[24]

1.5 Planning and the provision of affordable housing

The revised NPPF says:

> 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.

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21 Communities and Local Government Select Committee, Department for Communities and Local Government's consultation on national planning policy, 1 April 2016, HC 703 2015-16, pp17-18

22 Government response to the Communities and Local Government Committee Third Report of Session 2015–16 on the Department for Communities and Local Government's consultation on National Planning Policy, (PDF) Cm 9418, February 2017, paras 32-39.

23 See for example, Inside Housing, "It's time for a rethink on First Homes", 27 January 2022 (login required)

24 Affordable Housing Commission, Making Housing Affordable Again: Rebalancing the Nation's Housing System: The final report of the Affordable Housing Commission, March 2020, pp65-66

> 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.[25]

The requirement for 10% of homes to be available for affordable home ownership is controversial. For example, the Local Government Association (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 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.[26]

From 28 June 2021, with some transitional arrangements, a minimum of 25% of all affordable homes secured through developer contributions should be First Homes.[27] Comment on this requirement and the potential impact on provision of other types of affordable housing can be found in section 3.3 of this paper.

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25 Ministry of Housing, Communities and Local Government (MHCLG), National Planning Policy Framework, paras 63-65 (accessed on 21 February 2022)

26 LGA Response to the MHCLG consultation on the draft revised NPPF, 17 May 2018

27 HC Deb 24 May 2021 cc7-16WS

1.6 Alternative measures and definitions

Although the definitions of affordable housing outlined above refer to housing which 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 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.[28] There is a view within the housing sector that a failure to set income related affordability targets results in definitions of affordability which lack credibility.[29]

This section outlines some common approaches to measuring affordability, and some past proposals for assessing and defining affordability in practise.

Measuring affordability using incomes and earnings

A simple approach to measuring affordability is to compare household incomes (or alternatively, wages) with the cost of housing.

Housing cost to income ratio

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

For example, the HCIR was used by the Resolution Foundation in its research on affordability published in 2016.[30] It looked at the average proportion of household income spent on housing costs over time. The report acknowledged some of the limitations of this method, including the question of what counts as an 'acceptable' proportion of income:

> […] the notion of affordability depends on a **normative judgement about what proportion of income should be spent on housing.** What this level should be changes with both time and place. Studies of housing affordability in the US have moved from regarding 25 per cent as the threshold in the 1980s, for example, to up to 40 per cent today. The UK government has viewed a ratio of 30 per cent of gross income as unaffordable, while Eurostat treats 40 per cent of net income as the appropriate 'housing over-burden' level in its cross-national analysis.[31]

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28 HL Deb 9 June 2005 cWA99

29 Duncan Bowie, Senior Lecturer in Spatial Planning and Housing at the University of Westminster, speaking at the Policy Forum for London, 11 October 2016

30 Resolution Foundation, The housing headwind, June 2016; Resolution Foundation, Home affront: housing across the generations, September 2017

31 Resolution Foundation, The housing headwind, June 2016, p14

It also noted that the HCIR measure does not account for whether residual income for housing costs is enough to live on (see ‘A residual income approach’ below), or whether a household is making trade-offs to keep costs low (eg by choosing overcrowded housing).[32]

In 2020, the Affordable Housing Commission proposed a definition of housing affordability which built on the housing cost to income ratio by taking account of personal circumstances rather than market prices:

> Our measures are based on an affordability threshold at the point when rents or purchase costs exceed a third of net equivalised household income (and take account of related affordability issues, such as housing quality, overcrowding, adequacy of housing benefit, household size and regional variations).[33]

The Commission recommended the adoption by Government of the affordability definitions, measures and targets, outlined in its report “so they are embedded into national housing policies and plans (ie as both a normative threshold and practical guide to policy making).”[34]

Section 2 of this briefing paper looks at some recent data on the proportion of household incomes spent on housing costs in different tenure groups.

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 (ie the before-tax salary of employees). This data is available for small geographic areas. However, earnings data is an incomplete measure of income. It doesn’t account for the fact that many households have multiple earners, or for the impact of other sources of income such as benefits.

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 (PDF, 2015) proposed the 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[35] was urged to consider an approach linking rents with local wage levels.[36]

The NPPF includes a standard method for calculating housing need which incorporates a housing costs to earnings ratio. Local planning authorities are expected to use the standard method when assessing local housing need as

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32 Resolution Foundation, The housing headwind, June 2016, p14

33 Affordable Housing Commission, Making Housing Affordable Again: Rebalancing the Nation’s Housing System: The final report of the Affordable Housing Commission, March 2020, p66

34 As above, p72

35 PM reaffirms commitment to bold programme of social reform, 1 September 2016

36 The Guardian, “May is urged to consider policy of ‘living rents’ linked to wage levels, 1 September 2016

part of the Local Plan process. The standard method takes a baseline measure of projected household growth and adjusts this upwards, based on the ratio between the median house price in the area and the median annual earnings of full-time employees working in the area.

Further adjustments may apply depending on when the local authority last adopted a Local Plan, and whether the authority is one of those making up the 'top 20' largest urban areas in England.[37] The Library briefing Calculating housing need in the planning system (England) (CBP 9268) explains this method in more detail.

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.[38]

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.[39]

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:

37 MHCLG, Guidance: Housing and economic needs assessments, 16 December 2020

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

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

> **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?[40]

The NHPAU thought 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.[41]

The Labour Party's proposed definition (April 2018)

The Labour Party's Green Paper, Housing for the Many (PDF, 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.[42]

Labour's affordability standard would have incorporated 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.
>
> **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.

40 NHPAU, Housing Affordability – a fuller picture, (PDF) 2010
41 As above.
42 The Labour Party, Housing for the Many, (PDF) April 2018

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.[43]

[43] The Labour Party, Housing for the Many, (PDF) April 2018

2 Affordability by tenure type

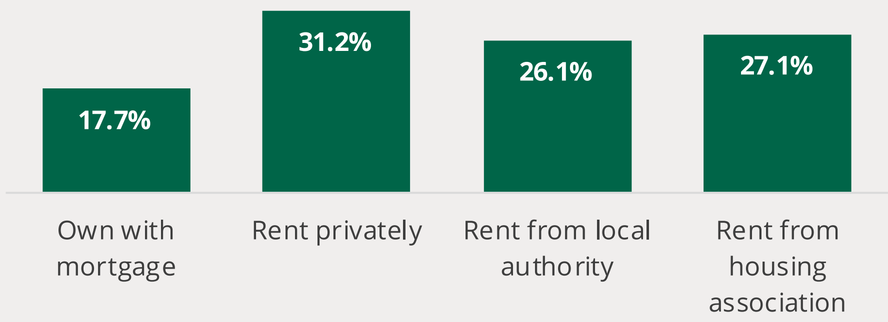
One way of measuring affordability is to look at how much of households' income, on average, is spent on housing costs (see section 1.6 of this briefing for more on this approach).

Data from the English Housing Survey (EHS) tells us how much of their income households that rent or are buying with a mortgage spend on their housing costs. The approach taken by the EHS includes housing benefits in its measure of income. It also looks at income from all members of the household, regardless of whether they are contributing to housing costs. It only looks at mortgage payments and rent as housing costs – which means it excludes other housing-related costs such as service charges.

As the chart below shows, in 2020/21 privately-renting households spent more of their income on housing on average compared with other groups. On average, private renters spent around 31% of their income on rent, compared with 26-27% for social tenants and 18% on mortgage costs for mortgagors.

Private renters spend more of their income on housing

Average mortgage/rent as a proportion of household income, by tenure. England, 2020/21



Source: DLUHC, English Housing Survey 2020 to 2021: headline report, Annex Table 1.12

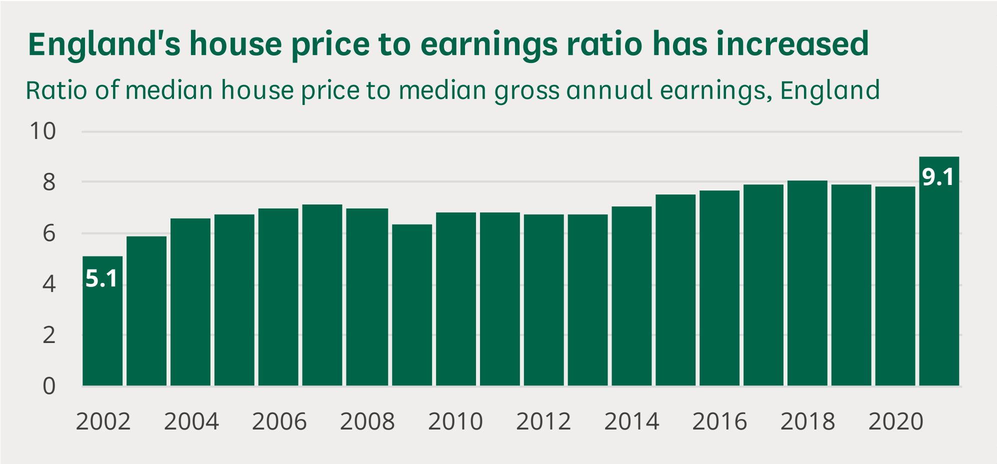
The rest of this section looks at other measures of affordability for homeowners and renters.

2.1 Home ownership

House price to earnings ratio

A common measure of house price affordability compares 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. Median house prices are now 9.1 times higher than median earnings, the highest level recorded to date. The previous high point was in 2018, when median house prices were 8.0 times higher than median earnings.



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.

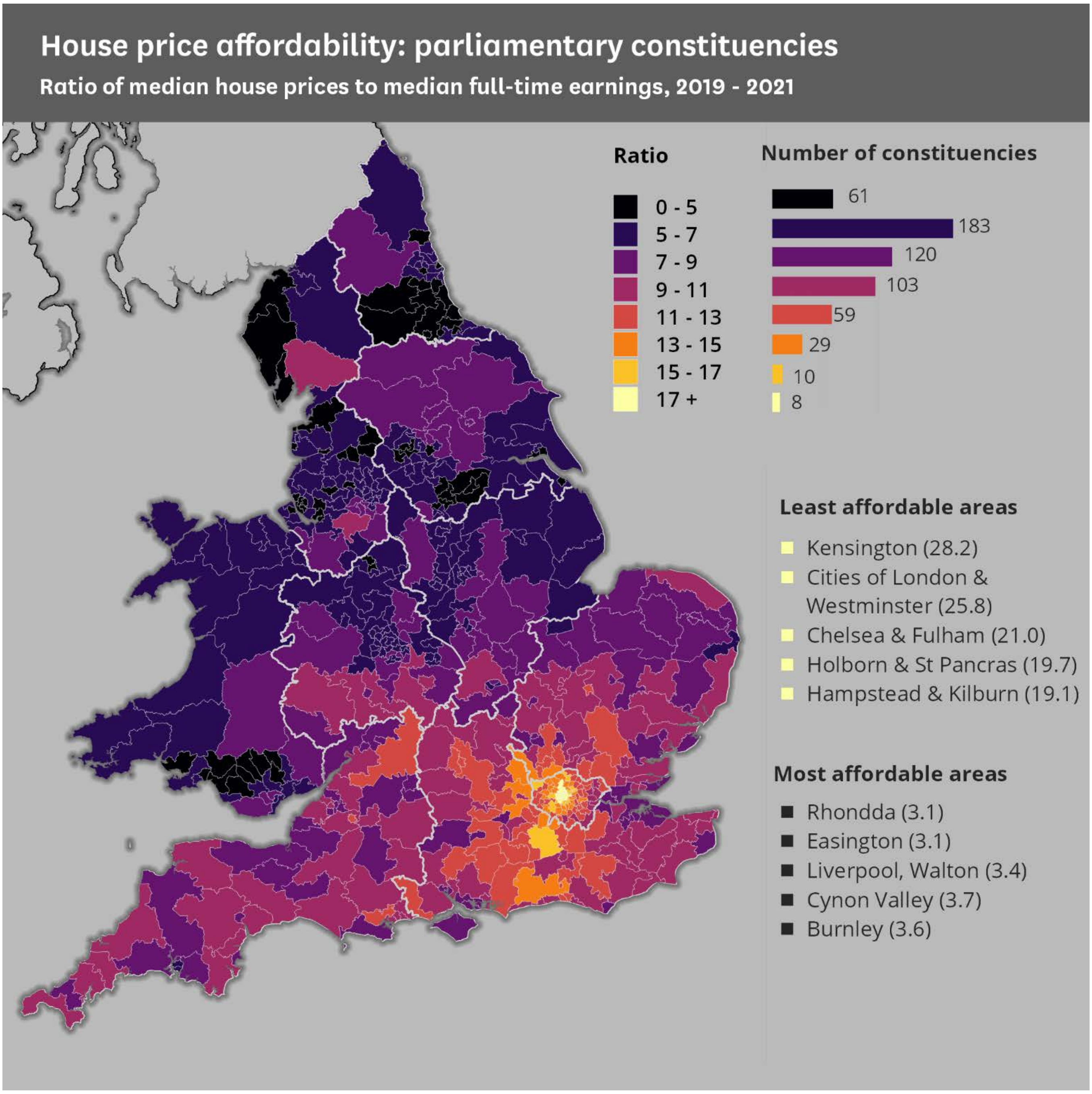
Source: ONS, Housing affordability in England and Wales: 2021, House price to residence-based earnings ratio dataset

The ONS reports that this increase was driven by a large increase in house prices and a small fall in earnings in England:

> In England, average house prices increased by 14% in 2021, while average earnings fell by nearly 1%. This led to housing becoming less affordable. In Wales, average house prices increased by 11%, and although earnings increased slightly by 0.5%, overall housing became less affordable. The changes in affordability for both England and Wales were statistically significant when compared with the previous year.[44]

The map overleaf shows how the housing costs to earnings ratio varies across parliamentary constituencies in England and Wales using a slightly different methodology.

44 ONS, Housing affordability in England and Wales: 2021, 23 March 2022



Notes: Ratios are calculated from a three-year average of median earnings and median house prices between 2018/19 and 2020/21. 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

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 2019 and 2021 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.

Using the three-year average measure, the ratio for England and Wales was 8.0. The least affordable constituency by this measure was Kensington, where median house prices were 28.2 times higher than median earnings. All of the 25 most least affordable constituencies were in London, apart from Mole Valley in Surrey (with a ratio of 15.3) and Chesham and Amersham in Buckinghamshire (14.6).

The lowest affordability ratios were in Rhondda (3.1), Easington (3.1), and Liverpool, Walton (3.4).

Constituency data on house price affordability

The Commons Library publishes an interactive dashboard, Constituency data: house prices,[45] which shows trends in house prices for constituencies in England and Wales as well as house price to earnings ratios.

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.[46, 47]

Affordability for first-time buyers

The affordability of home ownership is often discussed in the context of first-time buyers. The decline in home ownership in England has been more pronounced in some younger age groups. In 2003/04, 59% of households led

45 Constituency data: house prices (parliament.uk)

46 MHCLG, Guidance: Housing and economic needs assessments, 16 December 2020

47 Other 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.

by someone aged 25-34 were homeowners. By 2020/21, this had fallen to 47%.[48]

The fall in house prices after the 2007 financial crisis had only a limited effect on affordability for first-time buyers. Lenders have tightened their criteria for mortgage approvals and require buyers to have substantial deposits. The Affordable Housing Commission (2020) identified affordability of deposits as a key barrier for first-time buyers, with recourse to the "bank of mum and dad" becoming a prominent feature of home ownership:

> The data demonstrates the high levels of savings required to buy. Even though FTBs [First Time Buyers] benefit from tax breaks (on stamp duty and government-backed schemes on newbuild, such as Help to Buy), the loan-to-value requirements of lenders make home ownership unaffordable for many FTBs on average incomes.
>
> The problem of raising the deposit is much worse in London, where the mean FTB deposit is around £147,000 (2019), equivalent to 180% of income; more than double what it was before the financial crisis and nine times higher than in the mid-1990s. The average deposit in all English regions, other than the three Northern regions, is above the average full-time salary for the region.
>
> The median FTB deposit is lower, with English Housing Survey data suggesting that in 2016 the median FTB over the previous three years had bought with a deposit of £25,000 versus a mean deposit of £42,000. Nevertheless, median deposits still represent a considerable amount to save.
>
> As a consequence, recourse to the "bank of mum and dad" has become a prominent feature of home ownership (or general reliance on family support), raising issues around entrenched wealth inequalities…[49]

Affordability of shared ownership

Shared ownership is a product which involves buyers purchasing a share of a property (traditionally between 25% to 75%) and paying rent on the remaining share. It's intended as an intermediate option for households who would not otherwise be able to afford home ownership. The supply of new shared ownership homes has increased in recent years, with the tenure making up an increasing proportion of new homes for affordable home ownership (see section 3.1).

The Government has introduced a new national model of shared ownership which applies to all new grant-funded shared ownership homes delivered through the Affordable Homes Programme (AHP) 2021-26 from 1 April 2021. The model's key features include:

- A minimum share purchase of 10% (previously 25%);

48 DLUHC, English Housing Survey 2020 to 2021: headline report, Annex table 1.4

49 Affordable Housing Commission, Making Housing Affordable Again: Rebalancing the Nation's Housing System, 23 March 2020, pp186-187

- Staircasing in 1% increments for 15 years with reduced fees.
- A 10-year repair free period, during which maintenance and repairs costs are met by the housing provider rather than the shared owner. This is intended to help bridge the gap between renting and homeownership.
- Shared owners have the option to end the housing provider's eight-week nomination period at four weeks if they would prefer to pursue an open market sale of their property.

The average market value of a home purchased through shared ownership schemes increased from £155,000 in 2009/10 to £250,000 in 2020/21. The average initial equity stake purchased rose from £57,000 to £100,800 in that period, while the average mortgage size rose from £45,00 to £86,000.[50]

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. The Group pointed to the need for a salary of £90,000 a year in zones 1 and 2, and to additional service charge costs which make it a more expensive tenure.

The Greater London Authority (GLA) published [Intermediate housing: The evidence base] (PDF) in August 2020. The research note recorded a median household income of shared ownership purchasers in London in 2017/18 of £46,820. Compared to Help to Buy or first-time buyers on the open market, the income and deposit of a typical shared ownership purchaser was found to be "significantly lower." The author said: "This suggests that shared ownership is effective at enabling households on a wider range of incomes to access home ownership, and particularly helps those with relatively small deposits to access home ownership."[51] Limits on affordability in London were identified:

> A median market value home sold with a 25% equity share would be affordable to incomes up to £90,000 in all boroughs, and ranges from £32,930 in Havering to £81,870 in Westminster. However, the gross household income required to afford a median market value home with a 25% equity share is above £46,000 (the income required to afford open market rent in London) in 81% of boroughs and above £60,000 in a third of boroughs. This suggests shared ownership is generally only affordable to those at the upper end of the income eligibility bands.[52]

The new shared ownership model outlined above has the objective of making it "fairer, more affordable, and more consumer-friendly as well as a better model for the market to deliver."[53] Within the sector, there's a view that it

[50] DLUHC, Live tables on social housing sales, Live Table 697, 27 January 2022
[51] GLA, Cash G, Intermediate housing: The evidence base, August 2020, p4
[52] As above.
[53] Ministry of Housing Communities and Local Government ((MHCLG), Making home ownership affordable: Discussion paper, 28 August 2019, para 19

represents “a significant challenge”.[54] There are concerns that the model risks undermining the financial viability of development for shared ownership.[55] According to the Chartered Institute for Housing, it “will impact on providers’ business plans due to the increased costs, potentially decreasing their appetite for and ability to develop shared ownership in greater numbers.”[56]

If providers are required to absorb additional costs, eg from taking on a 10-year repairing liability, this might have a knock-on effect on their ability to deliver shared ownership and cross-subsidise other tenures.[57]

For more analysis of trends in the cost and affordability of shared ownership housing, see the Commons Library briefing Shared ownership (England): the fourth tenure? (CBP 8828).

2.2 Affordability of private renting

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 2020/21 (4.4 million households) – a slight decrease on the year before but an increase in the long term. Around 10% of households rented privately in 2000.[58]

Private rental prices have grown in recent years. According to the ONS’ Index of Private Housing Rental Prices, private rents grew by 2.3% over the year to February 2022, and have increased by 12.6% since January 2015. [59]

Income to rent ratios

The map overleaf 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.

In England, the median rent for a two-bed property was £750 in the year to September 2021, while median monthly earnings were around £2,660 (based

54 National Housing Federation (NHF), Next steps on 2021-26 Affordable Homes Programme, 7 October 2020

55 ‘Sector fears shared ownership will become ‘financially unviable’ following government overhaul’, Inside Housing, 10 September 2020 [login required]

56 As above.

57 Chartered Institute of Housing,‘Doubts grow about government emphasis on shared ownership’, 14 September 2020

58 MHCLG, English Housing Survey 2020 to 2021: headline report, Annex Table 1.1. 9 December 2021

59 ONS, Index of Private Housing Rental Prices, UK: February 2022, 23 March 2022

on scaled-up median weekly earnings). Median rents represented around 28% of median monthly earnings.

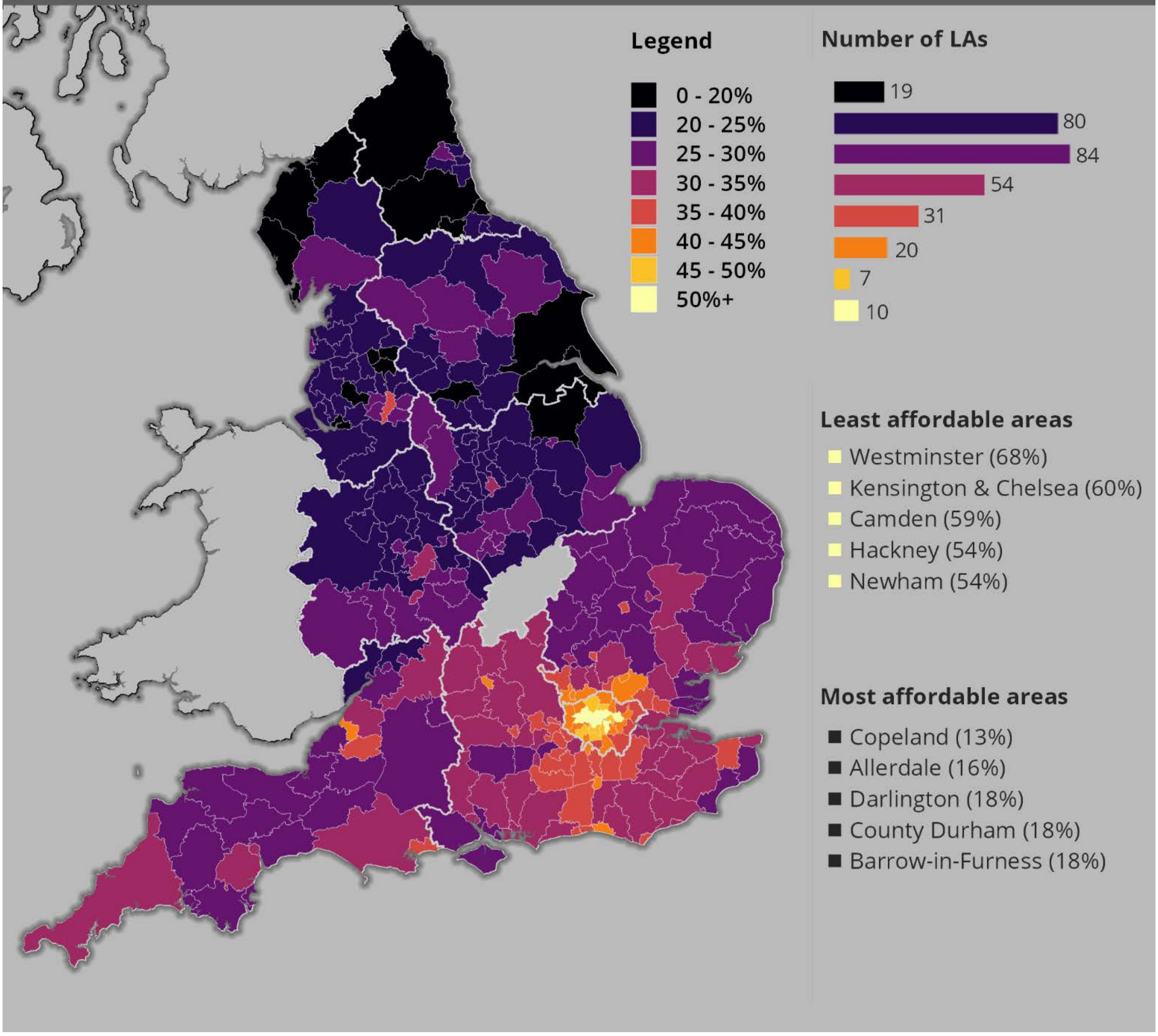
Most local authorities in England also had median rents for two-bed homes that were 20-30% of median monthly earnings. However, the proportion can be higher, particularly in London, the South East and parts of the South West. The 17 areas with the highest proportions were in London. The highest was in Westminster, where median rents were 68% of median monthly earnings. Outside of London, the highest proportions were in Watford (45%), Brighton and Hove (45%) and Harlow (44%).

There were 19 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 (14%).

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.

Private rent affordability by local authority

Median private rent for a 2-bed property as a proportion of median monthly earnings, 2020/21



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. This analysis compares earnings figures for the year to March 2021 with rents figures for the year to September 2021, due to issues with data availability. Data is not available for North Northamptonshire and West Northamptonshire, because comparable figures for the two sources aren't available following local authority boundary changes in April 2021.

Sources: Annual Survey of Hours and Earnings (ASHE), via ONS Nomis; ONS, Private rental market summary statistics in England: October 2020 to September 2021

3 The supply of affordable housing

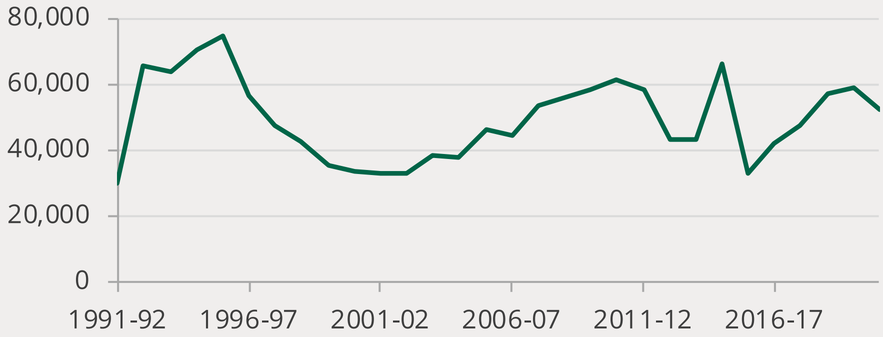
3.1 An overview

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

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

Total supply of new affordable housing

England, 1991/92 to 2020/21



Source: DLUHC, Live tables on affordable housing supply, Live Table 1000, 2 December 2021

New supply of affordable homes peaked in 1995/96 at around 74,500 homes before declining to a low of around 32,900 in 2002/03. New supply spiked in 2014/15 at almost 66,000 homes as the 2011-15 Affordable Homes Programme ended, before falling to 32,600 the following year.

Delivery increased year-on-year thereafter, reaching around 58,900 in 2019/20. The number of homes delivered in 2020/21 was slightly lower, at around 52,100 new homes. There was a fall in overall housing supply in 2020/21 as the Covid-19 pandemic caused fewer new homes to be built. [60] This may also be behind the fall in new affordable housing supply.[61]

[60] Commons Library briefing, Tackling the under-supply of housing in England (CBP 7671)

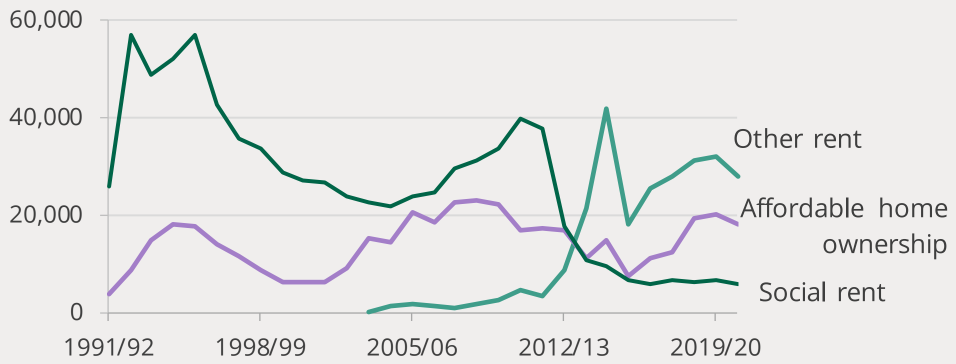
[61] DLUHC, Affordable housing supply in England: 2020 to 2021, 18 November 2021, p3

The chart below shows trends in the number of new affordable homes of each type. 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 as intermediate rent 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. When public grant funding is provided, 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.

New affordable housing supply by type

England, 1991/92 to 2020/21



Source: DLUHC, Live tables on affordable housing supply, Live Table 1000, 2 December 2021

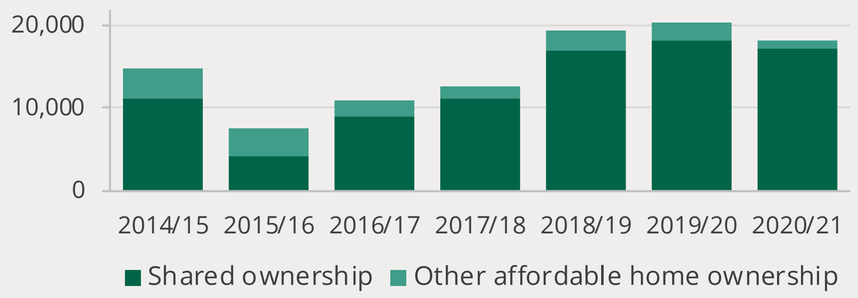
Notes: 'Affordable home ownership' includes shared ownership. 'Other rent' includes Affordable Rent, intermediate rent, London Living Rent, and London Affordable Rent.

54% of homes supplied in 2020/21 were homes for low-cost rent excluding social rent. The majority of these were homes for Affordable Rent; in total, 46% of new affordable homes supplied in 2020/21 were homes for Affordable Rent. Affordable home ownership (including shared ownership) made up 35%, while social rent made up 11%.

Shared ownership homes were more common than other forms of affordable home ownership. Shared ownership made up 33% of all affordable housing supply, while other affordable home ownership made up 2%. As the chart below shows, shared ownership has been making up an increasing proportion of affordable home ownership supply in recent years.

Affordable home ownership supply is increasingly driven by shared ownership

New affordable home ownership homes, England



Source: DLUHC, Live tables on affordable housing supply, Live Table 1000, 2 December 2021

Local data on affordable housing supply

The Commons Library publishes an interactive dashboard, Local authority data: housing supply[62], which includes data on affordable housing supply for individual district-level and unitary local authorities. The dashboard also shows total social housing stock and total new supply of housing.

3.2 The demise of social rented housing?

Historically, homes for social rent and affordable home ownership have been the main source of new affordable homes. However, supply of new homes for social rent has been in decline in recent years, particularly after the introduction of Affordable Rent.

The number of homes let at Affordable Rent initially increased rapidly after their introduction in 2011/12. Delivery of Affordable Rent homes peaked in 2014/15, when they made up 62% of total new supply. Since then, they have made up between 46% and 58% of new affordable housing supply each year.

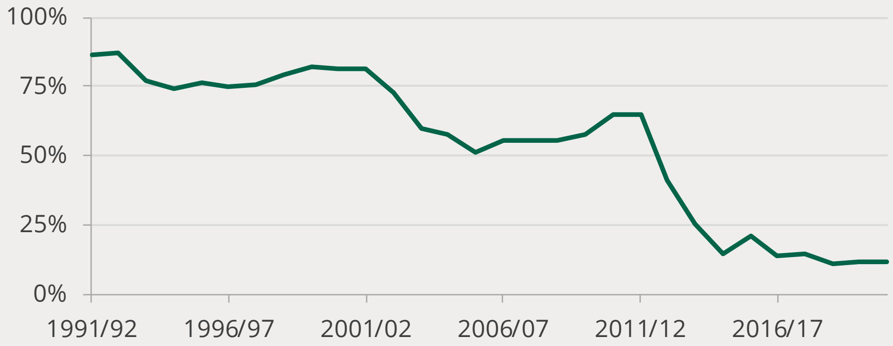
The introduction of Affordable Rent coincided with a decline in the supply of new homes for social rent (see chart, overleaf). Around 6,000 new homes for social rent were supplied in 2020/21, making up 11% of new supply. By contrast, in 2011/12 there were around 37,700 new homes for social rent

62 Local authority data: housing supply (parliament.uk)

supplied (65% of all new affordable housing), and in the early 1990s social rent made up over 75% of new affordable housing supply.

Social rent is declining as a proportion of new supply

Percentage of new affordable homes that are for social rent, England, 1991/92 to 2020/21



Source: DLUHC, Live tables on affordable housing supply, Live Table 1000, 2 December 2021

The stock of homes for social rent fell by around 5% between 2012/13 and 2019/20.[63] Social rented housing has been under pressure due to several factors besides the fall in new supply, including:

- Higher levels of Right to Buy sales following the introduction of increased discounts. There is no requirement to replace these homes on a like-for-like basis, eg to replace a home let at social rent with another let at social rent. Statistics show that the commitment to replace the sold properties within a three-year period is not being met.[64]
- The conversion of social rented homes to Affordable Rent when let.
- Demolition of stock owned by social housing providers.
- The requirement on local authorities and housing associations to reduce rents by 1% every year from April 2016 up to 2020[65] impacted on their investment capacity.

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 (2018) 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.[66]

63 Commons Library, Social rented housing (England): past trends and prospects, 28 May 2021, p30
64 Commons Library, Social rented housing (England): past trends and prospects, 28 May 2021, p30
65 The relevant provisions are contained in the Welfare Reform and Work Act 2016.
66 Bramley G, Housing supply requirements across Great Britain: for low-income households and homeless people (PDF), November 2018, Crisis & NHF, p6

The Levelling Up white paper (February 2022) refers to "significant unmet need for social housing" and contains a commitment to increase supply:

> The UK Government will also increase the amount of social housing available over time to provide the most affordable housing to those who need it. This will include reviewing how to support councils to deliver greater numbers of council homes, alongside Housing Associations.[67]

Further background and statistics on the status of social housing is available in the Library briefing paper Social rented housing (England): past trends and prospects (CBP 8963).

3.3 Planning reforms: Implications for affordable housing

The Planning White Paper, Planning for the Future (August 2020) contained several proposals with implications for the delivery of affordable housing. Following the appointment of Michael Gove as Secretary of State for Levelling Up, Housing and Communities in 2021, a pause was announced.

Reponses to the white paper are being analysed and an announcement is expected in spring 2022. The Levelling Up white paper (February 2022) said: "The UK Government will also implement reforms to the planning system as outlined in Chapter 3."[68] On 10 February 2022, the Minister, Eddie Hughes, responded to a parliamentary question on timing:

> The timing, scope and content of any legislation required to deliver these changes is under consideration, and further detail will be shared in due course.[69]

Reforming planning obligations/section 106 contributions

As noted in section 1.4, in 2019/20 over 27,000 affordable homes were delivered through developer contributions. Planning for the Future proposed to further reform section 106 contributions and the Community Infrastructure Levy (CIL) to create an Infrastructure Levy as "a nationally-set value-based flat rate charge". This might involve a single rate or variable rates. There is an aim for the new levy "to raise more revenue than under the current system of

67 Department for Levelling Up, Housing and Communities (DLUHC), Levelling Up the United Kingdom, February 2022, p224

68 Department for Levelling Up, Housing and Communities (DLUHC), Levelling Up the United Kingdom, February 2022

69 PQ 116989 [Planning], 10 February 2022

developer contributions, and deliver at least as much – if not more – on-site affordable housing as at present."[70]

There are concerns that the creation of a single levy will put affordable housing in competition with other infrastructure projects. The Chartered Institute of Housing, Royal Town Planning Institute, and Town and Country Planning Association said more evidence, modelling and policy development was needed to establish that the new levy would not result in reduced delivery of affordable housing.[71]

The white paper acknowledged risks in the changed approach. For example, there's reference to allowing planning authorities to 'flip' a proportion of affordable units back to market units for developers to sell in the event of a market fall.[72] The 2021 UK Housing Review said this could result in a reduction in affordable housing supply in response to unanticipated changes in site or market conditions, Philip O'Brien commented:

> Under an arrangement in which affordable housing provision is already closely tied to private housebuilding, such a change in policy would introduce further instability.[73]

First Homes and developer contributions

In February 2020, the Government launched a consultation on a new First Homes initiative with the aim of delivering discounted homes for local first-time buyers. The intention is for First Homes to be sold with a minimum discount of 30% off the market price and for this to be retained in perpetuity.[74] A summary of responses and the Government's response was published in August 2020.[75] The Government then consulted on Changes to the current planning system (August 2020) with the outcome in relation to First Homes published on 1 April 2021.[76]

This paper set out how the Government intends First Homes to be delivered:

> We committed to introducing through planning policy a requirement that a minimum of 25% of homes delivered through developer contributions should be First Homes.

70 MHCLG, Planning for the Future, August 2020, p18

71 Inside Housing, "What the sector thinks of the Planning White Paper: six key takeaways", 6 November 2020 [login required]

72 MHCLG, Planning for the Future, August 2020, p66

73 Stephens M; Perry J; Williams P; Young G; Fitzpatrick S: 2021 UK Housing Review, Chartered Institute of Housing and University of Glasgow, p34

74 For more information see: MHCLG, A guide to First Homes (PDF)

75 MHCLG, First Homes Design and Delivery: Summary of responses to the consultation and the Government's response, 6 August 2020

76 MHCLG, Government response to the First Homes proposals in "Changes to the current planning system", 1 April 2021

> We committed to amend the entry-level exception site policy to become a new First Homes exception site policy, allowing a small proportion of market homes and/or other forms of affordable housing to support viability.
>
> We committed to introduce a mandatory exemption from the Community Infrastructure Levy for First Homes. Regulations to achieve this have already passed through the House of Commons and this mandatory exemption became law on 16 November 2020.[77]

Further details were provided in a written statement on 24 May 2021. Changes to planning policy came into effect from 28 June 2021, along with transitional arrangements. The policy requires a minimum of 25% of all affordable homes secured through developer contributions to be First Homes.[78]

The April 2021 paper referred to concerns raised during the consultation process on potential to 'squeeze out' other types of affordable housing:

> The most frequent general points raised under option iii) related to concern about the impact of a requirement for 25% of affordable homes to be First Homes. There was concern that this will reduce the number of affordable homes produced, particularly for social rent which was cited as high need by several local authorities. A number of responses questioned how affordable First Homes would be in their local area. Several pointed to viability impacts of changing the tenure mix.
>
> Other issues which were raised by some respondents included concerns around the impact on registered providers' financial positions – it was suggested that a significant fall in shared ownership provision could reduce cross-subsidisation for affordable homes to rent.[79]

The Government said it was "sympathetic" to these concerns. After securing the 25% First Homes requirement from developer contributions "they [local planning authorities] should prioritise securing their policy requirements on social rent".[80]

A 2021 paper by Savills Research calculated that section 106 delivery of shared ownership and affordable rent homes would have been 29% lower over the previous three years had the First Homes policy been in place.[81]

Raising the small sites threshold (not taken forward)

The August 2020 consultation paper proposed a temporary lifting of the small sites threshold below which developers do not need to contribute to affordable housing. This would have meant no requirement to deliver

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77 MHCLG, Government response to the First Homes proposals in "Changes to the current planning system", 1 April 2021

78 HC Deb 24 May 2021 cc7-16WS

79 MHCLG, Government response to the First Homes proposals in "Changes to the current planning system", 1 April 2021

80 As above.

81 Savills, First Homes: London Planning and Viability Implications (PDF), 2021

affordable housing on sites of up to 40 or 50 units. The Government is not taking this forward:

> We have carefully considered the consultation feedback and the situation in the housing market. On balance, we do not consider this measure to be necessary at this stage, particularly in light of the broader way in which the sector has responded to the challenges of the pandemic and the other measures we have available to support SMEs.[82]

[82] Ibid.

4 The role of Housing Benefit and the housing element of Universal Credit

Housing Benefit and the housing element of Universal Credit (UC) 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[83] 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, said 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.[84]

There have been several changes to entitlement since 2010 which mean it is more likely that a claimant's Housing Benefit/housing element of UC 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 (LHA) rates (applies to claimants living in the private rented sector) have been calculated with reference to the 30th percentile of market rents within a Broad Rental Market Area. Prior to this, LHA rates were based on median rent levels. National LHA caps were introduced at the same time.

- Uprating LHA rates has been subject to various restrictions since 2012. LHA rates were frozen for four years from April 2016 to April 2020 with some exceptions for the most expensive areas. In March 2020, in response to the coronavirus pandemic, the Government announced LHA rates "will cover at least 30% of market rents".[85] This was described as reversing the four-year freeze. Spending Review 2020 (November 2020)

83 Removed rent controls.

84 HC Deb 30 January 1991 cc939-40

85 HM Treasury Press Release, 20 March 2020

announced LHA rates would be frozen in cash terms in 2021/22.[86] A further freeze has been confirmed for 2022/23.[87]

- The Shared Accommodation Rate, which limited entitlement 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. Some exceptions apply.

- Since April 2013 under-occupying households of working-age in social rented housing have experienced a reduction in their Housing Benefit/housing cost element of UC 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).

- From April 2017, those out of work aged-18-to-21 making new UC claims, with some exceptions, were no longer automatically entitled to the housing element. On 29 March 2018, the Government issued a written statement announcing regulations would be amended "so that all 18-21 year olds will be entitled to claim support for housing costs in UC."[88] This change came into force at the end of December 2018.

Commentators argued that freezing LHA rates between 2016 and 2020 made 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.[89]

The increase in LHA rates in 2020 was widely welcomed, with some caveats. For example, Shelter and others pointed out that covering only the 30th

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86 Spending Review 2020, CP 330, November 2020, p13. For an analysis of the implications of this measure see Shelter, First indication of Local Housing Allowance rates out last week, 18 December 2020

87 HM Treasury, Autumn Budget and Spending Review 2021 Policy Costings, (745KB, PDF) , October 2021, p65

88 HCWS611, 29 March 2018

89 CIH, Missing the Target? August 2018

percentile of market rents still left a majority of those potentially facing a drop in income due to the pandemic with a shortfall in assistance.[90] Shelter analysed the implications of freezing LHA rates in cash terms over 2021/22.[91] The National Residential Landlord Association (NRLA) has expressed "serious concerns" about the freeze:

> We were seriously concerned by the decision in the Spending Review to freeze the Local Housing Allowance rate in cash terms from next year. We agree with the Institute for Fiscal Studies which has warned that the measure means that: "some high rent areas get less support than some in low rent ones".[92]

On 9 March 2022, homelessness charity Crisis referred to an analysis of Government data which, it claims, "shows that housing benefit is no longer covering the cost of renting a modest property in most parts of England, with families on the breadline facing, on average, a £372 deficit that they need to make up in other ways."[93] The impact of rent increases in London are identified as a particular issue:

> Renters in parts of London are set to be the hardest hit where even going without food and heating every day won't be enough to keep up with the rising costs. In outer South East London the average yearly rent of a modest two bed property is £14,301 compared to the housing benefit entitlement of £13,164, leaving a shortfall of £1,137. Combining this with the other increases in the cost of the living, struggling renters in this area will be forced to give up the equivalent of nearly two days of both food and heating a week to try to keep on top of the crippling costs.[94]

A Commons Library briefing paper (CBP05638), The rent safety net: changes since 2010 contains a detailed assessment of Housing Benefit/UC measures and some modelling of the impact of these changes on claimants, particularly the freezing of LHA rates.

[90] Shelter, New LHA rates: what do they mean? 26 March 2020
[91] Shelter, First indication of Local Housing Allowance rates out last week, 18 December 2020
[92] NRLA, Government needs to get a grip of Covid rent crisis, 14 February 2021 – see link to NRLA research in the press release.
[93] Crisis, Families at risk of eviction as cost-of-living crisis escalates, 9 March 2022
[94] As above.