Redefining Affordability

A CPRE Briefing

Summary

We all need a stable home we can afford to live in, no matter where we are. To give everyone in the countryside a fair chance in life, we must ensure that there are enough low cost homes in our villages and market towns, whether to rent or buy. But for too long, we have not built the right kind of homes in rural areas. The problem is only getting worse, with rents and house prices rising steadily and wages failing to keep pace. A new definition of 'affordable' in national planning policy could help to change this by reconnecting rents and local incomes, so that more homes are available at a price that low-income households can afford to pay.

Problems with the current approach

- The definition of 'affordable housing' in the 2018 National Planning Policy Framework (NPPF) comprises a wide variety of tenures, some of which are much more expensive than others.
- In particular, 'affordable rent' – which can be up to 80% of market value – is not affordable for many low income households in high demand areas. This can be a particular problem in desirable villages in rural areas, where housing costs are high and work is often insecure and seasonal.
- As highlighted by an interim report of the Affordable Housing Commission, affordability should be defined in terms of what people can afford to pay, rather than in relation to market values.[1]
- Rural communities would stand to benefit as much as cities from a revised definition of affordability, linked to incomes rather than market rents and house prices.
- One of the key barriers to persuading Government to adopt a new approach is a lack of consensus over how an income-linked definition would work and what data it would rely on.

A proposed new approach

- This briefing summarises CPRE's analysis of the impact of the new definition of affordability proposed by Helen Hayes MP in her 2019 Affordable Housing and Land Compensation Bill.
- The proposed new approach would define homes as affordable in the NPPF if they consumed **'no more than 35% of net household income for lowest quartile income groups in each local authority area'.**
- CPRE proposes that this approach be adopted with accompanying guidance that, in low-demand areas where 35% of net lower quartile income is greater than 80% of market rents, the lower figure is used.

Key Findings

- Provided it is introduced alongside guidance to ensure tenants in lower-demand areas do not face rent increases, **tenants stand to save almost £200m per year on rent** under a new definition.
- There are no substantive differences between urban and rural authorities in terms of the level of savings which could be achieved by tenants.
- However, there are major regional disparities in the projected impact of the proposed change.
- Tying rents to incomes rather than the market could help to equalise rent levels across high and low demand regions, but the policy would need to be sensitive to regional differences.

Background

- The ‘affordable rent’ model – which caps rents at 80% of the market rate for a comparable property – was introduced in 2011 as part of the coalition Government’s attempt to make overall savings on housing spending.
- From 2011 housing associations were encouraged to convert vacant homes from social rent to affordable rent and from 2015 they were required to do so in order to qualify for grant funding from the Homes and Communities Agency (now Homes England).
- In combination with the replacement of social rented homes sold under Right to Buy with affordable rented properties, the policy of conversions has led to the loss of 165,000 social rented homes since 2013, according to analysis by the Chartered Institute of Housing (CIH).[2]
- The definition of ‘affordable housing’ in the National Planning Policy Framework (NPPF) dictates the types of home which may be considered as ‘affordable housing’ for planning purposes. It comprises a wide variety of tenures, some of which are much more expensive than others.
- The 2018 revised NPPF expanded the range of sub-market home ownership products which can be considered ‘affordable housing’ for planning purposes.
- CPRE has long called for affordability to be defined in relation to income, rather than our dysfunctional housing market, and for grant funding to prioritise the delivery of homes for the most affordable tenure – social rent.
- In February 2019, Helen Hayes (MP for Dulwich and West Norwood) introduced a Ten Minute Rule Bill which proposed to redefine ‘affordable’ in planning policy as consuming ‘no more than 35% of net household income for lowest quartile income groups in each local authority area’.

Methodology

Data

Our dataset uses the following data:

- Lower quartile income data for each local authority area from the Office for National Statistics – ASHE Table 7
- Average affordable rent levels, numbers of affordable rent properties, and regional classification for each local authority from the Regulator of Social Housing – SDR 2018 - Data Tool (Local Authority View).
- Relative rurality of local authorities from Defra’s Rural Urban Classification.

Method

1. The dataset takes the gross income figures for the 25th percentile of earners in the ASHE table and adjusts them for income tax and national insurance contributions to give net income.
2. It calculates 35% of net income for a household with one full time earner on a lower quartile wage.
3. This is compared to the average affordable rent level for existing affordable rent properties within the local authority area, to give an average weekly difference in rent level between affordable rent and income-linked rent.
4. The cumulative weekly difference is calculated by multiplying the average weekly difference by the number of affordable rent properties within a local authority area.

Analysis

Why is the current definition a problem?

- The Government's definition of 'affordable housing' has become increasingly complex. The term now encompasses such a wide variety of tenures that it has been robbed of its meaning. This stokes opposition to new development, because the public does not trust that homes will be truly affordable.
- Affordable rent is a problem because it is calculated with reference to local private rents, rather than local incomes. In areas where rents are typically very high, a 20% reduction is unlikely to be enough to make a property affordable for a low income household.
- Research by the Joseph Rowntree Foundation in 2018 found that, on average, a two-bedroom property for affordable rent was £1,400 more expensive per year than a comparable home for social rent.[3]
- Government funding through the Affordable Homes Programme is skewed towards less affordable tenures. In 2017/18 Homes England funded 990 completed homes for social rent outside of London, compared to 22,495 for affordable rent and 7,245 for affordable home ownership.[4]
- In total, 5900 homes for social rent were completed in 2016/17. The largest individual funding source was Section 106, which funded 2750 homes, or 47% of the total. Local authorities funded 1470.[5]

The impact of the proposed new definition

- A definition which pegged affordability to 35% of net lower quartile income at a local authority level could save existing tenants of affordable rent properties almost £200m per year.
- In particular, the proposed new definition would lead to significant savings in high demand areas. It would be cheaper than current market-linked rents in all but one local authority area in the South East region (the sole exception is Dover).
- However, a definition based solely on incomes would not automatically lead to savings in lower demand areas. In only two authorities in the North West region would an income-linked rent be cheaper than current affordable rent levels (Trafford and South Lakeland) and in no authority in the North East.
- Consequently, the proposed new definition would need to be introduced with guidance specifying that rents would not increase in areas where an income-linked figure would be greater than current affordable rent levels.
- If affordable rent was set at 35% of net lower quartile income, unless 80% of market rate was cheaper, the average household would stand to save £18 per week on their rent. That's £936 per year.
- In some expensive rural authorities like Waverley in Surrey, savings could be as high as £6,760 per year.
- We found no obvious differences between urban and rural authorities in terms of the predicted level of savings that could be achieved. Our data suggests that region plays a much greater role in determining potential savings than rurality does.

How much do families stand to save?

Cumulative weekly savings	**£3.76m**
Cumulative annual savings	**£195.5m**
Cumulative weekly rural savings	**£606,707**
Cumulative annual rural savings	**£31.5m**
Average weekly household savings	**£18.01**
Average annual household savings	**£936**

Rural case studies

Copeland

In mainly rural Copeland, on the west coast of Cumbria, 35% of net lower quartile income was around £495.50 in 2017/18, a consequence of high full-time salaries at Sellafield nuclear power station, the borough's major employer. However, data on average part-time earnings was not available for Copeland in 2017/18, and the headline numbers may obscure significant pockets of poverty in the district, for people who are out of work or in low-paid, part-time or seasonal employment.

In this area, an income linked rent would be a striking £80.54 per week more expensive than current average affordable rent levels. Indeed, Copeland would see the biggest potential rent increases in the country under the proposed new definition, unless it were adopted alongside guidance to ensure low income families in low demand areas would not be adversely affected.

Waverley

At the other end of the country, and the affordability spectrum, largely rural Waverley in Surrey would see the fourth highest level of potential savings by tenants, who would stand to gain an average of £129.91 per week under a new definition of affordable. This reflects very high cost of housing in this desirable local authority area, which includes much of the western portion of the Surrey Hills Area of Outstanding Natural Beauty, and is driven in large part by proximity to Greater London.

Under a new definition of affordable, low income families in the borough – who earned an average of £335.70 per week after tax in 2017/18 – could see their 'affordable rents' more than halve, from £247.40 to £117.49 per week, saving them almost £7,000 per year.

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[1] Affordable Housing Commission interim report, 'Defining and measuring housing affordability – an alternative approach', June 2019, https://www.affordablehousingcommission.org/news/2019/6/6/defining-and-measuring-housing-affordability-an-alternative-approach.

[2] Chartered Institute of Housing analysis, February 2019, http://www.cih.org/news-article/display/vpathDCR/templatedata/cih/news-article/data/More_than_165000_homes_for_social_rent_lost_in_just_six_years_new_analysis_reveals.

[3] https://www.jrf.org.uk/report/affordable-rents-compared-traditional-social-rents.

[4] MHCLG Live Table 1012, https://www.gov.uk/government/statistical-data-sets/live-tables-on-affordable-housing-supply.

[5] MHCLG Live Table 1000C, https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/758193/Live_Table_1000.xlsx.