Affordability of social rent

NHF briefing

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Summary

Affordability of 2 bed social rent homes by 2034/35 compared to 2024/25, % of LA areas where social rent is less than 33% of wages – not including benefits

	2024/25	2034/35, Wage growth reverting to CPI	2034/35, Wage growth reverting to CPI+1
One full time lower quartile income	100%	99.7%	100%
One full time 10th percentile income	97%	85%	97%
One full and one part time lower quartile income	100%	100%	100%
One full and one part time 10th percentile income	100%	98%	100%

Affordability of 3 bed social rent homes by 2034/35 compared to 2024/25, % of LA areas where social rent is less than 33% of wages – not including benefits

	2024/25	2034/35, Wage growth reverting to CPI	2034/35, Wage growth reverting to CPI+1
One full time lower quartile income	99%	93%	99%
One full time 10th percentile income	76%	58%	75%
One full and one part time lower quartile income	100%	100%	100%
One full and one part time 10th percentile income	99%	88%	98%

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Affordability of 2 bed social rent homes by 2034/35 compared to 2024/25, % of LA areas where social rent is less than 33% of gross wages plus benefits

	2024/25	2034/35, Wage growth reverting to CPI	2034/35, Wage growth reverting to CPI+1
One full time lower quartile income	100%	100%	100%
One full time 10th percentile income	100%	100%	100%

Affordability of 3 bed social rent homes by 2034/35 compared to 2024/25, % of LA areas where social rent is less than 33% of gross wages plus benefits

	2024/25	2034/35, Wage growth reverting to CPI	2034/35, Wage growth reverting to CPI+1
One full time lower quartile income	100%	100%	100%
One full time 10th percentile income	100%	98%	99%

"Benefits" here includes universal credit basic allowance and housing element. Child benefit is not included. Assumptions based on a two adult two child household occupying an appropriately sized home, with one income as specified. 2034/35 figures are based on existing thresholds and rates being applied to projected rents and incomes.

Note: Results rounded to nearest 1% except where rounding would give a false 100% result. Thus a result of 100% in these tables is a genuine 100% result.

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Introduction

While housing associations in England are keen to see the existing rent settlement continued, and a return to the prior policy of convergence, they are acutely aware of the ongoing impacts of the cost of living crisis on their residents and of the implications this has for continuing to fulfil their primary social mission, to provide homes that people on low incomes can afford to live in.

This paper looks at the affordability implications of a continued social rent settlement based on an annual increase at 1 percentage point above the Consumer Price Index (CPI), and with a restoration of the convergence mechanism which existed prior to 2016. It uses earnings data from the Office for National Statistics (ONS) at different points in the distribution to assess where issues might arise.

It extrapolates CPI and wage growth figures based on figures from the Office for Budget Responsibility (OBR), applying them to wage data and existing rents for different sizes of social home, at a local authority district level.

Please note that by necessity the calculations in this paper are based on average rents and average pay levels; obviously the reality of individual households' experiences can vary widely, and in some cases will not reflect the assertions made here. However we believe that the findings of this exercise are the based on the best possible information available at the time of writing in order to arrive at a general picture of the situation we are facing.

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Key assumptions

Wage figures

To model low earnings, we used figures from the Annual Survey of Hours and Earnings (ASHE), compiled and published by the Office for National Statistics (ONS).

These figures are published at Local Authority (LA) level across Great Britain; we just used the figures for English LAs. We compiled four different sets of income data:

- One full time earner at the 25th percentile (lowest quartile)
- One full time earner at the 10th percentile
- One full time and one part time earner at the 25th percentile
- One full time and one part time earner at the 10th percentile.

Obviously we could have gone on and produced many more combinations, but it was felt that these four would give a useful range of benchmarks.

Given the granularity of the data we were trying to compile, we did run into instances where data was missing for some LA areas, in particular within the 10th percentile and part time datasets. Where this was an issue, we addressed this by using the data for the "next level up" in the geographical hierarchy. So for example, if district level data was missing, we would use the figure relating to the county as a whole. While this has the effect of smoothing out differences across counties, it at least allows us to include the area in the analysis rather than excluding it entirely.

Having said this, there are two areas which we did exclude due to a lack of available data – the City of London and the Scilly Isles. These two areas are routinely excluded from LA level analysis due to their extremely low resident figures and the subsequent lack of reliable statistical data. So our analysis looked at 294 English LA areas, out of a total of 296.

Rents

For the rental data we used figures published by the Regulator for Social Housing in their annual Stock and Rents dataset. This is compiled at a provider and LA level across different sizes of dwelling. For this analysis we decided to concentrate on the most numerous dwelling sizes: two and three bedroom homes.

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For the sake of simplicity a decision was also taken to use formula rents rather than actual rents. This would mean that the effects of convergence would already be figured in, rather than attempting to model it over time. By examining the notional post-convergence rent, we could assess the affordability of our stated policy position of seeking a return to rent convergence.

We aggregated the data to give us an average formula rent for each size of dwelling in scope (so two bedroom and three bedroom) in each LA area.

Projections

We projected rents forward using CPI as forecast by the OBR. After a few years this reverts to the long-term target of 2%. In line with the rent settlement we add one percentage point to the increase each year (thus reaching the CPI+1 as stipulated).

Wage growth is also calculated using OBR forecasts. As these run out after a few years, after this point we modelled two scenarios – one where growth reverts to CPI (in effect the long-term 2% target) and one where it reverts to a level just above inflation (CPI+1%, in effect 3% annually). It is worth noting that while the OBR forecasts are for all pay across the distribution, historical figures show lower points in the distribution rising at a faster rate; hence our wage growth projections here can be seen as being on the cautious side.

Affordability norms

Again for the sake of simplicity we chose the frequently used rule-of-thumb metric for rental affordability that rent should not take up more than a third of income. In practical terms we defined this as 33%. Using the sources and assumptions listed above, we projected the latest figures forward until 2034/35. We then counted how many of the 294 LA areas included in our analysis breached the 33% affordability norm in each year.

We should acknowledge at this point that this method is a purely indicative measure of affordability in that it does not account for the ongoing impacts of high consumer price rises in recent years; as such it may not chime with the actual experiences of individual households.

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Results

The first table shows results based on wage growth reverting to CPI (2% target) once the projections run out. As we are projecting rent increases at CPI+1, it is unsurprising that we see unaffordability increasing over time.

Table 1 – Number of LA areas unaffordable, with wage growth reverting to CPI target

	2023/24	2024/25	2025/26	2026/27	2027/28	2028/29	2029/30	2030/31	2031/32	2032/33	2033/34	2034/35
25% FT, 2 bed	0	0	0	0	0	0	1	1	1	1	1	1
25% FT, 3 bed	1	3	3	3	3	5	6	8	10	13	17	21
10% FT, 2 bed	4	9	10	10	12	14	19	23	27	34	38	45
10% FT, 3 bed	44	72	74	74	79	86	91	95	107	110	121	124
25% FTPT, 2 bed	0	0	0	0	0	0	0	0	0	0	0	0
25% FTPT, 3 bed	0	0	0	0	0	0	0	0	0	0	0	0
10% FTPT, 2 bed	0	0	0	0	0	1	1	2	4	4	5	5
10% FTPT, 3 bed	4	7	8	8	9	11	18	23	25	27	34	36

Under these conditions we can see that 2 bed properties are affordable on a single lower quartile (25%) income in nearly every area. In the vast majority of areas a 3 bed property also remains affordable on this income level. And when a lower quartile part-time income is added, then there are no areas where the affordability norms are breached for lower quartile incomes.

However for lower incomes the picture is understandably less positive. By the end of the period covered, a 2 bed property would breach affordability norms for someone on a full time income at the 10th percentile in 45 areas – equating to 15% of all areas analysed. A 3 bed property would immediately breach norms for someone on this income in 15% of areas, rising to more than 40% of areas by the end of the period covered. But if a part-time income at this lower level is added in then the picture improves considerably; a 2 bed property is unaffordable in only five areas by the end of the period covered, and though 3 bed properties become unaffordable in 36 (12%) areas by that time, this is a massive improvement on the single income position.

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The second table shows the situation if we revert wage growth to CPI+1 when the initial projections run out. Unsurprisingly, this shows a much better situation.

Table 2 – Number of LA areas unaffordable, with wage growth reverting to CPI target + 1%

	2023/24	2024/25	2025/26	2026/27	2027/28	2028/29	2029/30	2030/31	2031/32	2032/33	2033/34	2034/35
25% FT, 2 bed	0	0	0	0	0	0	0	0	0	0	0	0
25% FT, 3 bed	1	3	3	3	3	3	3	3	3	3	3	3
10% FT, 2 bed	4	9	10	10	9	9	9	9	9	9	9	9
10% FT, 3 bed	44	72	74	74	74	74	74	74	74	74	74	74
25% FTPT, 2 bed	0	0	0	0	0	0	0	0	0	0	0	0
25% FTPT, 3 bed	0	0	0	0	0	0	0	0	0	0	0	0
10% FTPT, 2 bed	0	0	0	0	0	0	0	0	0	0	0	0
10% FTPT, 3 bed	4	7	8	8	7	7	7	7	7	7	7	7

For single full time lower quartile incomes, 2 bed properties remain affordable everywhere across the whole period. There are only three areas where 3 bed properties become unaffordable to people at this income level. And adding in a part-time income at this level eradicates unaffordability entirely.

For people on 10th percentile incomes, the situation is also much improved. For someone receiving a full time income at this level affordability norms are breached by 2 bed properties in only 9 areas, 3% of the total. This rises to 74 areas (around a quarter) when we look at 3 bed properties, a big improvement on the 40% we saw in the previous wage growth scenario. When we add a part time income into the mix at this level then affordability breaches are eliminated entirely for 2 bed properties, and only persist for 3 bed properties in 7 areas – just over 2% of the total.

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It must be remembered however that these figures purely compare earnings and rents, disregarding other forms of income. And for households on low pay, interaction with the benefits system offers some relief.

If we consider a notional family – two adults and two children, where the adults are aged above 25 and the children are aged so as to make either a two or three bedroom property appropriate under existing rules, and with no other forms of income or support needs – we can model universal credit entitlement and deductions based on the rents and income data used.

Reassuringly, including benefits income (here just looking at the basic allowance and housing element of Universal Credit, not including Child Benefit) makes a big impact on the areas of unaffordability noted previously.

Table 3 - Unaffordability of 2 bed social rent homes by 2034/35 compared to 2024/25, number of LA areas where social rent is more than 33% of gross wages plus benefits

	2024/25	2034/35, Wage growth reverting to CPI	2034/35, Wage growth reverting to CPI+1
One full time lower quartile income	0	0	0
One full time 10th percentile income	0	0	0

Table 4 - Unaffordability of 3 bed social rent homes by 2034/35 compared to 2024/25, number of LA areas where social rent is more than 33% of gross wages plus benefits

	2024/25	2034/35, Wage growth reverting to CPI	2034/35, Wage growth reverting to CPI+1
One full time lower quartile income	0	0	0
One full time 10th percentile income	0	5	2

Given the complexity of the calculations here we have only looked at the current year and 2034/35, omitting the intervening years. To arrive at the 2034/35 figures we simply used existing thresholds, allowances etc applied to projected rent and income figures. So we can see that even at today's rates, in ten years' time unaffordability would on average be almost eradicated even for single 10th percentile income households.

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Conclusions

From the results above we can see that, before income from benefits is taken into account, currently social rents are on average affordable for people at the lower quartile of the employment income distribution across most of the country, particularly where a household has more than one income. The situation is understandably worse for people at the 10th percentile.

The biggest influence on changes in affordability over time in this model is the degree of correlation between wage growth and CPI inflation; as long as the former remains one percentage point above the latter then established affordability levels are on the whole maintained. However if wage growth lags behind CPI+1 then breaches of the norms will increase.

That being said, the action of the benefits system as it stands will notionally eradicate unaffordability for lower quartile earners in 2 and 3 bedroom homes and for 10th percentile earners in 2 bedroom homes, while very nearly eradicating it for 10th percentile earners in 3 bedroom homes, even at the lower wage growth level modelled. And it should also be noted that this is based on the unlikely assumption that thresholds, rates and allowances remain unchanged over the entire ten year period; even a small positive change in these (in line with inflation for example) could remove remaining pockets of unaffordability entirely.

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Appendix – OBR forecasts

The OBR forecasts of CPI and wage growth used in this analysis are as follows.

Applying to year	2024/25	2025/26	2026/27	2027/28	Each year following
CPI	6.7%	1.6%	1.6%	1.7%	2.0%
Wage growth	1.7%	1.9%	2.5%	2.0%	CPI (2%) or CPI+1 (3%)

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