Flagship Group

Sheffield Hallam University | Centre for Regional Economic and Social Research

# HOW AFFORDABLE IS AFFORDABLE HOUSING?

Summary Report
Autumn 2016

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Centre for Regional Economic and Social Research
Sheffield Hallam University

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# KEY FINDINGS

- **A relatively small proportion of tenants had unaffordable rent (6 per cent). However a further third of tenants (32 per cent) were at risk of unaffordable rent**. Any negative change to the financial circumstances of this group, such as further welfare reforms, could significantly increase the proportion of tenants with unaffordable rent
- **Tenants with higher rent and variable and/or low income had the highest likelihood of unaffordable rent. 30 per cent of tenants had an income of less than £10,400.**
- **Rent arrears are an important indicator of unaffordable rent.** More than seven times as many tenants with unaffordable rent were in arrears on their rent account compared to tenants with affordable rent respectively
- **Past experiences of unaffordable rent are a good predictor of problems in the future.** Tenants with unaffordable rent were more likely than tenants with affordable rent to have had difficulties paying their rent 'always' or 'most of the time' in the past year
- **Rents are currently set at appropriate levels for almost all tenants**. The cost of rent was not a common reason for difficulties in paying rent. The most common reasons were unexpected expenses, increases in outgoings and decreases in income - for example due to health or job loss
- **Cutting back on spending was the most common reaction when tenants run out of money (55 per cent of tenants)**. Tenants who borrowed (39 per cent), used a credit card/overdraft (31 per cent) or took out a loan (eight per cent) are a concern because they are taking on debt which in turn is likely to affect the affordability of their rent
- **Working age households who have no adults in full time work are going to be most affected by forthcoming welfare reforms, such as the LHA cap in social housing and tax credits reforms.** In addition direct payment of Housing Benefit, rolled out as part of Universal Credit, will give more tenants responsibility for paying their rent and expose them to the possibility of unaffordable rent
- The research has provided a **Rent Affordability Assessment Tool to assess rent affordability for tenants and prospective tenants**
- The research recommends **triaging all tenants entering arrears for the causes of unaffordable rent and to put in place necessary support**
- The research recommends **being proactive in preventing problems associated with unaffordable rent, particularly in anticipation of forthcoming welfare reforms.** This includes:
  - Encouraging tenants to build up at least 4 weeks' worth of credit on their rent accounts
  - Identifying and targeting support at tenant groups most likely to be affected by welfare reforms
  - Reviewing letting policies

# 1. INTRODUCTION

## 1.1. INTRODUCTION

At the end of 2015 Flagship commissioned the Centre for Regional Economic and Social Research (CRESR) at Sheffield Hallam University to assess the affordability of its housing products. The objectives of the research were to:

- Understand what rent affordability means and how it impacts on customers
- Identify how affordability differs by geography and key tenant characteristics
- Understand the impact that imminent welfare and other wider changes will have on affordability

This report provides a summary of the key findings from the research. A more detailed analysis can be found here **www.flagship-group.co.uk/research**.

## 1.2. METHODOLOGY

CRESR undertook a survey of Flagship tenants to assess their financial position and the affordability of their housing costs. The survey was undertaken between February and April 2016, with a paper survey distributed to just under 20,000 Flagship tenants, including social rent, affordable rent, market rent and shared ownership customers. In total 2,628 valid responses were received.[1]

[1] Analysis confirmed the respondents were largely representative of Flagship tenants. However, minor adjustment weights were used in the analysis to correct for biases in relation to property type and age of respondents.

# 2. THE AFFORDABILITY OF FLAGSHIP'S HOUSING PRODUCTS

## 2.1. MEASURING AFFORDABILITY

This report evaluates rent affordability - **the ability of a household to pay their rent**. This is commonly measured using metrics such as:

- The maximum acceptable housing costs to income ratios, for example, Shelter argue households should not be paying more than 35 per cent of their net household income on housing costs[2]
- The minimum residual income (after housing costs) required to meet non-housing needs, for example the Joseph Rowntree Foundation suggest a single person working age household needs £10,192 per annum after rent

We argue these are often arbitrary measures that are insensitive to personal circumstances. This research takes a **broader view of rent affordability that is receptive to individual tenant circumstances**. It combines the following three elements:

- A tenant's perception of the affordability of their rent
- A tenant's assessment of their overall financial position
- Whether a tenant had responsibility for their rent, i.e. they were on full Housing Benefit paid direct to their landlord

Table 2.1 summarises our classification of affordability.[3]

**Table 2.1: A summary of the affordability classification**

| | My rent is affordable | I have enough money to cover living costs and unexpected bills | Full HB paid direct to landlord |
|---|---|---|---|
| **Affordable rent** | ✓ | ✓ | ✓ |
| **Risk of unaffordable rent** | ✓ | ✗ | ✗ |
| **Unaffordable rent** | ✗ | ✗ | ✗ |

[2] Bibby, J. (2015) What is affordable housing, http://blog.shelter.org.uk/2015/08/what-is-affordable-housing/ .

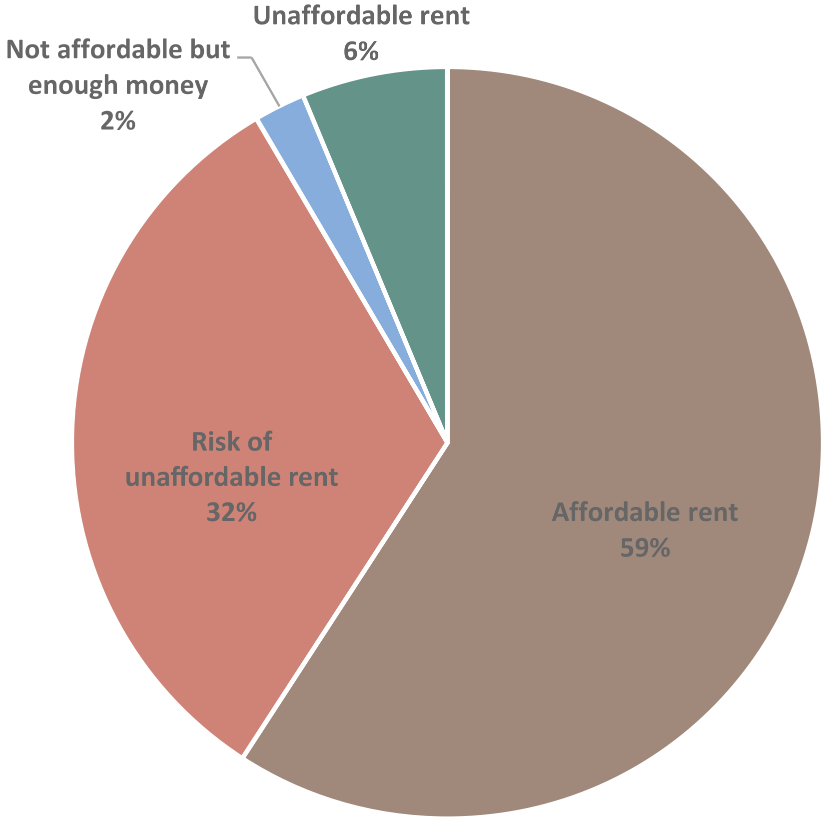
[3] There is another group not shown - unaffordable rent but enough money: tenants who disagree their rent is affordable however state they have enough money to cover living costs and any unexpected bills. It is unclear why these tenants have responded in this way or where they are on a spectrum of affordability. Given this and their relatively small size the group do not provide a focal point of our analysis.

## 2.2. THE SCALE OF AFFORDABILITY OF FLAGSHIP'S HOUSING PRODUCTS

Figure 2.1 shows:

- **59 per cent** of tenants had **affordable rent based on the definition provided in Table 2.1.** However, 15 per cent of this group will be at risk of unaffordable rent when direct payment of Housing Benefit is rolled out as part of Universal Credit
- Only **six per cent of tenants were assessed as having unaffordable rent**
- A further **third of tenants (32 per cent) were at risk of unaffordable rent.** Any negative change to the financial circumstances of this group, such as further welfare reforms, could significantly increase the proportion of tenants with unaffordable rent

**Figure 2.1: The affordability of Flagship's housing products**



## 2.3. COMPARING AFFORDABILITY AGAINST A STANDARD RATIO MEASURE

A fifth (20 per cent) of tenants had a rent contribution of more than 35 per cent of their total household income. On a standard ratio measure of affordability such tenants are deemed to have unaffordable rent. This is 14 percentage points higher than the proportion of tenants assessed as having unaffordable rent by our measure shown in Figure 2.1, which is based on tenants' perception of both rent affordability and their financial situation.

There are also notable differences as to how the same tenants were classified. For example, 67 per cent of tenants assessed as having unaffordable rent (based on perceptions) had a rent contribution less than 35 per cent of their household income.

This suggests **arbitrary income ratio based measures are too insensitive to personal circumstances**; especially for low income groups in social rented accommodation who are likely to require different levels of income after housing costs compared to the other groups. In particular, affordability for people purchasing with a mortgage is different to those who are on low incomes (and are often supported by Housing Benefit).

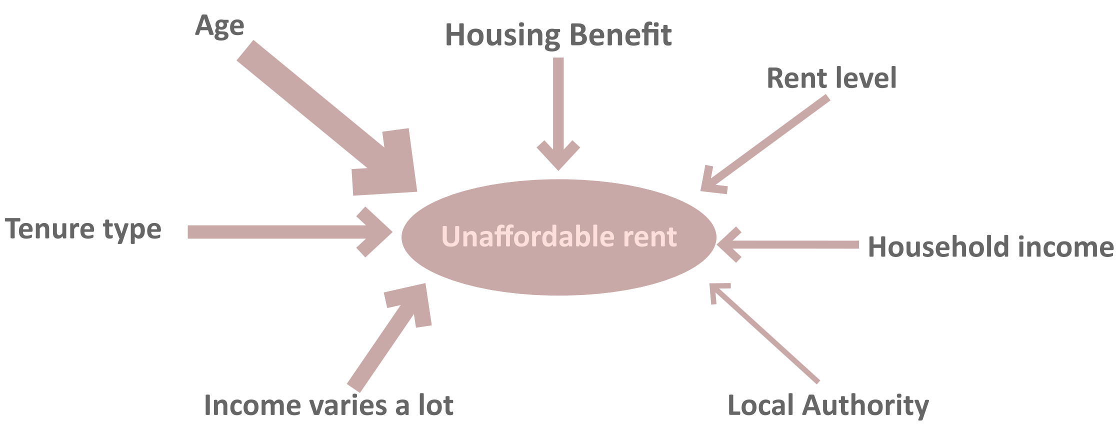
# 3. WHICH GROUPS ARE MOST AFFECTED BY AFFORDABILITY?

## 3.1. IDENTIFYING GROUPS MOST AFFECTED BY AFFORDABILITY

Statistical modelling has been used to identify factors which were significantly associated with a tenant having unaffordable rent. The analysis focused on tenant characteristics rather than the causes and implications of unaffordable rent.

Figure 3.1 presents characteristics that were identified as being statistically significant 'predictors' of a given tenant having an unaffordable rent. The wider the arrow the more important the characteristic was at predicting this outcome.

**Figure 3.1: Characteristics associated with unaffordable rent**




The following factors emerged:

- **Age**: tenants aged 35-64 years were statistically more likely to have unaffordable rent compared to tenants aged 34 years or younger and 65 years or older
- **Tenure type**: shared ownership tenants were statistically more likely to have unaffordable rent compared to social and market rent tenants[4]
- **Household income varies a lot**: tenants whose household income varies a lot were statistically more likely to have unaffordable rent compared to tenants with a more stable income

[4] Further research is required to understand why a higher proportion of shared ownership tenants had unaffordable rent

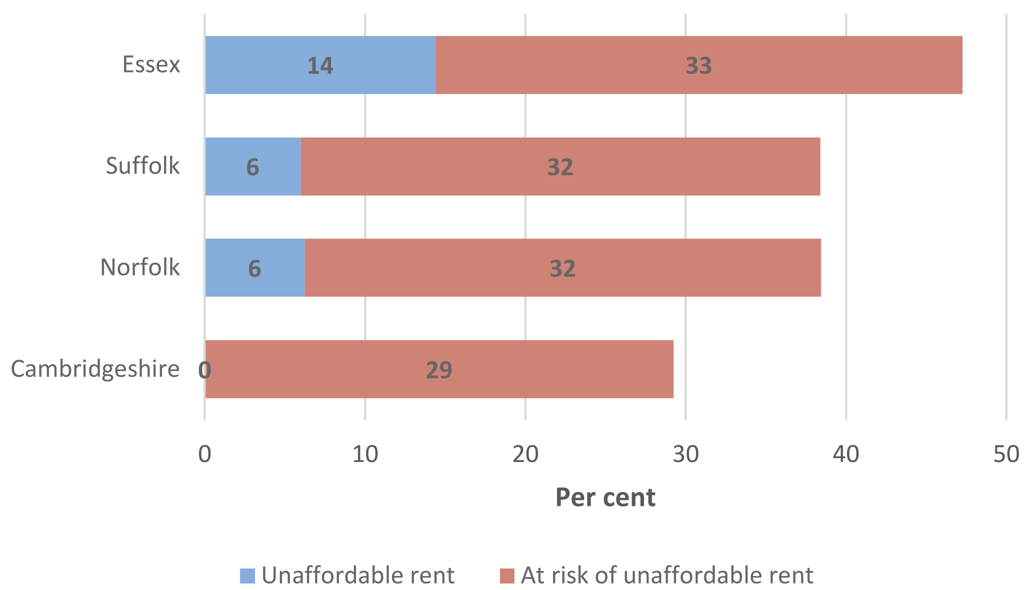
- **Housing Benefit**: tenants on Housing Benefit were statistically less likely to have unaffordable rent compared to tenants who did not receive Housing Benefit
- **Household income:** tenants with low household incomes (less than £10,400) were statistically more likely to have unaffordable rent compared to tenants with a higher household income
- **Rent level:** tenants whose weekly rent was below £80 were significantly less likely to have unaffordable rent compared to tenants whose rent was above this level
- **Local Authority area:** statistically significant differences emerged by local authority groups; please see section 3.2 for more information

## 3.2. AFFORDABILITY IN LOCAL AUTHORITY AREAS

Figure 3.2 shows the percentage of tenants who currently have unaffordable rent or were at risk of unaffordable rent by upper tier authority. **Essex (14 per cent) had the highest proportions of tenants with unaffordable rent**. This was over double the proportion in Norfolk (six per cent) and Suffolk (six per cent), which had the next highest percentages of tenants with unaffordable rent.

No respondents in Cambridgeshire had unaffordable rent; though caution is required as there were only 39 respondents from this area. **Cambridgeshire also had the lowest level of tenants with unaffordable rent or at risk of unaffordable rent (29 per cent)**. Their rate was nine percentage points lower than the rate across all tenants.

**Figure 3.2: Percentage of tenants with unaffordable rent by upper tier local authority**



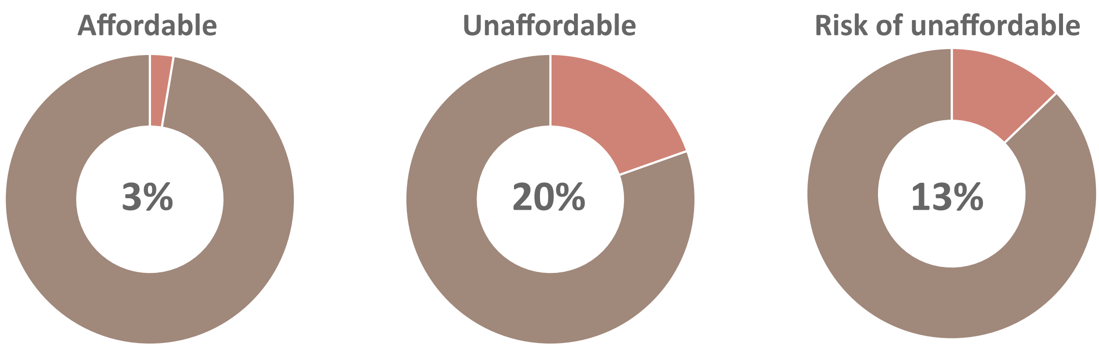
# 4. HOW DOES AFFORDABILITY AFFECT TENANTS?

## 4.1. AFFORDABILITY AND RENT ARREARS

**Rent arrears are an important indicator of unaffordable rent**. A statistically higher proportion of tenants with unaffordable rent reported being in arrears on their rent account compared to tenants with affordable rent: 20 per cent and three per cent respectively (Figure 4.1).

The average value of reported arrears was over £100 higher for tenants with unaffordable rents compared to tenants with affordable rent; the estimated rent arrears rates were 1.5 per cent and 0.2 per cent respectively.

**Figure 4.1: Percentage of affordability groups in arrears**



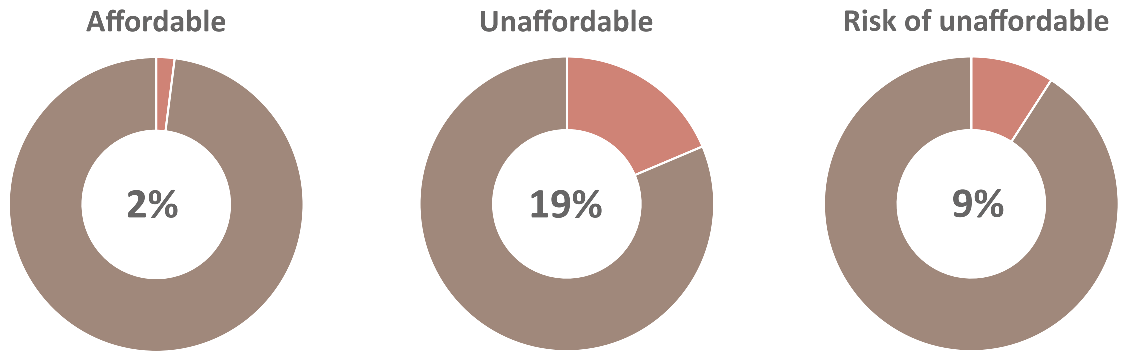

## 4.2. AFFORDABILITY AND PREVIOUS DIFFICULTY PAYING RENT

**Tenants with unaffordable rent were statistically more likely than tenants with affordable rent to have had difficulties paying their rent in the past year:** 19 per cent and two per cent respectively (Figure 4.2).

Conversely 89 per cent of tenants with affordable rent ‘hardly ever’ or ‘never’ struggled to pay their rent. This was more than double the proportion of tenants with unaffordable rent, which was 43 per cent.

This suggests past experiences of unaffordable rent are a good predictor of problems in the future. It is important to understand the commonalities and relationship between different episodes of unaffordable rent so that appropriate support can be put in place to break the cycle.

**Figure 4.2: Percentage who struggled to pay their rent always or most of the time in the past year by affordability groups**

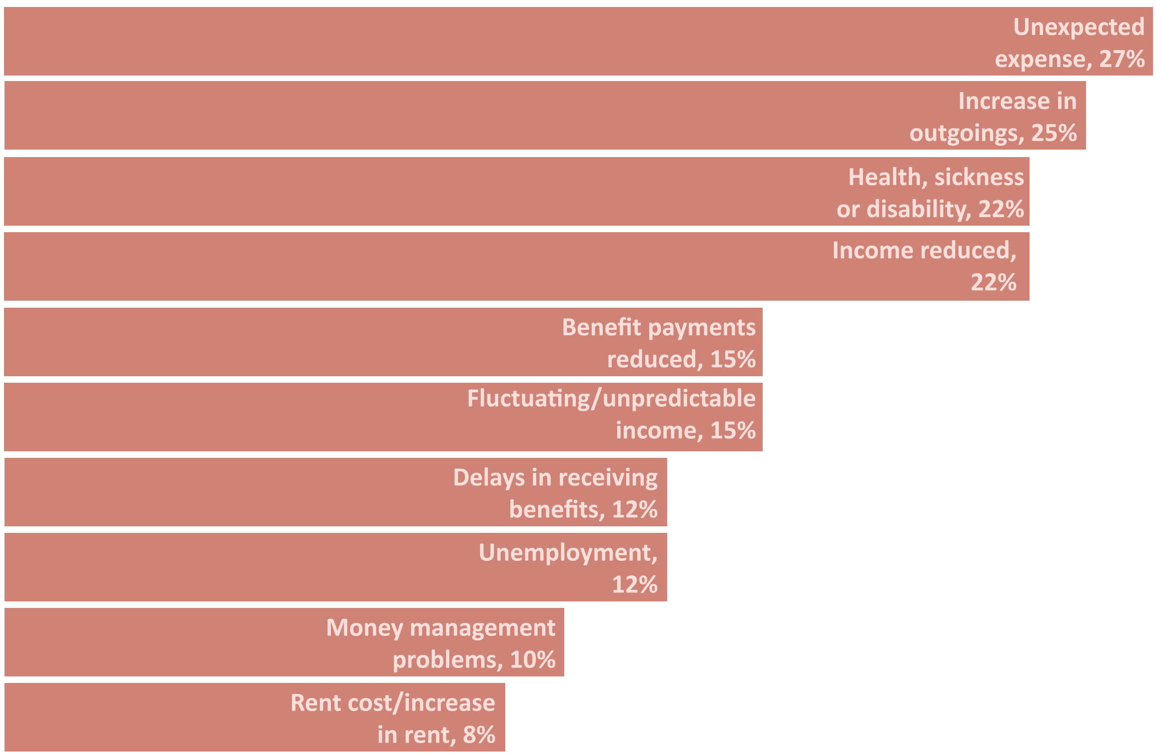



## Reasons for difficulty paying rent

Tenants struggle to pay their rent for a wide range of reasons, many of which are unpredictable and/or short lived. Figure 4.3 highlights the **most common reasons were unexpected expenses, increases in outgoings and decreases in income - for example due to health or job loss.** Only eight per cent of tenants who had difficulty cited the amount of rent as a contributing factor. This suggests **rents are currently set at appropriate levels for almost all tenants.**

Money management skills were not the cause of unaffordable rent for most tenants. The majority of tenants (70 per cent) reported being very organised at managing their money, including 55 per cent of tenants with unaffordable rent.

**Figure 4.3: Reasons for difficulty paying rent on time in the past year**



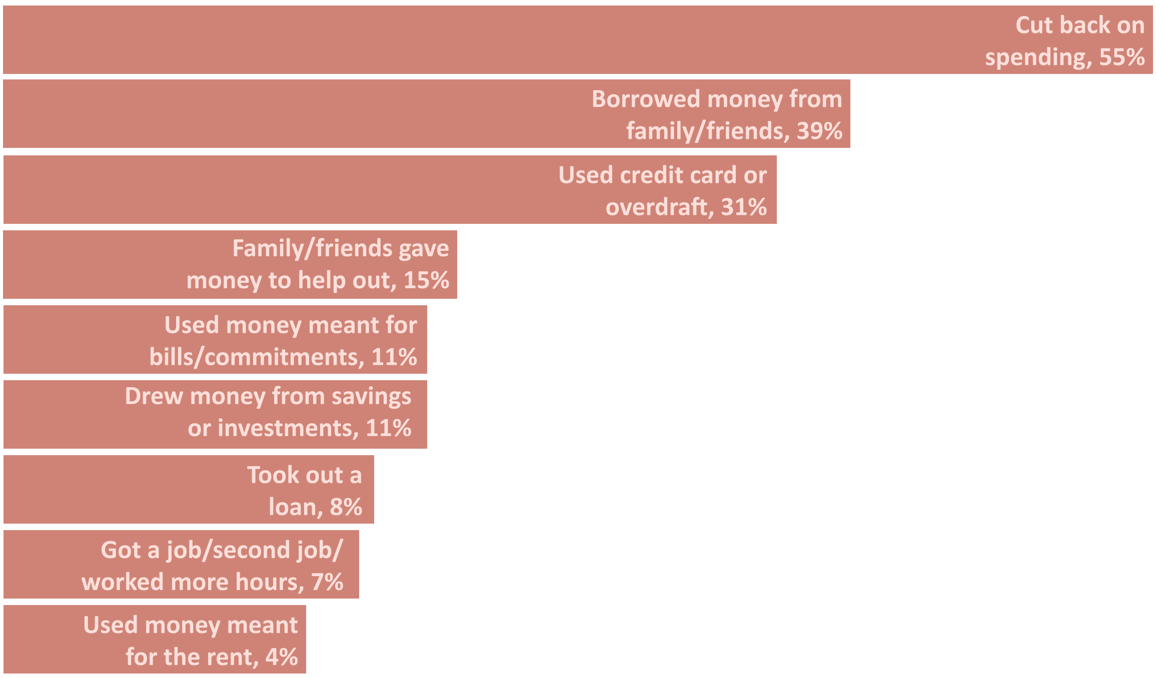
## How tenants manage when they run out of money

**Figure 4.4 suggests cutting back on spending was the most common reaction when tenants run out of money (55 per cent of tenants)**. Only 11 per cent of tenants stated they were able to use saving and investments.

Tenants who borrowed (39 per cent), used a credit card/overdraft (31 per cent) or took out a loan (eight per cent) are a concern. They are taking on additional debt which, in turn, is likely to affect the future affordability of their rent. This may be one of the reasons why some tenants end up in a cycle of difficulties paying their rent.

On a positive note only four per cent of tenants reported using money meant for the rent when they run out of money. This is less than the 11 per cent who reported using money meant for other bills or commitments, suggesting **paying rent is seen a priority over these alternative bills or commitments.**

### Figure 4.4: How tenants manage when they run out of money

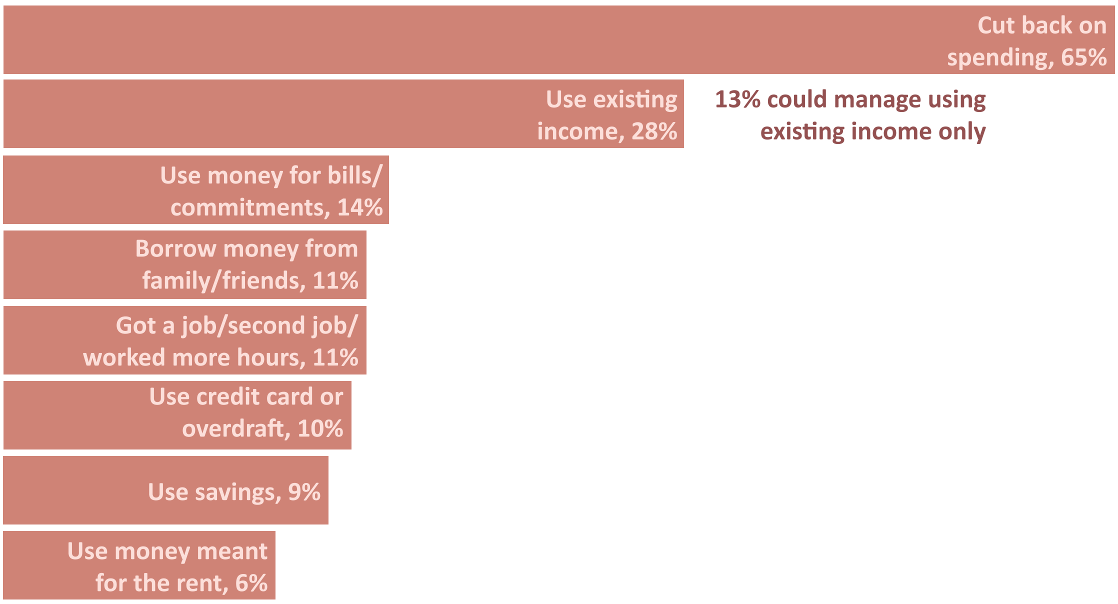


# 5. HOW TENANTS WOULD MANAGE WITH INCREASED EXPENSES AND WOULD THEY PAY MORE RENT

## 5.1. HOW TENANTS WOULD MANAGE IF THEIR HOUSEHOLD EXPENSES WERE TO INCREASE

Figure 5.1 summarises how respondents would make ends meet if their household expenses were to increase by £10 per week. The most common responses were to cut back on spending (65 per cent) and use existing income (28 per cent). However **only 13 per cent of tenants reported being able to manage the increase using their existing income alone.**[5] Only four per cent stated that they would use money meant for rent. This reinforces the importance tenants place on paying their rent to maintain secure accommodation.

**Figure 5.1: How would tenants manage if their household expenses were to increase by £10 per week**




[5] Tenants who selected 'use existing income' and none of the other multiple choice options

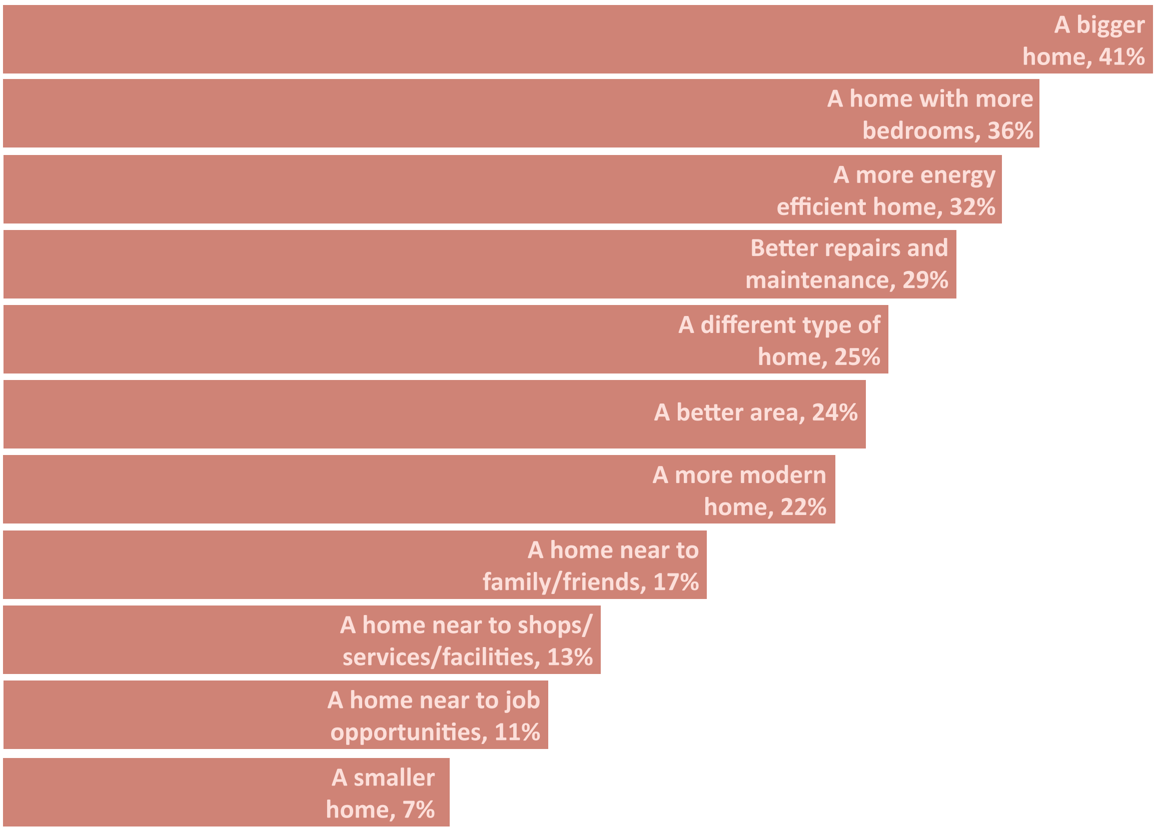
Comparing tenants with affordable and unaffordable rent suggests:

- Tenants with affordable rent have more headroom to meet an increase in costs through their existing income or cutting back on spending
- Tenants with unaffordable rent were more likely to increase their debts

## 5.2. WILLINGNESS TO PAY A HIGHER RENT

In total, **48 per cent of tenants would be prepared to pay a higher rent**. However, in return most tenants would want a bigger and/or better home, often involving a move (Figure 5.2). **Only six per cent of all respondents stated that they would be prepared to pay a higher rent for factors that would not involve a move to a better home/area.**

**Figure 5.2: Reasons given for paying a higher rent**




### Willingness to pay a higher rent by affordability groups

Fifty per cent of tenants with affordable rent were prepared to pay a higher rent compared to 42 per cent of tenants with unaffordable rent. Exploring this in more detail reveals:

- A statistically higher proportion of tenants with affordable rent wanted: a bigger home, more bedrooms and a more modern home
- A statistically higher proportion of tenants with unaffordable rent wanted to be nearer to job opportunities

# 6. HOW WELFARE REFORMS WILL IMPACT ON AFFORDABILITY

## 6.1. AFFORDABILITY AND WELFARE REFORMS

The report considered the impact of the following reforms: [7] [8]

Universal Credit Taper and Thresholds

- Tax credits
- Pay to Stay
- LHA cap in social housing
- Housing Benefit for 18 to 21 year olds
- Employment and Support Allowance
- Extension of Benefit cap
- Benefit freeze

**The impact of the reforms will be uneven by household type.** Table 6.1 provides a traffic light risk rating indicating the degree to which affordability for given tenant groups will be affected (see Table 6.1 for the sub-groups of tenants considered).

The following two sub-groups of tenants are most likely to be affected:

- **Working age households who have no adults in full time work and no children**. This sub-group comprised 18 per cent of tenants and are likely to be affected by up to five of the listed welfare changes. The welfare changes are likely to dramatically increase the numbers of tenants with unaffordable rent within this sub-group of tenants. This sub-group already has the highest proportion of tenants with unaffordable rent (nine per cent) and the second highest proportion at risk of unaffordable rent (35 per cent)
- **Working age households who have no adults in full time work and have dependent children**. This sub-group comprised 12 per cent of tenants and are likely to be affected by up to five of the listed welfare changes. The scale of welfare cuts is likely to increase the number of tenants with unaffordable rent within this sub-group of tenants. The sub-group has the third highest proportion of tenants at risk of unaffordable rent (34 per cent)

[7] See the following CRESR publication for more details: Beatty, C. & Fothergill, S. (2016) The uneven impact of welfare reform, http://www4.shu.ac.uk/research/cresr/sites/shu.ac.uk/files/welfare-reform-2016_1.pdf

[8] Details about the reforms are provided in the main report.

Households with **higher incomes** and households with a **retired member not claiming pension credit were identified as posing a limited 'green light' risk** as a result of the impending welfare changes.

Direct payment of Housing Benefit plays an important role in affordability for many households. A total of **15 per cent of tenants who currently have affordable rent will be at risk of unaffordable rent when direct payment of Housing Benefit is fully rolled out as part of Universal Credit.**

**Table 6.1: The impact of welfare reforms on household type**

| Description | Key welfare reform changes | Proportion of Flagship tenants | Traffic light |
|---|---|---|---|
| Households (HH) with higher incomes | Pay to stay | 5 | Green |
| HH who have no adults in FT work and have dependent children | HB, CTC, CB, IS, ESA | 12 | Red |
| HH who have at least 1 adult in FT work and have dependent children | CTC, CB, WTC | 16 | Amber |
| HH who have no adults in FT work, no children and not retired | HB, CTC, CB, IS, ESA | 18 | Red |
| HH who have at least 1 adult in FT work and no children | | 22 | Amber |
| HH have at least 1 adult who is retired and no children and claiming pension credit | | 12 | Amber |
| HH have at least 1 adult who is retired and no children but not claiming pension credit | | 19 | Green |

Key: HB=changes to Housing Benefit for LHA tenants, CTC=Child Tax Credit, CB=Child Benefit, IS=Income Support, ESA=Employment Support Allowance, WTC=Working Tax Credit.

## 6.2. VOLUNTARY RIGHT TO BUY

This section considers the likely interest in the Voluntary Right to Buy (VRtB). The extension of the Right to Buy to housing association properties is a major change in housing policy that could have important ramifications for housing access and supply.

Results from this survey suggest that **14 per cent of Flagship tenants** might be able to afford a mortgage to utilise the VRtB. This is slightly higher than the estimated figure across England as a whole (13 per cent). However, not all tenants who can afford the VRtB are interested in doing so. Therefore likely take up of Right to Buy has been estimated from the survey by considering only tenants who can afford it and who stated that they would want to take it up. This analysis suggests only **three per cent of Flagship tenants are likely to take up the Right to Buy.**

# 7. RECOMMENDATIONS

**Recommendation 1: To use the following Rent Affordability Assessment Tool[9] to assess affordability for tenants and prospective tenants.**

| | Score if yes |
|---|---|
| Aged 35 to 64 years | 1 |
| Household income varies a lot | 1 |
| Household income less than £10,000 | 1 |
| Household income more than £30,000 | -1 |
| Rent more than £80 per week | 1 |
| Arrears in the past 2 years | 1 |
| Problems with health, sickness or disability | 1 |
| Savings of less than £500 | 1 |
| Workless household | 1 |
| Claiming pension credit | 1 |
| Claiming child tax credit | 1 |
| Claiming working tax credit | 1 |
| Responsibility for all rent | 1 |
| **Total Affordability Assessment score** | |

| | Affordability assessment score |
|---|---|
| Low risk of unaffordable rent | -1 to 4 |
| Risk of unaffordable rent | 5 to 6 |
| High risk of unaffordable rent | 7 to 12 |

**Recommendation 2: To triage all tenants entering arrears for the causes of unaffordable rent and put in place necessary support packages.**

- Triage to include:
  - Affordability assessment
  - Discussion of key reasons for difficulties, focusing on: rent level, income, household expenses, health, financial capability and household change

- Support packages to include:
  - Income maximisation
  - Consideration of more affordable and appropriate accommodation
  - Signposting to support services and employment programmes

[9] This assessment tool scores households based on key risk factors that were associated with the affordability measure and household types that are most likely to be affected by forthcoming welfare changes.

**Recommendation 3: To actively promote to tenants that they maintain at least 4 weeks' worth of credit on their rent accounts so they have a buffer to better cope with spells of unaffordable rent.**

**Recommendation 4: To identify and target action at tenant groups most likely to be affected by welfare reforms.**

- Workless households, both with and without dependent children, should be seen as a priority
- Actions to include:
  - Encouraging tenants to build up at least 4 weeks' worth of credit on their rent accounts
  - Ensuring tenants are in appropriate accommodation with affordable rents
  - Income maximisation
  - Signposting to employment programmes

**Recommendation 5: Review lettings policies in anticipation of welfare reforms.**

- Workless households will have a greater risk of unaffordable rent
- Lettings should include a sufficient proportion of households with higher incomes and retired households that do not claim pension credit

**Recommendation 6: Flagship Group to ensure it is ready for Right to Buy**

- Strategic assessment of which types of property to exempt
- Ensuring property level data in relation to S106, covenants and nominations is easily accessible

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