

RESPONSE TO HOUSING ISSUES

LBTH Response

In respect of Session 1
DM3

**London Borough of Tower Hamlets
Managing Development DPD
Local Development Framework
11 September 2012**

General response to Position Statements relating to DM3 LBTH Response Statement

This statement provides the Council's response to the issues stated within Position Statements for the Managing Development DPD Examination in Public. This statement does not seek to repeat information relating to the Council's position as stated elsewhere.

Issue

The London Plan does not indicate a preference for either social or affordable rented housing, nor does it advise local authorities to do so. Rather, it advises that affordable housing should be maximised.

Summary

Preference for social rented over affordable rented housing in policy DM3 is not in accordance to the London Plan.

Response

Disagree. Policy DM3 seeks the provision of affordable homes to be 70% social rented, and 30% in intermediate tenures; where this is unviable affordable rent homes are to be provided alongside social rented homes to ensure 35-50% affordable housing is provided. The justification and evidence for this policy position is provided in the Council's updated Affordable Housing Viability Study (2011).

Further evidence has been provided as part the Council's response to the Position Statements. See attachment 1 – Briefing Note on Affordable Housing, Pod (September, 2012)

Attachment 1 – Briefing Note on Affordable Housing, Pod (September, 2012)

Tower Hamlets

Briefing Note on Affordable Housing

September 2012

Introduction

This briefing note details the basis of the affordability research undertaken by pod LLP, which was originally commissioned via the East London Partnership with more detailed elements subsequently commissioned by the London Borough of Tower Hamlets (LBTH) directly. Findings and conclusions from this research have been used by the Borough to help set guideline rent percentages for new and re-let “Affordable Rent” properties being delivered by Registered Providers (RPs), under the 2011-15 Affordable Rent programme.

As part of this exercise, pod have undertaken some additional analysis and research in order to clarify the position of LBTH and in particular the Affordable Rent level table included in the document ‘Managing Development – Development Plan Document (DPD)’.

This briefing note is a digest of the following reports and studies:

- Tower Hamlets: Affordable Rent Programme Stage 1 & 2
- Tower Hamlets: Affordable Rent Programme Stage 3
- Tower Hamlets Affordable Rent Study: Executive Summary (March 2011)
- Tower Hamlets Affordable Rent Study: Executive Summary (November 2011 Revision)
- Tower Hamlets Affordable Rent Study: Executive Summary (March 2012 Revision)

The initial research undertaken by pod in early 2011 sought to understand:

- the financial consequence of Affordable Rent levels at 80% of market rent in Tower Hamlets (and the other East London Partnership boroughs)
- the impact of Welfare Reform on Affordable Rent Levels
- affordability calculations and testing based on industry standard thresholds to guide RPs and developers delivering new affordable housing in the borough
- the impact of these rent levels on viability and deliverability

The LBTH DPD provides the following indication of suitable levels of Affordable Rent across the borough:

- 1-bed: 65% of market rent
- 2-bed: 55% of market rent
- 3-bed: 50% of market rent
- 4-bed: 50% of market rent

Initial Research (March 2011)

The initial pod research is based on the four postcodes that cover the majority of the borough. The following table details the average market rent levels at the point of the project initiation:

PC	BRMA	Market Rent				80% of Market Rent			
		1 Bed	2 Bed	3 Bed	4 Bed	1 Bed	2 Bed	3 Bed	4 Bed
E1	IEL, CL,	£ 1,279	£ 1,649	£ 1,955	£ 2,337	£ 1,023	£ 1,319	£ 1,564	£ 1,870
E2	IEL, CL	£ 1,265	£ 1,731	£ 2,018	£ 2,503	£ 1,012	£ 1,384	£ 1,614	£ 2,002
E3	IEL,	£ 1,000	£ 1,341	£ 1,659	£ 2,051	£ 800	£ 1,073	£ 1,327	£ 1,641
E14	IEL, ISEL, OEL	£ 1,294	£ 1,727	£ 2,420	£ 2,098	£ 1,035	£ 1,381	£ 1,936	£ 1,678
Average		£ 1,210	£ 1,612	£ 2,013	£ 2,247	£ 968	£ 1,289	£ 1,610	£ 1,798

These rent levels were determined from online advertised prices, primarily using the Findaproperty database. We acknowledge that in reality advertised prices may not be realised, and some consideration was made to using "let" values found within the GLA rent map database, which is based upon let averages from the past 12 months. However, we considered that RPs and valuers would be likely to use currently advertised comparables for market rent assumptions at the point of rent setting, and therefore utilising the advertised levels for the research appeared a sound approach.

For the first part of the research we calculated rent as a percentage of average household income based on 80% of market rent.

The following table lists the findings for 1-bed through to 4-bed homes for all boroughs within the Partnership. This acts as a useful comparison in terms of the rent level and affordability variances between inner London and outer London boroughs:

PERCENTAGE OF GROSS INCOME COMPARED TO 80% MARKET RENTS					
	Gross Household Income	1 Bed 80% Mkt Rent	2 Bed 80% Mkt Rent	3 Bed 80% Mkt Rent	4 Bed 80% Mkt Rent
B&D	£ 23,954	27%	34%	39%	57%
Hackney	£ 26,788	37%	50%	63%	83%
Havering	£ 29,002	21%	28%	33%	42%
Newham	£ 23,265	37%	45%	57%	57%
Redbridge	£ 29,534	23%	31%	35%	46%
LBTH	£ 28,199	41%	55%	69%	77%
Waltham Forest	£ 27,637	25%	33%	38%	50%
ELHP AVERAGE	£ 26,911	30%	40%	48%	59%

Our research highlighted that LBTH has some of the highest market rents across the East London Sub Region, and therefore would require a significantly higher level of median household income to ensure that the affordability is in line with neighbouring boroughs. However, in reality the median household income level is in line (and in some cases below) the levels for the other East London boroughs which have lower average market rents. This tells us that the neighbouring boroughs (particularly the outer London Boroughs) are likely to be able to sustain Affordable Rent at 80%, whereas LBTH cannot if affordability is a key criterion.

The gross household income figures were drawn from the 2009 CACI Paycheck data, which was published by the Greater London Authority in the 'GLA Intelligence Update: DMAG Social Exclusion Team'¹. The average figures published by the Greater London Authority were:

¹ http://legacy.london.gov.uk/gla/publications/factsandfigures/DMAG_Update_02-2010_PayCheck_2009.pdf

- Median Unequalised Household Income (Tower Hamlets): £30,777
- Median Equalised Household Income (Tower Hamlets): £28,199

We opted to use the equalised data, as this accounts for the fact that larger households have higher costs associated with children, and is a more accurate comparison of standard of living. In pod's more detailed later research we individually equalised income for varying family sizes.

In terms of a guide to affordability, we initially used a third (33%) of average gross household income as a threshold to assess whether rents were affordable. We found that the guidance on an acceptable percentage of rent against household income varied from 25% of gross income up to 45% of net income.

Paragraph 3.10 of the current London Plan (2011) states that:

*"Affordable housing includes social rented and intermediate housing, provided to specified eligible households whose needs are not met by the market and should: (a) meet the needs of eligible households including availability at a cost low enough for them to afford, determined with regard to local incomes and local house prices; (b) include provisions for the home to remain at an affordable price for future eligible households, or (c) if these restrictions are lifted, for the subsidy to be recycled for alternative affordable housing provision."*²

The above paragraph remains unchanged in the proposed minor amendments to the London Plan, with the exception of the insertion of the words 'Affordable Rent'. In paragraph 3.61 of the London Plan it states:

*"Affordable Rent is subject to rent controls that require a rent of no more than 80% of the local market rent (including service charges, where applicable). In practice, the rent required will vary for each scheme with levels set by agreement between developers, providers, the Homes and Communities Agency and, in dealing with individual planning applications, the London boroughs."*³

It should be noted that the above paragraphs do not give any guidance on what 'affordability' actually looks like, and this is an extremely important point for reasons already stated, as affordability is going to vary from borough to borough – particularly in LBTH. As affordability is a key underlining criteria in this research, we note the following references in the London Plan Annual Monitoring Report 2009/10. This document states that for social rents:

"There are three criteria in the definition of social housing: (i) Housing is affordable in that rents are no greater than target rents as set by Government for local authority and housing association and co-operative tenants. Service charges should not be so great as to make a tenancy unaffordable for a household with an income of less than £18,100 on the basis of rents and service charges not exceeding 30% of net household income. (ii) Social housing should be accessed on the basis of housing need. (iii) Social housing should be available as such on a long-term basis"

The same document also states for Intermediate Rent:

*"Intermediate provision is sub-market housing, where costs, including service charges, are above target rents for social housing, but where costs, including service charges, are affordable by households on incomes of less than £61,400... For the criterion that provision is affordable to be met, the purchase price must be no greater than 3.5 times the household income limit specified above (i.e. no greater than £215,000), or the annual housing costs, including rent and service charge, should be no greater than 40% of net household income. (This is to reflect a different level of disposable income, relative to lower income households dependent on social housing)."*⁴

² The London Plan 2011 (Policy 3.10 Definition of affordable housing)

³ The London Plan 2011 (Policy 3.61)

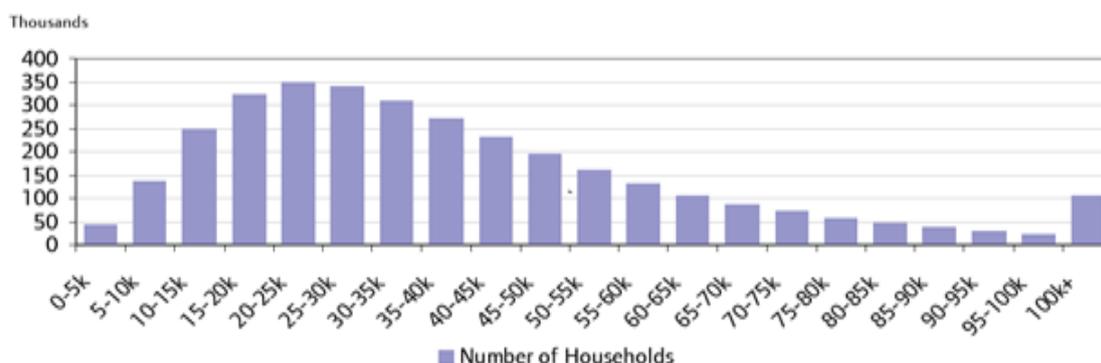
⁴ London Plan Annual Monitoring Report 5 – February 2009

It was clear from our initial research that Affordable Rents at 80% of market rent in Tower Hamlets did not meet the pre-determined threshold of being less than 33% of average gross household income for any home size. Therefore, we looked at **adjusting** rent percentages in order to achieve as close to a third of household income as possible, whilst firstly maintaining a sensible “stepped” approach to rents being progressively increased for the larger units, and secondly ensuring that rents were still comfortably above target rent levels so as not to stifle viability and therefore delivery.

The following table shows the rents and the percentage of household income, at pod’s “adjusted” rent levels.

PC	BRMA	Market Rent (PCM)				Adjusted Rents - % of Market Rent				Adjusted Rents (PCM)				Adjusted rents as a % of Median Household Income			
		1 Bed	2 Bed	3 Bed	4 Bed	1 Bed	2 Bed	3 Bed	4 Bed	1 Bed	2 Bed	3 Bed	4 Bed	1 Bed	2 Bed	3 Bed	4 Bed
E1	IEL, CL,	£ 1,279	£ 1,649	£ 1,955	£ 2,337	65%	55%	50%	50%	£831	£907	£978	£1,169	35.38%	38.58%	41.60%	49.73%
E2	IEL, CL	£ 1,265	£ 1,731	£ 2,018	£ 2,503	65%	55%	50%	50%	£822	£952	£1,009	£1,252	34.99%	40.50%	42.93%	53.26%
E3	IEL,	£ 1,000	£ 1,341	£ 1,659	£ 2,051	65%	55%	50%	50%	£650	£738	£830	£1,026	27.66%	31.39%	35.30%	43.64%
E14	IEL, ISEL, OEL	£ 1,294	£ 1,727	£ 2,420	£ 2,098	65%	55%	50%	50%	£841	£950	£1,210	£1,049	35.79%	40.41%	51.49%	44.64%
Average		£ 1,210	£ 1,612	£ 2,013	£ 2,247					£ 786	£ 886	£ 1,006	£ 1,124	33.46%	37.72%	42.83%	47.82%

It is important to recognise that the above percentages are of *median* household income and therefore 50% of the Tower Hamlets population fall below this income level. The following graph shows the income distribution across London, which gives an indication of the income distribution in Tower Hamlets.



Further research and testing was undertaken to test the impact of these rents on actual case studies in the light of welfare reform, and to understand the impact of the Total Household Benefit Cap on residents’ residual income. For this we undertook detailed analysis of the impact on residual income and looked at specific households within the Borough currently in receipt of Housing Benefit. We found that in most cases, affordability was not an issue for those in work, as Housing Benefit would theoretically cover rental increases. However, the research also showed that most unemployed households would be significantly impacted by the Total Household Benefit Cap, which would restrict the required Housing Benefit uplift. Residual income for unemployed households was in some cases lowered dramatically, and the effect was more severe for larger households.

Our research concluded that the following average adjusted weekly Affordable Rent levels (which were revised in September 2012 to include 5-bed properties) may be appropriate for Tower Hamlets.

Borough average adjusted rents - pod research Feb 11 plus 5 bed update 28 Sept														
Adjusted Rents as %					Adjusted Rents (monthly)					Adjusted Rents (weekly)				
1 Bed	2 Bed	3 Bed	4 Bed	5 Bed	1 Bed	2 Bed	3 Bed	4 Bed	5 Bed	1 Bed	2 Bed	3 Bed	4 Bed	5 Bed
65%	55%	50%	50%	45%	£786	£885	£1,007	£1,122	£1,261	£180.70	£203.50	£231.50	£258.00	£289.82

As part of the initial research undertaken by pod, the above rents were tested in terms of delivery and viability, to ensure that RPs could deliver Affordable Rent units at these rental levels and at the new HCA grant funding levels. Our Stage 2 and 3 research concluded that based on the cost of land in **Tower Hamlets** and the input of internal/relet subsidy⁵ by RPs, delivery would not be affected detrimentally, and that the

⁵ Additional internal subsidy from letting existing social rent units at the higher Affordable Rents

higher rents would bridge the gap caused by the lower grant levels. This was later considered further in some detail by BNP Paribas, who came to similar conclusions.

We believe that if rents were increased above the adjusted levels to 80%, this would not result in an increase in the number of Affordable Rented homes delivered but would increase land values, as the higher rents would be factored into the potential offers developers and land owners could expect from RPs.

Revised Research (March 2012)

In March 2012 pod were commissioned by LBTH to update these rents, as the original market research was undertaken a year before. The revision involved an updated median equivalised income level and revised market rental research. In addition to this the updated research included the following:

- The inclusion of the London Rent Map data in assessing market rents
- Further analysis of the E14 postcode

Our research found that the E14 postcode was an area of considerable value divergence, including some of the most expensive properties in the Borough in the environs of Canary Wharf and Docklands, whilst also covering significantly cheaper areas such as Poplar. This effect made postcode averages difficult to determine and therefore we split the area in a rudimentary way – north and south of Aspen Way - to get a better understanding of the market, but still ensuring simplicity of approach. It should be noted that we suggested that the **Borough average** adjusted rent levels were still those to be used as the main guideline for RPs, although the postcode table is a useful indicator to show area differences, and shows how some flexibility could be applied to less expensive areas, as long as rent levels in monetary terms remain below Borough averages (which is our determined “affordable” level).

The following table shows the revised monthly market rental values, the Affordable Rental values and the rent as a percentage of the revised equivalised average household income (£29,383)⁶:

PC	Area	Market Rent (PCM)					Adjusted Rents - % of Market Rent					Adjusted Rents (PCM)					Adjusted rents as a % of Median Household Income				
		1 Bed	2 Bed	3 Bed	4 Bed	5 Bed	1 Bed	2 Bed	3 Bed	4 Bed	5 Bed	1 Bed	2 Bed	3 Bed	4 Bed	5 Bed	1 Bed	2 Bed	3 Bed	4 Bed	5 Bed
E1	IEL, CL	£1,335	£1,680	£2,096	£2,421	£2,844	65%	55%	50%	50%	45%	£867.75	£924.00	£1,048.00	£1,210.50	£1,279.80	35.44%	37.74%	42.80%	49.44%	52.27%
E2	IEL, CL	£1,328	£1,731	£2,297	£2,533	£3,137	65%	55%	50%	50%	45%	£863.20	£952.05	£1,148.50	£1,266.25	£1,411.65	35.25%	38.88%	46.90%	51.71%	57.65%
E3	IEL	£1,087	£1,500	£1,820	£2,080	£2,559	65%	55%	50%	50%	45%	£706.55	£825.00	£910.00	£1,040.00	£1,151.33	28.86%	33.69%	37.16%	42.47%	47.02%
E14	IEL, ISEL, OEL	£1,377	£1,820	£2,119	£2,349	£2,934	65%	55%	50%	50%	45%	£895.05	£1,001.00	£1,059.50	£1,174.50	£1,320.31	36.55%	40.88%	43.27%	47.97%	53.92%
E14	Excl Docklands	£1,018	£1,325	£1,628	£2,167	£2,725	65%	55%	50%	50%	45%	£661.70	£728.75	£814.00	£1,083.50	£1,226.25	27.02%	29.76%	33.24%	44.25%	50.08%
Borough Average		£1,282	£1,683	£2,083	£2,346	£2,868	65%	55%	50%	50%	45%	£833.14	£925.51	£1,041.50	£1,172.81	£1,290.77	34.03%	37.80%	42.53%	47.90%	52.72%

*The borough average ignores the E14 excluding Docklands figures- as these are included in the E14 postcode

The revised average suggested weekly Affordable Rent levels were as follows:

	1 Bed	2 Bed	3 Bed	4 Bed	5 bed
Borough Average Rents (12/13)	£192.26	£213.58	£240.35	£270.65	£297.87
Borough Average Rents (11/12)	£180.70	£203.50	£231.50	£258.00	£289.82
Variance	£11.56	£10.08	£8.85	£12.65	£8.05

It was recommended that these figures were used in collaboration with the percentages to ensure affordability. Also it was also suggested that LBTH allow a 5% variance on these rents, to allow more flexibility and acknowledge localised differences. It should be noted that the affordable rent percentages and the above values serve as guidelines.

The following table shows the above weekly figures for 2012/13 and compares them to the weekly rent levels at 80% of market rent:

	1 Bed	2 Bed	3 Bed	4 Bed	5 bed
Borough Average Rents (12/13)	£192.26	£213.58	£240.35	£270.65	£297.87
Rent levels at 80% of Market Rent	£236.63	£310.66	£384.55	£433.04	£529.55

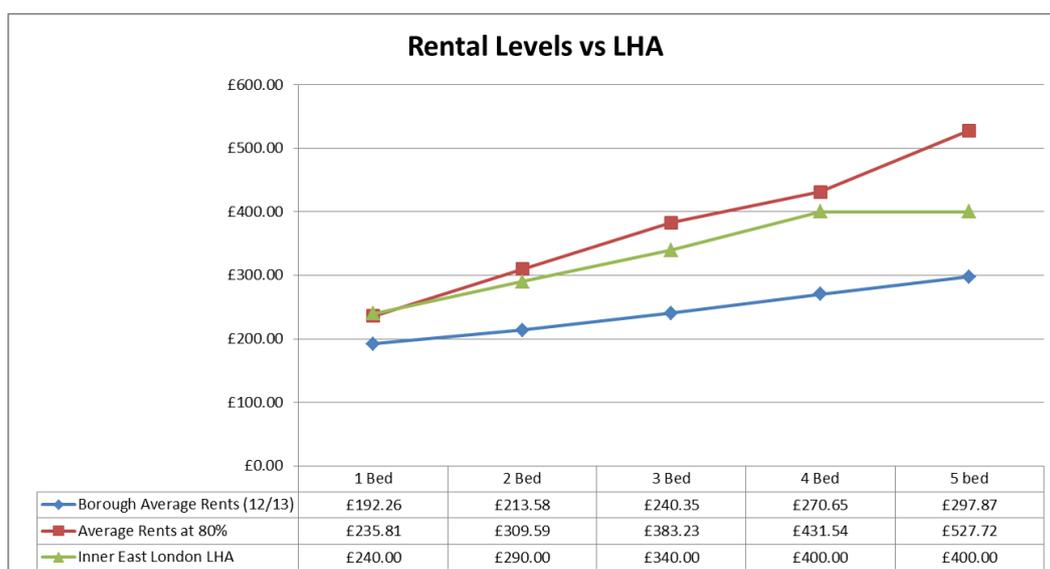
⁶ <http://www.london.gov.uk/sites/default/files/dmag/Update%2030-2010%20PayCheck%202010.pdf>

Ultimately, our affordability research found a very significant difference between the situation for employed and unemployed households, caused mainly by Affordable Rent’s impact on Housing Benefit and the effect of the Total Household Benefit Cap. Also we found that the effect was compounded as the family size increased, mainly due to the fact that the Total Household Benefit Cap remains constant at £500 per week (and £350 for single people).

Justification of Tower Hamlets Rents

We believe that the rent percentages and levels that have been set can be justified for the following reasons:

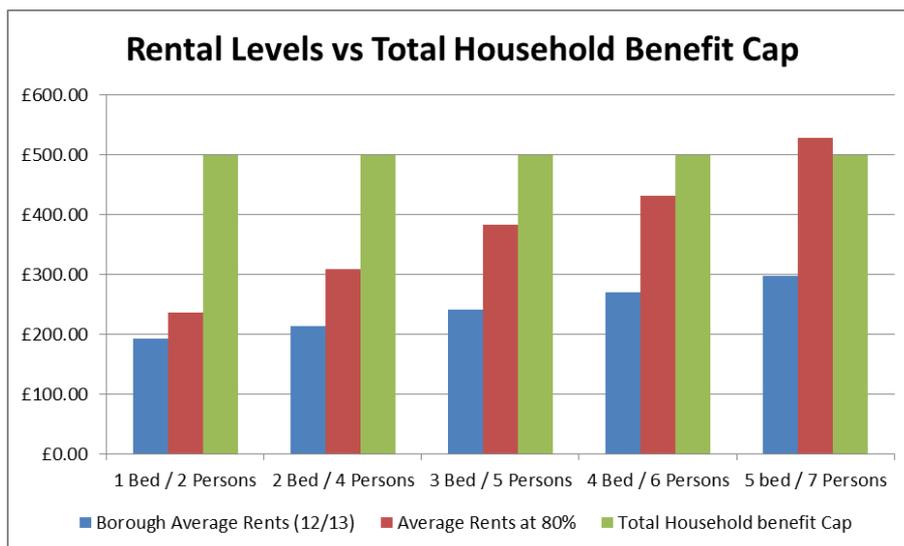
1. The research has been compiled using average market rental values from a range of sources; the aim has been to ensure that the data set gives us a robust and consistent approach.
2. A number of alternative approaches have been used within the work, notably the consideration of the effect on residual income, to ensure that we are not just using one arguable threshold to determine what is and isn’t affordable.
3. Adjusted rents have been originally set with the aim of ensuring affordability for those households within the Borough on an average income. This is essential in order to ensure the new homes are affordable without being significantly subsidised by Housing Benefit, however we recognise that larger households may require more Housing Benefit than smaller households.
4. The rents have been set at levels that seek to mitigate the impact of the Total Household Benefit Cap and ensure they are affordable for those residents who are not working and safeguard those residents who may become unemployed and unable to afford their Affordable Rent home (see section below).
5. The rents have been set to ensure that they are progressively increased as the property size increases– this is to ensure that there is no unintentional benefit to having a larger family and therefore being applicable for a home with lower rent. We also wanted to ensure that there were no unintended viability drivers for developers which may have a negative effect on 3- and 4-bed delivery.
6. The adjusted rents have been set to ensure that they are below the Local Housing Allowance levels. This ensures that there is a potential benefit and a saving to Tower Hamlets and the Housing Benefit bill when someone moves from the private rented sector into Affordable Rent. This also means that as a family’s circumstances improve and they become less dependent on Housing Benefit, the property is still relatively affordable. The table below shows the rental levels compared with the Local Housing Allowance for Inner East London BRMA:



As you can see from the chart above, rents at 80% of market rent will either be in line with or above Local Housing Allowance levels, which further demonstrates the unaffordability and the unsustainability of rent levels at 80% in Tower Hamlets. Where rents exceed LHA within the private sector, full Housing Benefit would not normally be paid.

Keeping Rents Affordable in Light of the Total Household Benefit Cap

In addition to the above, the adjusted rents have been set and tested in light of proposed welfare reform and the Total Household Benefits Cap. We recognise that the Total Household Benefit Cap is only going to impact unemployed households, particularly those larger households, however it has been our intention to ensure that this is factored into rent setting. The following chart compares the adjusted rental levels against the proposed Total Household Benefit Cap:



As stated, one of the main concerns is for unemployed families, although Affordable Rent for larger working households also presents a significant risk in the case of redundancy once an Affordable Rent home has been occupied. We acknowledge that the nine month safety net before the introduction of the Total Household Benefit Cap goes some way to dissipating the immediate impact on household finances, but this still represents a very valid risk in a poor economic climate.

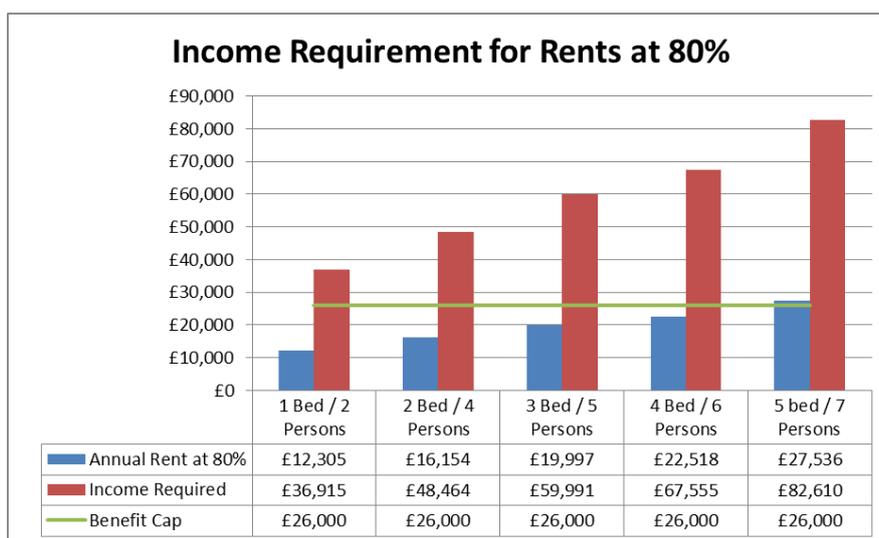
It has been stated within the HCA / GLA's 'Affordable Rent Framework Document' that the average level of Affordable Rent for London would be around 65%. This average will reflect the range of market values for specific boroughs and locations, and the size and type of properties. As Tower Hamlets is an inner London borough, where market values are significantly higher than the outer London boroughs, it is to be expected that the percentage of market rent is going to be around 65% and in some cases lower, whereas the outer London boroughs are logically likely to be able to charge a higher percentage.

Meeting Housing Need in Tower Hamlets?

The research that we have undertaken demonstrates that Affordable Rental levels at 80% of market rent, do not meet the wide range of housing needs in Tower Hamlets, and in order to sustainably meet the housing need, rental levels need to be at significantly lower levels than 80%.

Affordability for the General Population

The household income levels needed to be able to afford rents at 80%, on the basis of a third of gross income, would be as follows for each unit type:

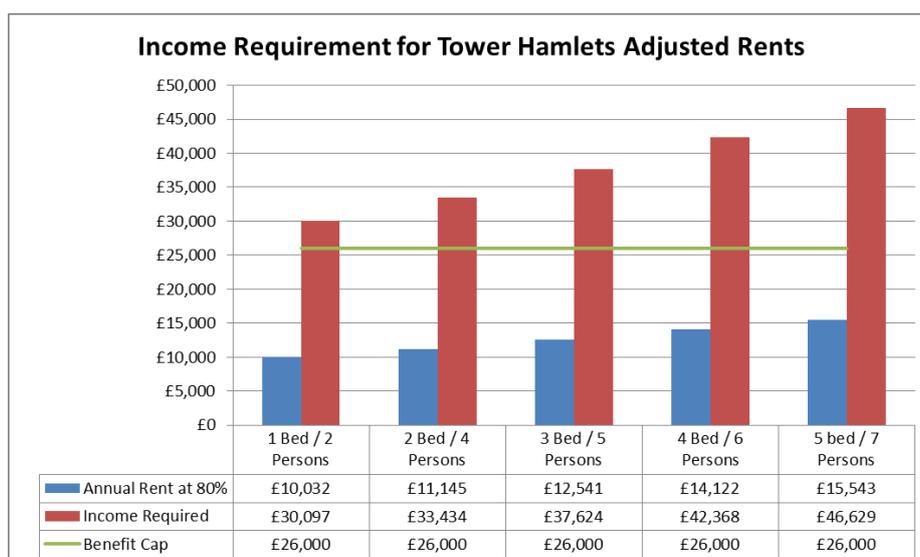


As can be seen, household income levels would need to be between £36,915 and £82,610. This is significantly above both the equivalised and unequivalised household incomes in Tower Hamlets (£29,383 and £30,598), and could not realistically be expected to be covered by increases in Housing Benefit.

The 2010 Annual Survey of Hours and Earnings (ASHE)⁷ states the median gross annual income at £40,001 (including overtime and bonuses etc.) and £38,388 (basic pay only). Again we can see, with the exception of the one bedroom properties, this is significantly below the income required for rents at 80% of market rent. Whilst we accept that many households will benefit from joint incomes, the Affordable Rent product must also seek to ensure a level of affordability for single earning households and for circumstances where one earner may choose to stop working for family reasons.

Further the ASHE shows the income differences between men and women, with median salary for men at £47,383 (gross) and £45,000 (basic), whereas median salaries for women are at £32,999 (gross) and £32,101 (basic). Again this demonstrates the importance of rents that are below 80% for households where women are the main or single earners.

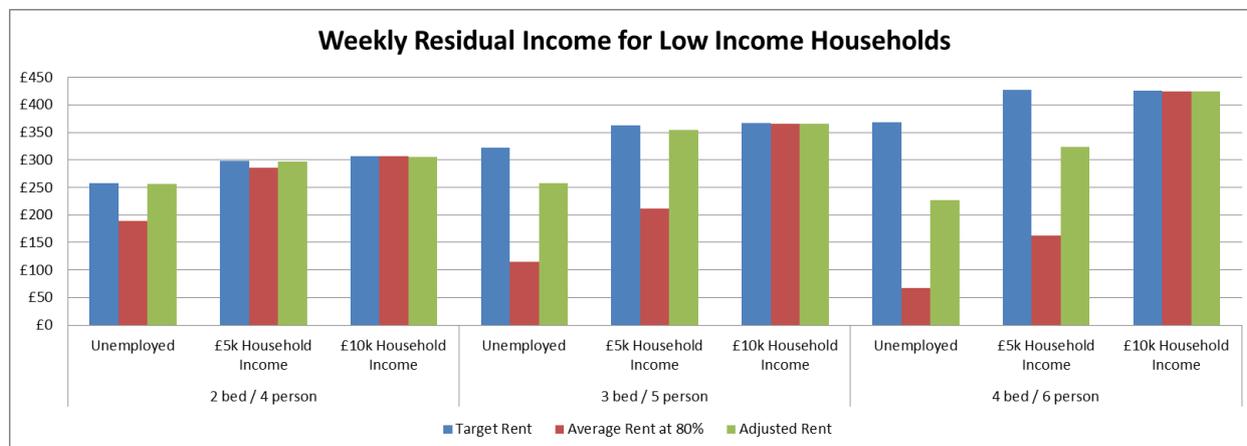
The table below shows the income requirements for the adjusted Tower Hamlets rents, and as you can see, these bring income requirements more in line with the Paycheck and ASHE income levels, and therefore they meet the wider housing need in Tower Hamlets.



⁷ <http://www.ons.gov.uk/>

Living with the Total Household Benefit Cap

The Tower Hamlets adjusted rents also attempt to mitigate the impact of the Total Household Benefit Cap when considering individual families' residual income. The following chart shows the impact of different rent levels for three families on their residual income – the income remaining once rent and service charge has been paid and benefits received.



As can be seen, the residual income of unemployed and low income households is reduced when rents are charged at 80% compared to when rents are set at target rents. This is because of the introduction of the £500 a week benefit cap, which is applied when a household is not applicable for working tax credit⁸.

The residual income is detrimentally reduced for households in three and four bedroom properties when the Affordable Rent is charged at 80%, however when the adjusted rents are applied the impact of the benefit cap is reduced. What the above chart demonstrates is that where households are in receipt of working tax credit (or its equivalent under universal credit) they are not affected by the Total Household Benefit Cap and therefore Housing Benefit will increase to meet any increase in rent levels (up to the Local Housing Allowance).

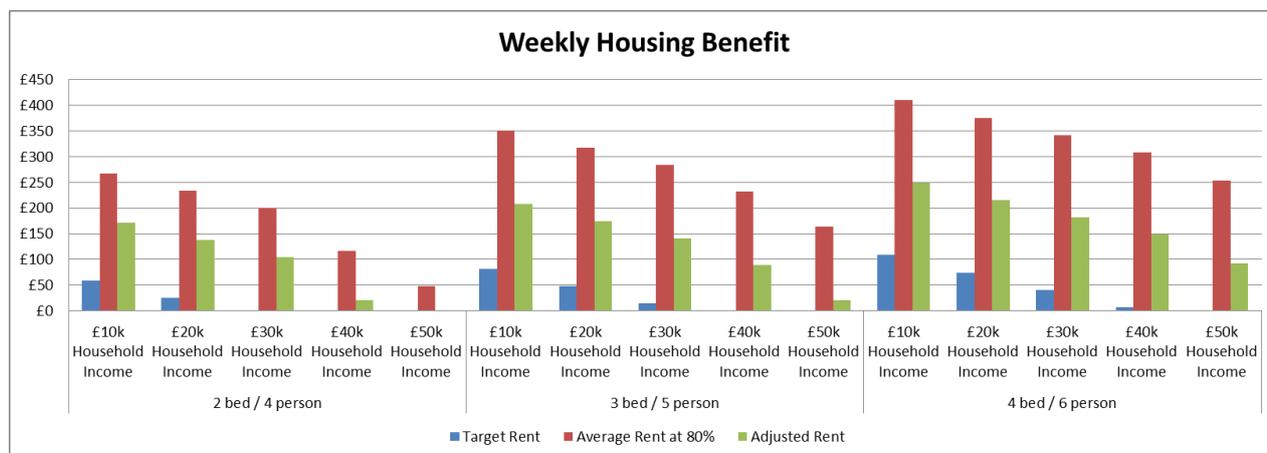
The combination of Affordable Rent and Total Household Benefit Cap could see families displaced or made homeless if they became unemployed because they will not be able to afford to pay their rent and provide for their families. With the adjusted rents the Total Household Benefit Cap still impacts the family should they become unemployed, and thus provides motivation for the household to find work, however it means that the family is left with a more sustainable amount of money to survive on.

Therefore, we believe that this demonstrates that rents at 80% of market are not meeting the housing needs of unemployed or low income households.

⁸ In addition to unemployed households, we have also assumed households on £5,000 income are not working enough hours to be applicable for working tax credit, and therefore applicable to the Total Household Benefit Cap.

Restricting Long Term Benefit Dependency

Rents at 80% will inevitably have the consequence of keeping working households on Housing Benefit for longer, and the chart below shows the weekly Housing Benefit levels for various household types.



As can be seen, the higher the rent, the longer a household will remain dependant on housing benefit as the household salary increases. This may be a particular issue for people moving from a property where target rent is charged to a property where Affordable Rent is charged – in some cases this could mean households who have never had to be dependant on Housing Benefit becoming dependant. Whilst the adjusted rents do not eliminate this, they do reduce this somewhat.

There is also an issue of aspiration and expectation. It is likely that some people may aspire to get to an earnings situation where they are no longer eligible for Housing Benefit, and can move out of benefit dependency. At this point, they can retain all of their earnings increases. People may therefore wish to avoid a situation where they have higher rent levels to cover, keeping them within the benefit dependency zone for longer and reducing their residual income if they cease to be eligible for benefits.

What is Other Research Demonstrating?

We believe that the research we have undertaken is robust and consistent with research that has been undertaken by other Local Authorities, Registered Providers, Think Tanks, and organisations. Below is a digest of some of the research, which we believe is in line with the pod research and the position of Tower Hamlets.

Affordable Rent: Development Management Background Paper (April 2012)⁹

This document by the London Borough of Enfield made comment to a guide for affordability as stated:

“Defining affordability: It was agreed that Affordable Rent units should meet the needs of the core client group and therefore be accessible to those on low incomes. Definition of affordability, that no more than 30 or 35% gross income should be used for housing costs, was considered an appropriate way of defining affordability.”

GL Hearn: Affordable Rent Research (July 2012)¹⁰

This document summarised the approach different boroughs across London were taking in approaching the Affordable Rent product and gave the following summary of Affordable Rent percentages:

⁹ http://www.enfield.gov.uk/download/downloads/id/5696/affordable_rent_development_management_background_paper_2012

¹⁰ http://www.glhearn.com/Lists/Publications/Attachments/73/GLH_AffordableRent_July2012.pdf

- 1-beds: 75% (based on 23 boroughs) Range of 60-80%
- 2-beds: 72% (based on 23 boroughs) Range of 55-80%
- 3-beds: 58% (based on 14 boroughs) Range of 50-73%
- 4-beds: 56% (based on 13 boroughs) Range of 40-73%

Impact of the Affordable Rent Model: Tower Hamlets¹¹

This research by the East Thames Group demonstrated that 63% of Tower Hamlets households would be unable to afford a 2-bed property at 80% of market rent, and 74% of households would be unable to afford a 3-bed property – using 45% of net income as an affordability criteria. It concluded that the following incomes would be required to afford properties at the 80% of market rent in the borough:

- 1-bed: £32,864
- 2-bed: £43,524
- 3-bed: £53,820
- 4-bed: £60,956

Islington: Effects of the Affordable Rent Product (November 2011)¹²

This research undertaken by Jones Lang LaSalle’s for Islington Council concluded:

“If rents are set at 33% of average household incomes (the benefit cap), shortfall issues resulting from the benefit cap should be minimised. However, this is well below, for example, 60% of market rent levels in much of Islington.”

Mirror, signal, manoeuvre: our drive to provide more social housing (February 2011)¹³

This research by Family Mosaic looked at the impact of Affordable Rent on 50 new tenants and included a range of their properties including different types, sizes, location and tenant circumstance. The report summarises:

“The research demonstrates that: setting rents at 80% of market rent would increase our clients’ requirement for housing benefit by 151%; even at 60% of market rent, there would be significant increases in rent levels, leaving a large proportion of tenants unable to retain enough income to pay their rent and live according to government standards of affordability; the impact on our tenants will vary by location, with those living in inner London the hardest hit: for most of those in Essex, social rents are already at 60-80% market rates; for those tenants receiving benefits, the proposed new affordable housing model creates, or worsens, the poverty trap, acting as an additional disincentive to gain employment.”

Laying the Foundations: A Housing Strategy for England (November 2011)¹⁴

This document states that a range of different rent levels will be charged in different localities:

“The new homes created under the Affordable Homes Programme will be offered at a range of different rents up to 80 per cent of market levels, according to local circumstances. Affordable rents in London are on average 65 per cent of local market rents, and 95 per cent of Affordable Rent properties in London will be made available at rents lower than 80 per cent of market level.”

¹¹ http://www.east-thames.co.uk/assets_cm/files/pdf/impact_of_the_affordable_rent_model_tower_hamlets.pdf

¹² http://www.islington.gov.uk/publicrecords/documents/Environment/Pdf/ldf_pack/Impacts_of_Affordable_Rent_Product.pdf

¹³ <http://www.familymosaic.co.uk/familymosaic/media/familymosaic/Mirror-Signal-Manoeuvre-report-on-social-housing.pdf>

¹⁴ <http://www.communities.gov.uk/publications/housing/housingstrategy2011>

Wandsworth Council Draft Affordable Rent and Tenancy Statement (May 2011)¹⁵

This document states that:

“In this context Affordable Rent should be seen as housing for low income households and therefore a step down from intermediate housing where affordability is currently identified with regard to income levels ranging from £38,000 to £64,000. It should also be an aspirational form of tenure where the occupier has a reasonable expectation that they will be able to afford the rent and at some point be able to buy with the assistance of the registered provider.”

The document outlines the total housing costs should be no more than 40% of net income, assuming net income is 74% of gross income.

On this basis Wandsworth set a maximum weekly rent and service charge at:

- 1-bed: £176
- 2-bed: £190
- 3-bed: £211
- 4-bed: £224

Based on Wandsworth’s median Private Sector Rents this calculates the following rent percentages:

- 1-beds: 70%
- 2-beds: 61%
- 3-beds: 57%
- 4-beds: 43%

Conclusion

In conclusion we feel that our research leads to a number of key findings:

- Affordability issues are more apparent for those households that are unemployed.
- Affordability issues are more apparent for larger families.
- Tower Hamlets is generally a high value Borough, and therefore affordability is more of an issue here than in any other East London Partnership Borough.

We recognise that in some instances Housing Benefit increases may ease the burden of higher rent levels. However, this is not always the case – notably for unemployed family households after the introduction of the Total Household Benefit Cap. Also we question whether relying on increased benefits is a sustainable way to underpin a rent policy. In our experience, Local Authorities and Registered Providers are more inclined to help their residents move out of benefit dependency.

Ultimately the Borough needs to provide clarity to Housing Providers in relation to rent levels with which they feel comfortable. The Adjusted rent levels suggested provide this clarity and the rationale is clear. These rent levels ensure that affordability issues do not drive out families, or break up communities.

The Borough has shown willingness within the DPD to consider area differences and apply some sensible flexibility to the percentages. The Tower Hamlets Housing Forum is aware of the Borough’s position and is supportive, with many of the RPs in London having affordability concerns of their own.

¹⁵ <http://ww3.wandsworth.gov.uk/committ/documents/s14235/Appendix%20A.pdf>

The GLA has always acknowledged that there will be differences in Affordable Rent levels and in some cases these will be below 80% of market rent. Logically it will be Inner London Boroughs that require lower percentages due to the much higher rent levels found. The full 80% of market rent may be an achievable policy in Outer London boroughs, but we feel this will create significant affordability issues in Inner London, and in particular LBTH.
