Affordable Rent and Social Rent

1.0 Introduction

1.1 The purpose of this report is to provide a summary of the evidence base for the affordable housing policy in the emerging Development Management Policies Document (DMPD).

2.0 Planning Context

2.1 Sustainable development is a key theme of the National Planning Policy Framework (2012) of which one important aspect is 'supporting strong, vibrant and healthy communities, by providing the supply of housing required to meet the needs of present and future generations.' A Core Planning Principle of the NPPF which must underpin plan-making is to support sustainable economic development in order to deliver the homes needed in an area. Local Authorities must have an up to date evidence base to ensure that their Local Plan meets the needs for both market and affordable housing.

2.2 The NPPF includes social rented, affordable rented and intermediate housing as falling within the ‘affordable housing’ category. Affordable rented housing is let by local authorities or private registered providers of social housing to households who are eligible for social rented housing. Eligibility is determined with regard to local incomes and local house prices.

2.3 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). Intermediate housing is for sale or rent at a cost above social rent but below market levels and is available for households with an income of up to £74,000.

2.4 The Early Minor Alterations to the London Plan 2011 promote Affordable Rent as an element of London’s affordable housing provision intended to address the same housing needs as social rented housing. Policy 3.11 of the London Plan REMA (Revised early minor alterations) states that Boroughs, in their plans, should set targets which make ‘the best use of available resources to maximise affordable housing output.’ The REMA states that ‘in practice, the rent required will vary for each scheme with levels set by agreement between developers, providers, and the Mayor.’ The supporting text goes on to state that Boroughs should not set rent targets in their Local Plan as this would affect the maximisation of affordable housing provision.

2.5 Affordable Rent properties are expected to form the principal element of the new supply of rented affordable homes (Revised London Housing Strategy, 2011). However, the Mayor’s Draft Integrated Impact Assessment Scoping Report for the London Housing Strategy acknowledges that if LA’s feel affordability for different groups will not be met ‘alternative approaches’ may be considered. The NPPF too requires LPA’s to have a clear understanding of local housing needs and given that eligibility for social and affordable rent

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1 National Planning Policy Framework (2012), DCLG, page 2
2 National Planning Policy Framework (2012), DCLG, page 50
3 London Plan REVISED EARLY MINOR ALTERATIONS (2012) GLA
is determined with regard to local incomes, the affordability of the rent levels must be a consideration.

3.0 Evidence Review

3.1 The current London Plan target for affordable homes is 13,200 completions per year. Of this, 60% is expected to be for rent encompassing both social rent and affordable rent while the remaining 40% should be for intermediate housing products. The Further Alteration to the London Plan seek for the provision of at least 17,000 affordable homes per year.

3.2 By the third quarter of 2012-2013 there were 543 new affordable rent units but also 6,686 starts by March 31st 2013. Future of London have produced a recent report examining to date the delivery of the Affordable Rent Model in London, a key finding of which is that Affordable Rent presents affordability and viability issues in London and welfare reform proposals, introduced in April 2013, are likely to exacerbate these difficulties.

3.3 While social rent levels are determined through the national rent regime, affordable rent is subject to rent controls which require a rent of no more than 80% of the local market rent. The data gathered by Future of London reveals that across London ARM rents vary significantly by bedroom size with one-bedroom, two-bedroom and three-bedroom median rents set at 61%, 57% and 51% of market rent (median rents). A report produced by GL Hearn shows that this also differs significantly between inner and outer London boroughs with a higher proportion of market rent achieved in outer compared to inner London boroughs (average rents).

[Image: Average Market Rent percentages Inner London v Outer London]

GL Hearn (2013)

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7. Affordable Rent Research (2013) GL Hearn
3.4 The London Plan identifies that affordable family housing should be addressed as a strategic priority within Borough’s plans and the London Housing Strategy sets a target for 36% of new Affordable Rented Homes to be family-sized, however the affordability of larger ARM units is identified as particularly problematic and this is reflected in the lower rent levels which have to date been set for family size units.

3.5 An issue of note is that the low rents may pose a problem for the viability of Affordable Rent developments which receive lower levels of subsidy on the basis that rents of up to 80% of Market rent will make the development viable.

3.6 35%-40% of household income is generally accepted as a measure of the affordability of housing costs, and in London, ARM rents were found to vary between 20% and 42% of the local median household income\(^8\).

3.7 Future of London found that ARM tenants are more likely to have to claim housing benefit than social rent tenants, even where the head of household is working. This suggests that the higher rent levels of ARM are notably less affordable for the target tenants than social rent, with implications for the level of support provided by the welfare system and the long term affordability of ARM for tenants given the Local Housing Allowance and the benefit cap.

4.0 Brent

4.1 Median incomes in Brent at £30,352 are closer to the UK median of £28,989 than the London median salary £34,233. This impacts on the relative affordability of housing in the borough. Based on the 2013 Land Registry HPI Brent’s average house price is £349,165 which is the 15\(^{th}\) highest of the London boroughs.\(^9\) ‘In 2010/11 in Brent the median private rent for a two-bedroom property as a proportion of local earnings was 74\%, the 5\(^{th}\) highest in London and in England’.\(^10\)

4.2 Brent’s Tenancy Strategy 2012-2013\(^11\) has set out how Affordable Rent can be workable within the context of the borough. If it is to be sustainable, AR should not exceed 40\% of net average incomes in Brent. With consideration for the benefits cap, for non working households rents should not exceed £200 a week or £140 for single person households which within the context of Brent is significantly below 80\% of the average rental values. The affordability of family size properties, due to higher rents attached to such properties, and the greater number of dependents in the households who occupy them, is especially constrained and the Tenancy Strategy anticipates little prospect for AR of family size units to exceed target rents.

4.3 Geographical variance in rent levels across Brent also requires consideration with the Brondesbury Park, Kilburn and Queens Park wards being particularly unaffordable.

\(^8\) The Affordable Rent Model in London (2013) Future of London
\(^9\) House Price Index (2013) Land Registry
\(^10\) Brent Tenancy Strategy: Affordable Rent and Affordability (2012) Brent Council
\(^11\) Brent Council Tenancy Strategy 2012-2013 (2012) Brent Council
4.4 Brent’s Housing Register, including homeless households in temporary accommodation and the Transfer list, currently has 19,000 households waiting, of which 70% are in Bands A-C meaning they have some level of housing need. By the end of 2013/14 it is projected that 844 lettings into social housing tenancies will be agreed meeting only a small proportion of demand and need\textsuperscript{12}.

\textbf{Table 22: Weekly median ARM rents vs weekly median equivalised household incomes}

\begin{tabular}{|l|c|c|c|}
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Borough & Median ARM rent & Median of equivalised household income & Percentage of income paid as rent \\
\hline
City of London & 204 & 930 & 22% \\
Barking and Dagenham & 118 & 461 & 26% \\
Barnet & 202 & 607 & 33% \\
Bexley & 134 & 563 & 24% \\
Brent & 212 & 508 & 42% \\
Bromley & 147 & 645 & 23% \\
Camden & 210 & 629 & 33% \\
Croydon & 152 & 570 & 27% \\
Ealing & 196 & 559 & 35% \\
Enfield & 145 & 538 & 27% \\
Greenwich & 144 & 536 & 27% \\
Hackney & 176 & 515 & 34% \\
Hammersmith and Fulham & 220 & 635 & 35% \\
Haringey & 148 & 544 & 27% \\
Harrow & 154 & 577 & 27% \\
Havering & 147 & 558 & 26% \\
Hillingdon & 165 & 564 & 29% \\
Hounslow & 184 & 557 & 33% \\
Islington & 172 & 578 & 30% \\
Kensington and Chelsea & 231 & 758 & 30% \\
Kingston upon Thames & 175 & 653 & 27% \\
Lambeth & 152 & 576 & 26% \\
Lewisham & 144 & 548 & 26% \\
Merton & 119 & 610 & 20% \\
Newham & 141 & 447 & 31% \\
Redbridge & 152 & 568 & 27% \\
Richmond upon Thames & 175 & 751 & 23% \\
Southwark & 172 & 550 & 31% \\
Sutton & 143 & 609 & 23% \\
Tower Hamlets & 182 & 542 & 33% \\
Waltham Forest & 150 & 531 & 28% \\
Wandsworth & 183 & 688 & 27% \\
Westminster & 196 & 730 & 27% \\
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\end{tabular}

Source: CORE 2012-13Q3, Paycheck 2009

\textsuperscript{12} Executive Report: Supply and Demand of Accommodation (2013) Brent Council
4.5 In Brent, the median ARM Rent is 42% of the median income in the borough (£508 weekly), which is the highest percentage across London (Future of London, 2013). This figure includes both first lets and conversions from social rent to affordable rent over which the LPA has no influence, but this high proportion is considered to be ‘very unaffordable’¹³.

4.6 To date where planning permissions have included affordable rent there has been negotiation on rent levels on a case by case basis, in line with the London Plan (revised early minor alterations). Agreements have focussed on providing lower rents for family size units, e.g. 60% of market rent, target rent or not exceeding 40% of local net household income, whilst allowing rents of up to 80% of market rent for 1 and 2 bed units.

Gross household incomes required to afford different rents in Brent

<table>
<thead>
<tr>
<th></th>
<th>100%</th>
<th>80%</th>
<th>65%</th>
</tr>
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<tbody>
<tr>
<td>1 bed</td>
<td>£36,400</td>
<td>£29,120</td>
<td>£23,660</td>
</tr>
<tr>
<td>2 bed</td>
<td>£47,171</td>
<td>£37,737</td>
<td>£30,661</td>
</tr>
<tr>
<td>3 bed</td>
<td>£60,171</td>
<td>£48,137</td>
<td>£36,103</td>
</tr>
<tr>
<td>4 bed</td>
<td>£81,342</td>
<td>£65,074</td>
<td>£52,873</td>
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</tbody>
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The figures above assume net income is 70% of gross and housing costs not exceeding 40% of household income. LB Southwark note they would usually use 30% rather than 40% in the affordable housing study and as quoted.

Source: Joint Response to the London Plan Revised Early Minor Alterations

5.0 Conclusion

5.1 In accordance with the NPPF, affordable rented housing is to be let to those households who are eligible for social housing i.e. households on local authority housing waiting lists.

5.2 Evidence from across London, in the form of Affordable Rent levels set to date, and their comparison with local incomes for both working households and those in receipt of welfare benefits, shows that 80% of market rent in most areas is not affordable to those who the product is intended for, resulting in a lower proportion of market rent being set in many cases. This is most apparent in the case of larger family households.

5.3 While case by case negotiation has to date been reasonably effective in Brent in the absence of a local planning policy to guide negotiations, there is a significant danger that Affordable Rent schemes with rent levels unaffordable to local people will come forward under the description of affordable housing.

5.4 To support Core Strategy policy CP21 and Brent’s Tenancy Strategy, ensuring that new housing appropriately contributes to the borough’s household needs, a policy is required to enable decision makers to take into account local income levels, geographical variation in house prices and rents throughout the borough and the specific needs of households who are eligible for social housing on the housing waiting list.

¹³Brent Tenancy Strategy: Affordable Rent and Affordability (2012) Brent
6.0 Policy Approaches

6.1 Tower Hamlets were required to remove their preference for social rent by a Planning Inspector. Their policy now reads:
1. Development will be required to maximise affordable housing in accordance with the Council’s tenure split (70% Social/Affordable Rent and 30% Intermediate) as set out in the Core Strategy.
They have produced a draft Affordable Housing Supplementary Planning Document which seeks to prioritise social rent in certain situations and sets rent levels for affordable rent.

6.2 Islington deleted their proposed affordable housing policy which prioritised social rent so that their DMDPD would not be delayed.

6.3 Westminster produced a draft DMDPD which has now been put on hold as they review it section by section with the intention of incorporating it into their Core Strategy as a single Local Plan. The draft reads as below, point 2 (while in this case relating to intermediate) could be a way of approaching social/affordable rent without setting rent levels?

Policy CMP 4.15: Meeting the range of affordable housing needs
1. Schemes including affordable housing should provide 60% of units to be social housing and 40% to meet the needs of households eligible for intermediate affordable homes.
2. Affordable housing to meet the needs of households eligible for intermediate housing will be required to meet the following 3 income bands:
   - 25%: between lower quartile incomes and the mid-point between lower quartile and median incomes
   - 25%: between the mid-point between lower quartile incomes to median incomes and median incomes
   - 50%: median to permitted income thresholds
3. Service charges must be minimised. This can be achieved by:
   - ensuring that affordable and market dwellings do not share the same corridors, stairs, lifts or entrance lobbies;
   - designing the communal parts of affordable housing for durability and low maintenance costs; and
   - the use of management agreements and sinking funds.

7.0 Draft Policy

7.1 Affordable housing must fully meet the objectively assessed needs of the local housing market. Affordable rented housing must meet the needs of households eligible for social housing, with eligibility determined with regard to local incomes and local house prices in line with Brent’s Tenancy Strategy.