

**Addendum to the WoE Strategic Housing Market
Assessment 2009
Need for ‘Affordable Rent’ Housing
Results for West of England Local Authorities**

Report by Prof Glen Bramley
(Consultant to WOE Housing Partnership)
March 2013

Introduction

The purpose of this short report is to provide evidence about the potential scope for different forms of affordable housing which might be provided in West of England (WoE) under the new framework for Affordable Housing introduced following the 2010 Public Spending Review and further defined in NPPF, issued March 2012, ahead of any future new SHMA.

In February 2011 the HCA, within the Framework for Affordable Homes Programme 2011-15, introduced the Affordable Rented product, as a new form of affordable housing deliverable through investment contracts, where the homes provided as affordable rent are to be let at up to a maximum of 80% gross local market rents (gross rent is inclusive of service charge).

The four ‘West of England’ local authorities (Bath & North East Somerset, Bristol City, North Somerset and South Gloucestershire) sought to commission further modelling within the 2009 SHMA framework to determine the relative proportions within the total identified affordable housing deficit which could be met by Social Rent, Affordable Rent (at 80% market rates) and Intermediate (Low Cost Home Ownership) forms of provision.

For this part of the modelling, the intention is essentially to replicate the analysis carried out in the 2009 study, with the same underlying assumptions and datasets, but to simply show the effects of introducing the new ‘Affordable Rent’ form of provision.

The authorities will need to carry out more detailed affordability analysis locally following the results of this commission for any policy development and implementation to inform future affordable housing delivery, using up to date local market information and to ensure consideration has been made of the interactions with welfare reform changes expected from 2012, which were not part of this commission..

Comment on ‘Affordable Rent’

I have interpreted this brief as being concerned with the proportion of relevant households (the 2009 SHMA affordable housing net need) who could afford this new tenure option on the same basis that we assess affordability of other market and intermediate tenures, i.e. based on their incomes and the required outgoings, without assistance from Housing Benefit or Allowance. That is akin to treating Affordable

Rent (AR) as being akin to other forms of 'Intermediate' Affordable Housing, such as Intermediate Rent ('Mid Market Rent', in Scotland), or New Build Shared Ownership.

However, that is not necessarily how the present government envisaged AR functioning. The Government intend it to enable the increase in the supply of affordable (rented) housing by Registered Social Landlords (RSLs), who have hitherto provided primarily 'social rented housing' at rents in line with local authority rent levels and social rent guidelines as promulgated by the previous government. AR rent levels will now apply to new provision by RSLs where it is deliverable within investment contracts under the 2011-15 AHP, which will include a significant proportion of relets as well impacting the supply of homes let at social rents.

It should be noted that all Affordable Rent homes, both new and relet provision, can be delivered only under an Investment Contract with the HCA, and new units must complete by March 2015. The situation for provision of AR post 2015 is unknown at this time, particularly as the current provision of AR depends largely on the development capacity of the RSLs, to supplement low levels of AHP capital subsidy per unit. It is therefore difficult to comment further on its continued supply longer term. There could be consideration of AR on lower levels of MR than 80%, but this isn't currently likely in WOE due to investment contracts already fixed based on max 80%.

It is expected that RSLs will continue to cater for the same range of housing needs as previously. Some households in affordable housing need will broadly continue to be eligible for Housing Benefit (HB) as previously, and until the introduction of the Universal Household Benefit Cap (UHBC), Housing Benefit will be payable on rents at the higher level for AR homes up to LHA level. Their net financial position 'after housing costs' will generally be no different, although those potentially seeking work would face a deeper 'poverty trap'. The Government (DWP) will pick up the bill for these higher rents. Some individuals/groups may have their HB eligibility status affected by the current and prospective cuts and the proposed wider reforms linked to 'Universal Credit'. From October 2013 under the UHBC total household income from benefit will be capped at £350 for single people and £500 for families, and withdrawal of HB will be the mechanism for implementation of the cap.

In addition current trends show market rents are still rising in the WOE area generally, but particularly for larger homes. Should this continue to be the case the affordability of AR at 80% market rent will reduce.

It is not the purpose of this note to investigate further the issues of HB eligibility among different groups of households in the broader 'affordable need' category, and how this may be affected by welfare reforms.

Assumptions

We do not attempt to list every assumption here, but just highlight the key ones. The basic intention is however to follow the baseline assumptions used in the WoE 2009 SHMA study, the same base data and the same baseline forecast of housing market changes to 2021.

Affordable rents are set at 80% of median market rents by size. The estimated level of market rents in the 2009 study was based upon a combination of (a) estimates by the author derived from recent private lettings in the Survey of English Housing, (b) estimates based on asking rents collected by Hometrack and used in Wilcox's studies of affordability in the mid-2000s; (c) local observations of asking rent levels. These estimates are unchanged in this stage of the exercise. Future values for rents are projected forward pro rata house prices and incomes (equally weighted).

The affordability assumptions previously used were intended to approximate to the SHMA guidance in terms of a 25% ratio of rent/mortgage cost to gross income, although the model achieves this through different mechanisms in the different tenures and also imposes a secondary 'residual income' test to ensure households are not pushed into poverty. These are unchanged.

The 'intermediate' affordable housing option modelled is new build shared ownership with the household buying a 40% share and paying a rent set at 1% of the remaining part of the equity. This is unchanged.

Overall Affordable Needs

The overall net need for additional affordable housing in the WOE4 area runs at just under 4,400 pa taking an average over the four spot figures for 2009, 2011, 2016 and 2021. (Table 1, last column, row 5). Most of this (c.3,600, or 81%) is need for social rented housing by people who could not afford intermediate shared ownership or AR at 80% MR unaided.. There is broad similarity in simple numerical terms between the authorities, with around 800 each in three cases and 1100 in Bristol.

The number who can afford AR unaided (with rents set at 80% the market level) is about 660 per year on average (final column, row 3). A key finding is that this is not very different from the number who can afford intermediate housing (shared ownership), about 690 per year. In other words, the affordability of AR is pretty similar to the affordability of typical intermediate housing products, there is a very heavy overlap between those who can afford AR and those affording intermediate (shared ownership) (this is shown at row 3 in table 1).

In some local authorities (Bristol, North Somerset), AR does not really add additional affordable options to what is in theory available from shared ownership; in other local authorities (B&NES, South Gloucestershire), it does bring a modest additional tranche of people into the position of being able to access another form of affordable housing . This 'net' contribution of AR amounts to around 140 units per year on average. This gives a percentage split of 16% intermediate and 3% AR 'net', with AR generally overlapping with most of the intermediate (shown in row 3 table 1).

Table 1: Net Need for Affordable Housing by Tenure (compare Table 4.11 from 2009 SHMA report)

Average 2009 – 2021	Bath & N E Soms	Bristol	N Somerset	S Gloucs	WOE4
1) Annual net need social rented	816	1,124	840	788	3,569
2) Annual net need 'affordable rent' outside shared ownership/intermediate provision	75	0	0	61	137
3) Annual net need 'affordable rent' overlapping with intermediate provision	132	188	119	222	662
4) Annual net need Inter-mediate (shared ownership)	56	318	161	158	693
5) Total annual net need	947	1,442	1,001	1,008	4,398
6) % split social rented	86%	78%	84%	78%	81%
7) % split Aff Rent (separate to intermediate)	8%	0%	0%	6%	3%
8) % split Intermed	6%	22%	16%	16%	16%

Table 1 shows that there is variation between local authorities in the relative shares of intermediate housing within total annual net need. This ranges from 22% in Bristol down to 6% in B&NES, with the other two authorities close to the subregional average (16%). AR as an additional option outside of the overlap with intermediate net need does not widen affordability in Bristol or North Somerset, but does add 6% in South Gloucestershire and 8% in B&NES.

If AR were offered at a lower rent than the target 80% of market level, then it would obviously be affordable by more people, and so the 'net' contribution would be greater. This could be explored in further work at a later stage, bearing in mind that such lower rents are not provided for in the current contract-based ART programme which runs to 2015.. However, to give a rough feel for this possibility, the model suggests that in a typical year (2016) setting AR rents at 70% of market level, rather than 80%, would raise the annual need number for this option by a about a half (over 600 per year) and would see a positive net need, beyond the that catered by intermediate shared ownership, in all of the authorities.

Size disaggregation

The size disaggregation of affordable net need uses five categories, as in the final version of the WOE SHMA 2009. 2 bedroom is subdivided between flats and houses, with families with dependent children allocated the ‘houses’ category, while 3+ bedroom is further divided into 3 and 4+ bedroom as per the 2009 SHMA . As in all applications of this model to date, couples are split between 1 and 2-bedrooms.

Table 2 looks at the net need for social rent by size. This is relevant (younger and migrant) households unable to afford shared ownership or AR, minus social rented net relets (by size), plus some allowance for other need flows and the backlog. The pattern is not very different from that shown in the previous analysis. We would expect some modest change, from the introduction of the AR tenure into the model, because the tranche of people assumed to need social renting is slightly reduced in those authorities (B&NES, S Gloucs) where AR helps some additional people

Table 2: Size Mix of Net Need Social Rent (compare Table 4.13 from 2009 report)

Percentages	B&NES	Bristol	N Som	South Glos	WoE4
1 bed	39%	44%	40%	24%	39%
2 bed flat	0%	0%	10%	7%	3%
2 bed house	36%	27%	21%	41%	30%
3 bed house	15%	12%	21%	18%	16%
4 + bed house	10%	17%	7%	11%	12%

Overall, the size split for new social renting across WOE is just under 40% 1 bedroom, only 3% 2 bedroom flats, 30% 2-bed houses, 16% 3-bed houses and 12% 4+ beds. The low demand for (surplus of) 2-bed flats is a widespread phenomenon and has significant implications for planning. Two authorities (B&NES and Bristol) appear to have a surplus of 2-bed flats. This modelling has assumed that flats are unsuitable for families with children.

For one-bedroom accommodation, the highest indicated share is Bristol (44%), which the lowest being S Gloucs (24%). For two-bed houses (i.e. small families) the required share is highest in S.Gloucs. The requirement for 3 –bed accommodation is relatively greater in North Somerset and South Gloucs. Interestingly, Bristol City has the highest relative need for four-plus bedroom accommodation in the affordable sector.

Table 3 looks at the size mix indicated for intermediate housing, and may be compared with Table 4.14 in the 2009 report. In this case the percentages are exactly the same, because nothing has changed for this model under the baseline assumptions. Overall intermediate demand is skewed towards one-bedroom, with significant demand for both types of 2-bed (flats and houses), with relatively little demand for four-bedroom . 1-bed need is slightly higher in Bristol , but generally the differences between authorities are not very great.

Table 3: Size Mix of Need for Intermediate Housing – based on New Build Shared Ownership (compare Table 4.14 from 2009 SHMA report)

Percentages	B&NES	Bristol	N Som	South Glos	WoE4
1 bed	44%	49%	37%	44%	44%
2 bed flat	19%	14%	18%	17%	16%
2 bed house	14%	19%	21%	19%	19%
3 bed house	21%	16%	22%	19%	19%
4 + bed house	2%	2%	1%	1%	2%

For AR, we can look at size both for the gross demand in Table 4 (which heavily overlaps the intermediate sector as just discussed), or we can look in Table 5 at the net additional need from households able to afford AR at 80%MR but not shared ownership.

Table 4 is similar to Table 3, unsurprisingly but AR demand is slightly less likely to be for 1-bedroom and slightly more likely to for 3 and 4 bed accommodation.

Table 4: Size Mix of Need for ‘Affordable Rent’ (Gross – overlapping with Intermediate)

Percentages	B&NES	Bristol	N Som	South Glos	WoE4
1 bed	41%	51%	29%	39%	41%
2 bed flat	16%	16%	20%	16%	17%
2 bed house	15%	13%	20%	20%	17%
3 bed house	24%	17%	28%	22%	22%
4 + bed house	3%	2%	3%	3%	3%

Table 5, looks at the net increment to affordability provided by AR over and above the traditional intermediate product. This shows that there is no such increment in any size group for Bristol city. For North Somerset, there is an increment but only in the large size groups. For B&NES and South Gloucs, where there is an overall increment, the need is skewed towards the larger size groups (30-40% 3-bed, 7-9% 4-bed). This is because rents increase less with the fourth bedroom than do house prices.

Table 5: Size Mix of Need for ‘Affordable Rent’ (Net – excluding overlap with Intermediate)

Percentages	B&NES	Bristol	N Som (1)	South Glos	WoE4
1 bed	35%	0%	0%	13%	24%
2 bed flat	12%	0%	0%	11%	11%
2 bed house	18%	0%	0%	27 %	20%
3 bed house	29%	0%	70%	40%	36%
4 + bed house	7%	0%	30%	9%	9%

¹ N Som does not have scope for AR as an additional affordable option beyond what is offered by traditional SO, when the analysis is done for all household types and sizes together. However, when the analysis is done separately for different size groups, there can be seen a (small) net positive need for AR in the larger/family size groups in N Som because the modelling does not net out positives and negatives across the individual household types.

The appropriate scale *and* mix of AR provision depends on how the authorities envisage using it, and how much traditional intermediate (NBSO) they anticipate being able to provide. So, if NBSO provision were viable up to the level of indicated need, aided by s.106 agreements, and if this was a favoured policy mechanism, then there would be only a limited role for AR in providing affordable housing for groups not requiring additional assistance (and only in some authorities – B&NES and S Gloucs). The size mix would be more like Table 5. If it is envisaged that AR will play the role hitherto played by social housing in conjunction with HB, then the scale of provision could be large from a need point of view (most of the provision) and the size mix would be more like that in Table 2. A mixed strategy could see a mix that is some average or combination of these two tables.

Further Steps

Setting a lower level of AR rents would widen the affordability of the sector and modify the size mix, in ways which could be illustrated in a further stage of this work. Similar effects seem likely to emerge from using rents based on the more recent VOA data.

Consideration of the possible impacts of welfare reform, including the size limits on HB for working age social tenants and the total benefit cap under UC, will potentially raise significant issues for particular household type/size/age groups. Further investigation of interaction with benefits could help to clarify this. Wider policy responses may be called for, including more proactive transfer and allocation policies.

It is clear the Affordable Rent tenure is a product licensed by the HCA and is only available/deliverable as part of an Investment Contract. Therefore the supply of ART units (at present) is necessarily limited and it would be hard to justify including ART units in S106s that are not able to be delivered within the existing contracts, or by the contract deadline of March 2015.

Technical Note

The analysis has been carried out with the version of the ‘Zone Level’ model used as the basis for the ‘Ready Reckoner’ interactive tool provided to the authorities and on which training was provided to authority staff in 2009. This version is slightly later than the version referred to in the WoE SHMA reports, and embodies minor technical differences. The exact net need numbers are slightly different but these differences are not in my view material. The underlying assumptions are essentially the same.

There is also a ‘Local Authority Level model’ used in the SHMA study. This is the same in principle as the zonal model but gives slightly different absolute numbers, because of technical differences and the aggregation of functions which are in some cases non-linear. Although we report figures here at LA level, they are derived from the zonal model. Some figures reported in the original SHMA study may have been derived from the LA level model.

The main emphasis in this report is on the proportional (percentage) split of affordable housing net need between different tenure options, overall and by bedroom size group. From this point of view the absolute need total is less critical. In addition, the levels of need indicated in this study were generally well in excess of feasible (viable) affordable housing need targets likely to be included in development plan policies.

There are some differences between the absolute number totals underlying the bedroom-size disaggregated estimates and the overall aggregate LA level figures. These arise from various technical model differences which arise from: the fact that some elements of the calculation (e.g. wealth adjustment to affordability) are global rather than specific to particular household size groups; the fact that some size groups may have negative needs in some time periods; and the decision to scale intermediate need down from its theoretical maximum in cases where overall net need is less than newly arising affordable need from new households and migrants. Results are shown in this report are only for the four ‘core’ authorities (former Avon County area) and do not include the two other authorities (Mendip, West Wiltshire) previously included in the 2009 SHMA study. This is referred to in this report as ‘WOE4’.