Defining and measuring housing affordability using the Minimum Income Standard, and the possibility of a living rent

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Defining and measuring housing affordability using Minimum Income Standards (and the possibility of a ‘living rent’)

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Centre for Research in Social Policy & NatCen
Outline

• Context
• Defining housing affordability – review of existing definitions
• How can MIS help us to define and measure housing affordability?
• Using MIS to assess the housing affordability ‘problem’ in the UK and in London
• The possibility of a ‘Living Rent’?
Context

• ‘Housing affordability’ a key issue in policy and practice
• Prominent feature of London mayoral election campaigns
• Increasing proportion living in PRS
• Continued importance of assessing impact of housing costs on living standards
Subjective definitions

• Orthodox economics: every household will only be paying what it can afford to for housing

• Limitations
  – Some households will pay more than they can afford, whilst others will pay less
  – Households at the lower end of the income scale will not have as much choice in how much they spend on housing as those further up the income scale
Ratio definitions

• Housing is ‘unaffordable’ if a household needs to spend more than a certain proportion of its income on housing
• 35% of disposable income has traditionally been used as the threshold for affordability in the UK (Reynolds, 2011)
• Limitations
  – Ratios have often been set with reference to expenditure data (see for example Lupton and Collins, 2015), when in reality households do not simply spend what they need to spend.
  – The ratio approach does not take into account what households need to be able to afford besides their housing costs.
The problem with ratio definitions

HH1: £180 (25%)

HH2: £270 ($40%$)

- Housing
- Non-housing
Residual income definitions

- Housing is affordable to a given household if they are able to afford to meet their other basic needs as well as paying for their housing
Residual income definitions

<table>
<thead>
<tr>
<th>Income Level</th>
<th>HH1</th>
<th>HH2</th>
</tr>
</thead>
<tbody>
<tr>
<td>£0 - £40</td>
<td>£40 (17%)</td>
<td></td>
</tr>
<tr>
<td>£40 - £250</td>
<td></td>
<td>£250 (56%)</td>
</tr>
<tr>
<td>£250 - £500</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Residual income definitions

• Housing is affordable to a given household if they are able to afford to meet their other basic needs as well as paying for their housing

• But what residual income is needed?
  – Benefit levels
  – Poverty lines
  – Budget standards
Minimum Income Standards (MIS)

• The weekly budget households need to have a minimum acceptable standard of living

• Defined by the public

‘A minimum standard of living in Britain today includes, but is more than just, food, clothes and shelter. It is about having what you need in order to have the opportunities and choices necessary to participate in society.’

• Negotiated lists of essentials for different households

• Informs debate on living standards; basis of Living Wage outside London; used by charities to assess eligibility for support/level of support
Using MIS to define housing affordability

• What is the relationship between housing costs and households’ ability to meet their non-housing needs?
• Which households are below MIS because they have high housing costs, and not simply because they have low incomes?
A ‘new’ approach to affordability

• What is affordable?
• In the context of MIS … what is left after meeting all other needs
• In relation to ‘average’ spending on housing (just rent here) for those below median income
• In London and in the UK (excluding London)
An affordability measure

- Defining high housing costs:
  - In work …
  - Out of work …
  - In London …
  - Outside London …
Housing affordability in London

- Around 35% of households in rental sector in London (2013/14) have incomes below MIS
- Around a quarter of renting households have high housing costs
- One fifth of households have incomes below MIS and have high housing costs = ‘affordability problem’
# Housing affordability in London

<table>
<thead>
<tr>
<th></th>
<th>Income above MIS</th>
<th>Income below MIS</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>High housing costs</strong></td>
<td>4.9%</td>
<td>19.5%</td>
<td>24.4%</td>
</tr>
<tr>
<td><strong>Not high housing costs</strong></td>
<td>60.8%</td>
<td>14.9%</td>
<td>75.6%</td>
</tr>
<tr>
<td></td>
<td>65.6%</td>
<td>34.4%</td>
<td></td>
</tr>
</tbody>
</table>
Housing affordability outside London

• Around 40% of households in rental sector outside of London (2013/14) have incomes below MIS
• Around a quarter of renting households have high housing costs
• One fifth of households have incomes below MIS and have high housing costs = ‘affordability problem’
### Housing affordability outside London

<table>
<thead>
<tr>
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<th>Income below MIS</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>High housing costs</strong></td>
<td>3.8%</td>
<td><strong>21.1%</strong></td>
</tr>
<tr>
<td><strong>Not high housing costs</strong></td>
<td>57.1%</td>
<td>18.0%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>60.9%</td>
<td>39.1%</td>
</tr>
</tbody>
</table>
Using MIS to define housing affordability

HH1
HH2
HH3

- Housing
- Non-housing
The possibility of a ‘living rent’?

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<th>Income below MIS</th>
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</thead>
<tbody>
<tr>
<td><strong>High housing costs</strong></td>
<td>No ‘affordability problem’</td>
<td>‘Problem’ is housing related</td>
</tr>
<tr>
<td><strong>Not high housing costs</strong></td>
<td>No ‘affordability problem’</td>
<td>‘Problem’ is income related</td>
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</tbody>
</table>

We can do something about housing costs …
The possibility of a ‘living rent’?

- The idea of a living rent politically charged
- The term is often being used without being clearly defined
- A number of different methods, levels, justifications
- What might happen if there were to be a living rent?
The possibility of a ‘living rent’?

‘Sadiq [Khan] will create a new form of affordable housing, with rent based on a third of average local income, not market rates. A new form of tenure, more affordable, and giving you the chance to save for a deposit’

(http://www.sadiq.london/homes_for_londoners)

‘We believe that ‘affordable’ rents should take into account a households ability to pay and should be set as a percentage of household income. We suggest the widely supported recommendation of 30%’

(London Fairness Commission Final Report)
A ‘living rent’: capped at 30% of median income for London
Rent capped at 30% of regional median income outside London

Not capped

- 3.8% High housing costs above MIS
- 57.1% High housing costs below MIS

Capped at 30%

- 18.6% Not high housing costs above MIS
- 19.9% High housing costs below MIS

- 2.9% Not high housing costs below MIS
Conclusions and next steps

• MIS as the basis for a living rent?
  – Shift away from average incomes towards the incomes households need?

• Housing affordability is a key issue & needs to be addressed, but so do other costs

• More analysis needed – only first steps here
  – What level of rent cap would have greatest impact?
  – Which households are helped most by a cap?
  – How could a living rent be related to NLW?