Defining and measuring housing affordability in the private rented sector using the minimum income standard [Powerpoint Presentation]

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Defining and measuring housing affordability in the Private Rented Sector using the Minimum Income Standard

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Matt Padley, Centre for Research in Social Policy

ENHR, 30 June 2016
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3. How minimum income standards can help us to define and measure housing affordability
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The context
The context

- The rise of the PRS
- Rising costs in the PRS
- Stagnant incomes and falling living standards
- ‘Housing affordability’ a key issue in policy, practice and politics
- Calls for (a) ‘Living Rent(s)’
Existing definitions of housing affordability
Subjective definitions

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.
Ratio definitions

HH1

HH2

£180

£270

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

HH1

HH2

£40 (17%)

£250 (56%)

£0

£100

£150

£200

£250

£300

£350

£400

£450

£500

£0

£50

£100

£150

£200

£250

£300

£350

£400

£450

£500

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.

- But what residual income is needed?
  - Benefit levels
  - Poverty lines
  - Budget standards
  - MIS
How minimum income standards can help us to define and measure housing affordability
Minimum Income Standard (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
A ‘new’ approach to affordability

- MIS as the residual income standard
- What can households afford to pay for their housing after meeting other minimum needs?
- 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 rents, and not simply because they have low incomes?
- In relation to ‘average’ spending on rent for those below median income
- In London and in the rest of the UK
Defining ‘high’ housing costs

- For households with work
  - Spends more on housing, after deducting housing benefit, as a proportion of their net income than the average proportion of net income taken up by housing costs for working households with below median income (2013/4 FRS).
    - London = 39%
    - Rest of the UK = 32%

- For households without work
  - Has housing costs greater than any housing-related benefits by at least £5 per week (2013/4 FRS).
Analysis 1: Using MIS to assess the housing affordability ‘problem’ in the PRS
Method

- FRS 2013/14 data
- Identifying HH with ‘high’ housing costs and residual incomes below the MIS for their household type
- Working age HH
- HH in the PRS
- HH covered by MIS
Results

- Nearly a quarter of households in the UK PRS covered by the MIS budgets have high housing costs.
  - London: 24%
  - Rest of the UK: 24%

- A substantial majority (80%) of households in the PRS who have high housing costs have residual incomes below the Minimum Income Standard.

- One in five households in the PRS have an affordability problem, according to this residual definition.
  - London: almost 106,000 households
  - Rest of the UK: more than 400,000 households
## Results

<table>
<thead>
<tr>
<th></th>
<th>Income above MIS</th>
<th>Income below MIS</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>All household in the PRS, London</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>High housing costs</td>
<td>23,910</td>
<td>105,970</td>
<td>129,880</td>
</tr>
<tr>
<td></td>
<td>4%</td>
<td>20%</td>
<td>24%</td>
</tr>
<tr>
<td>Not high housing costs</td>
<td>360,280</td>
<td>53,250</td>
<td>413,540</td>
</tr>
<tr>
<td></td>
<td>66%</td>
<td>10%</td>
<td>76%</td>
</tr>
<tr>
<td>Total</td>
<td>384,190</td>
<td>159,220</td>
<td>543,410</td>
</tr>
<tr>
<td></td>
<td>71%</td>
<td>29%</td>
<td>100%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>Income above MIS</th>
<th>Income below MIS</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>All household in the PRS, Rest of the UK</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>High housing costs</td>
<td>100,580</td>
<td>403,670</td>
<td>504,250</td>
</tr>
<tr>
<td></td>
<td>5%</td>
<td>19%</td>
<td>24%</td>
</tr>
<tr>
<td>Not high housing costs</td>
<td>1,349,830</td>
<td>221,670</td>
<td>1,571,50</td>
</tr>
<tr>
<td></td>
<td>65%</td>
<td>11%</td>
<td>76%</td>
</tr>
<tr>
<td>Total</td>
<td>1,450,420</td>
<td>625,340</td>
<td>2,075,750</td>
</tr>
<tr>
<td></td>
<td>70%</td>
<td>30%</td>
<td>100%</td>
</tr>
</tbody>
</table>
Results

- Households with children are particularly likely to be paying unaffordable rents in the private rented sector.
- In London, single working age adults without children are also particularly at risk of having an affordability problem.

<table>
<thead>
<tr>
<th>Number and proportion of hh in the PRS who have unaffordable housing</th>
<th>London</th>
<th>Rest of the UK</th>
</tr>
</thead>
<tbody>
<tr>
<td>Single adult, no children</td>
<td>25%</td>
<td>18%</td>
</tr>
<tr>
<td>Couple household, no children</td>
<td>11%</td>
<td>9%</td>
</tr>
<tr>
<td>Household with children</td>
<td>27%</td>
<td>31%</td>
</tr>
<tr>
<td>All households</td>
<td>20%</td>
<td>20%</td>
</tr>
</tbody>
</table>
Analysis 2: The potential impact of a ‘Living Rent’ in the PRS
Calls for a ‘living rent’

London Living Rent … 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 deposit¹.

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%².

The word ‘affordable’ no longer means what most people understand by the term. We need a new standard of affordability linked entirely to incomes and based on the principle that Londoners should not have to pay more than a third of their income on rent. This will be called a London Living Rent³.

1. http://www.sadiq.london/homes_for_londoners
Potential impact of a ‘living’ rent

Proportion of hh in the PRS with unaffordable housing

<table>
<thead>
<tr>
<th>Category</th>
<th>Without Living Rent</th>
<th>With Living Rent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Single working age adults</td>
<td>25%</td>
<td>23%</td>
</tr>
<tr>
<td>Couple working age adults</td>
<td>11%</td>
<td>7%</td>
</tr>
<tr>
<td>Households with children</td>
<td>27%</td>
<td>20%</td>
</tr>
<tr>
<td>Single working age adults</td>
<td>18%</td>
<td>18%</td>
</tr>
<tr>
<td>Couple working age adults</td>
<td>9%</td>
<td>9%</td>
</tr>
<tr>
<td>Households with children</td>
<td>31%</td>
<td>27%</td>
</tr>
</tbody>
</table>

London: 25% (Without), 23% (With)
Rest of UK: 11% (Without), 7% (With)
Potential impact of a ‘living’ rent

Proportion of hh in the PRS with residual incomes below MIS

<table>
<thead>
<tr>
<th>Category</th>
<th>Without Living Rent</th>
<th>With Living Rent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Single working age adults without children</td>
<td>33%</td>
<td>32%</td>
</tr>
<tr>
<td>Couple working age adults without children</td>
<td>11%</td>
<td>8%</td>
</tr>
<tr>
<td>Households with children</td>
<td>50%</td>
<td>46%</td>
</tr>
<tr>
<td>Single working age adults without children</td>
<td>21%</td>
<td>21%</td>
</tr>
<tr>
<td>Couple working age adults without children</td>
<td>13%</td>
<td>12%</td>
</tr>
<tr>
<td>Households with children</td>
<td>55%</td>
<td>53%</td>
</tr>
</tbody>
</table>

London

Rest of UK

0% 10% 20% 30% 40% 50% 60%
Conclusions and future avenues for research
Conclusions

- MIS can help us to define housing affordability in the context of households’ other minimum needs
- Almost a quarter of households in the UK PRS have high housing costs
- Four in five households with high housing costs have residual incomes inadequate to meet their other needs
- One in five households in the UK PRS can therefore be said to have an ‘affordability’ problem
  - Households with children are most likely to have unaffordable housing
  - In London, single working age adults are also particularly at risk
- Capping rents at 30% of median income levels would make some impact, but how much impact is enough?
Future avenues for research

- Extending MIS to cover ‘other’ households
- Affordability and physical housing standards
  - Overcrowding
  - Quality
- Nuanced living rents
  - Household composition
  - Property size
  - PRS vs SRS
- The big question – who’s going to pay?
- Continued importance on a holistic understanding of living standards as determined by incomes, housing costs and other living costs
Thank you

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