The impacts of recent cuts to Housing Benefit on rent levels and property types rented

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Outline

- Background
  - The reforms
  - Basic aims of (this part of) the evaluation

- Data and descriptives

- Estimates of reforms' impacts (regression results)

- Summary

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Local Housing Allowance (LHA)

- Housing Benefit (HB) rules for private sector tenants

- Introduced in April 2008; most private tenants now on LHA

- Maximum amount of rent that can be covered (the 'applicable LHA rate'): depends on area and family type

  – Relevant areas are Broad Rental Market Areas (BRMAs)

- Maximum LHA awards are then means-tested

  – But reforms evaluated here affect maximum awards (not means test)

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Reforms to LHA in April 2011

- **LHA rates based on 30th percentile of rents within the relevant (BRMA x bedroom) cell, not the median** (83% of claimants to lose; average loss among losers £9 per week)

- **£15 excess removed** (47% to lose avg. of £11 p/w)

- **5-room rates abolished** (affects < 1% of claimants)

- **National caps on room rates** (binding in parts of London): £250, £290, £340, £400 p/w for 1-4 rooms respectively

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Roll-out of reforms

- Reforms affected new claimants (the 'flow') immediately

- They affected the stock 9 months after first post-reform anniversary of claim (except removal of £15 excess)

  - So stock are affected between January-December 2012

- **Here we estimate the effects of the April 2011 reforms on the LHA flow (and their landlords)**

  - Comparing new claims after April 2011 with those before

- Currently in process of estimating effects on the stock

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What are we looking for/at?

- 'Incidence' (who is actually made worse off) between landlords/tenants: do rents change, and/or do tenants' shortfalls (rent – LHA) change; and/or do tenants move to different kinds of properties?

  – Economic theory suggests this is an empirical question as it depends on nature of demand and supply

  – Previous studies in UK, US and France have concluded that substantial share of incidence of housing subsidy is on landlords (Gibbons & Manning, 2003; Susin,2002; Fack, 2004)

- Variation in any impacts between different groups

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DATA AND DESCRIPTIVES

Data: Single Housing Benefit Extract (SHBE)

- Admin data on all Housing Benefit claims in Great Britain
  - Central database of monthly scans of Local Authority systems
- One observation per claimant per month

- Key variables include rents, LHA amounts, BRMA, LHA bedroom entitlements, actual number of bedrooms, family type, age

- **We extract the first observation for all LHA claims that start between 1st June 2010 and 1st December 2011**
  - **Everything I will now show you uses only this info on the flow**
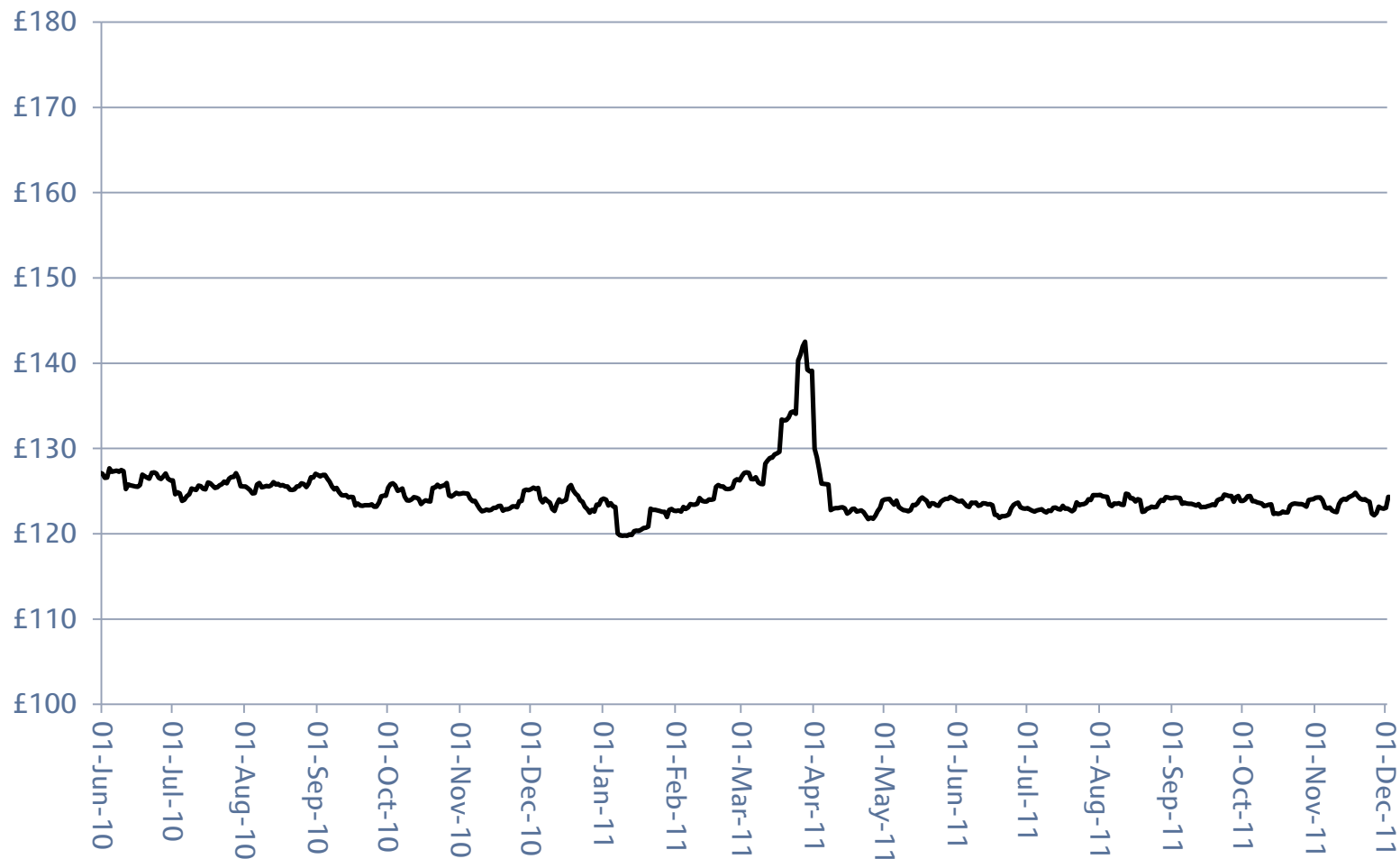 - Gives us about 50,000-60,000 observations per month

Key issue: anticipation effects

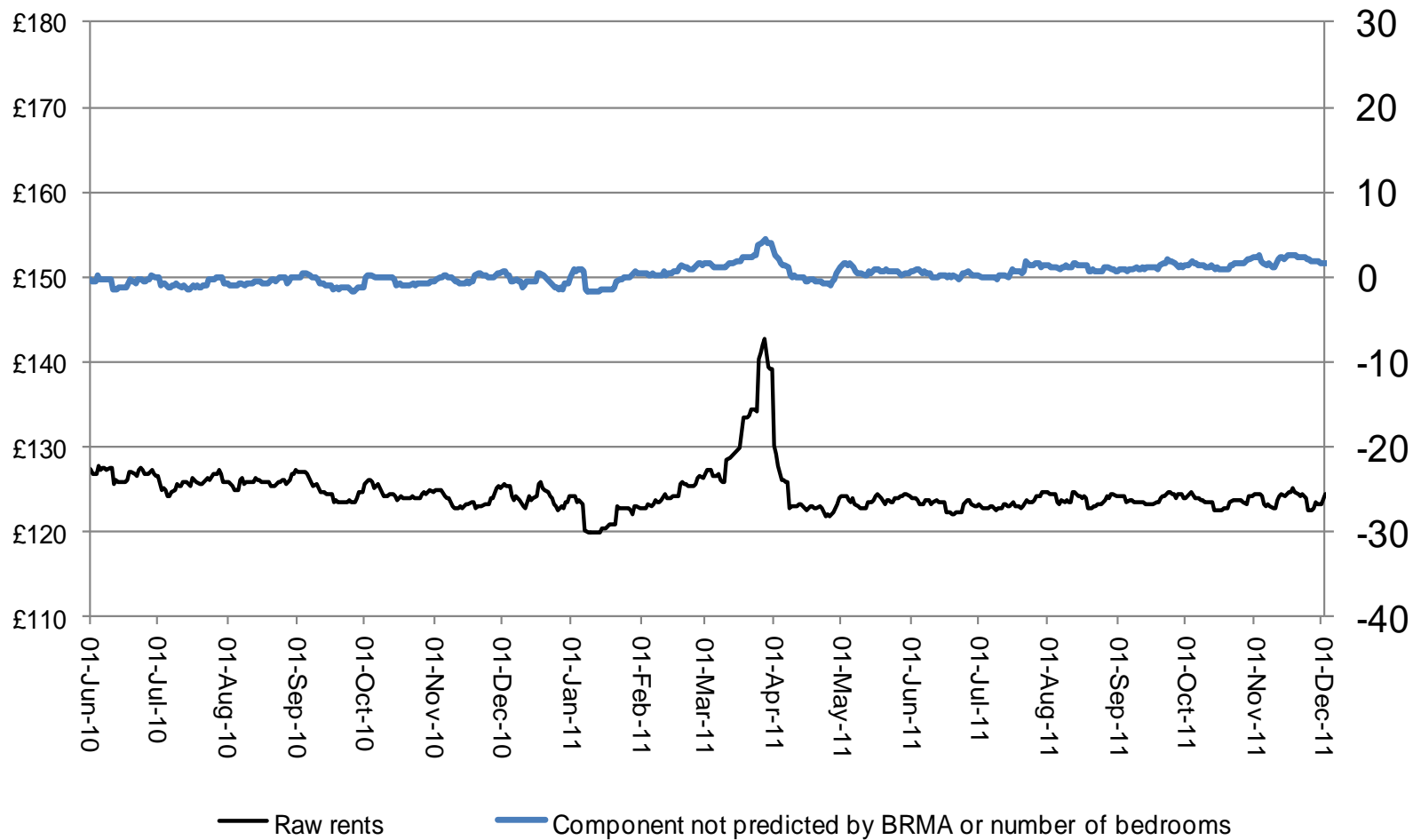- Data suggest new claims may have been brought forward and/or 'manufactured' just before date of reform

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LHA on-flows (7-day moving average)

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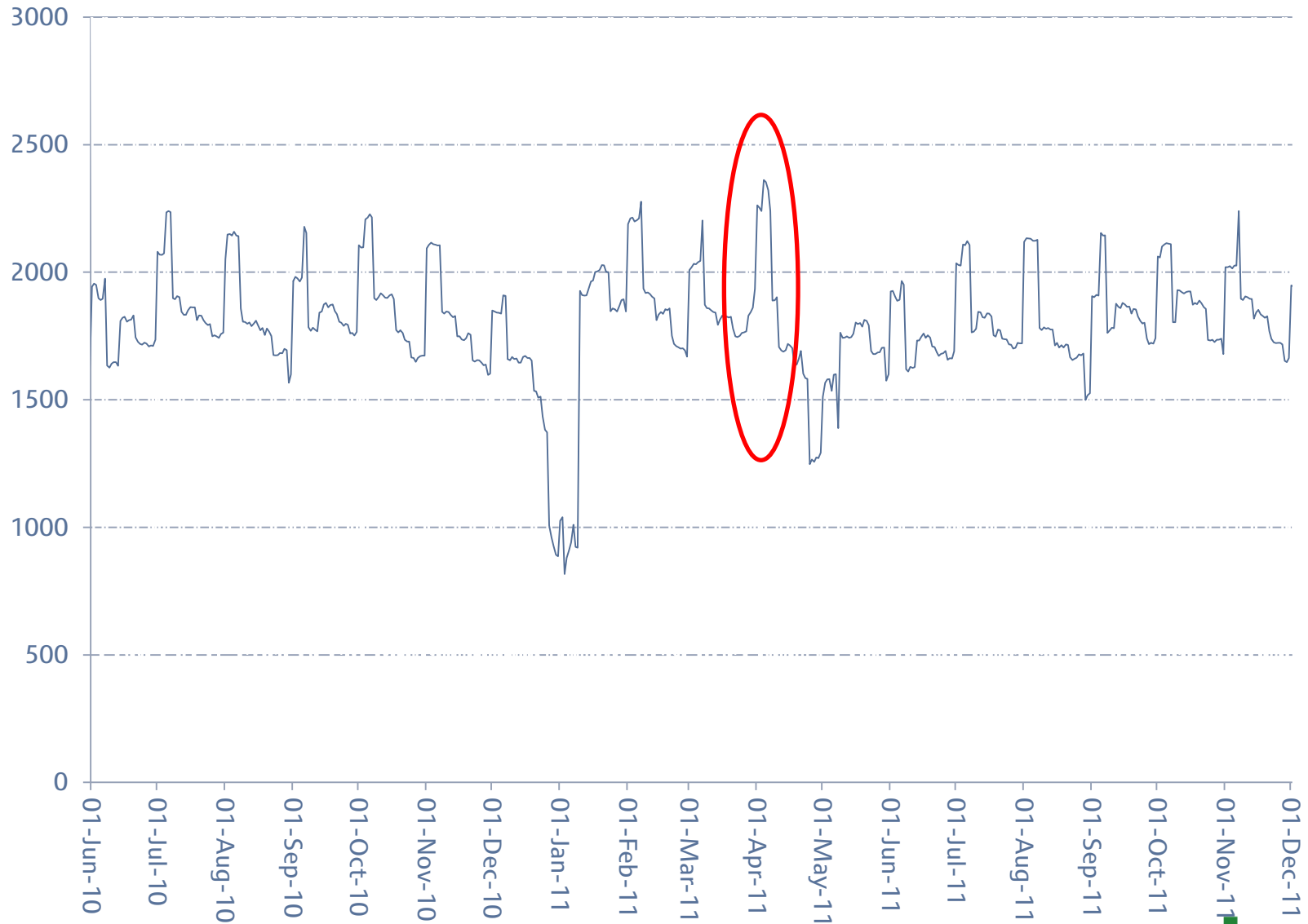
Average weekly rents of new LHA claimants by date of new claim (7-day moving average)

...and stripping out 'effects' of BRMA and number of bedrooms

Legend: Raw rents — Component not predicted by BRMA or number of bedrooms
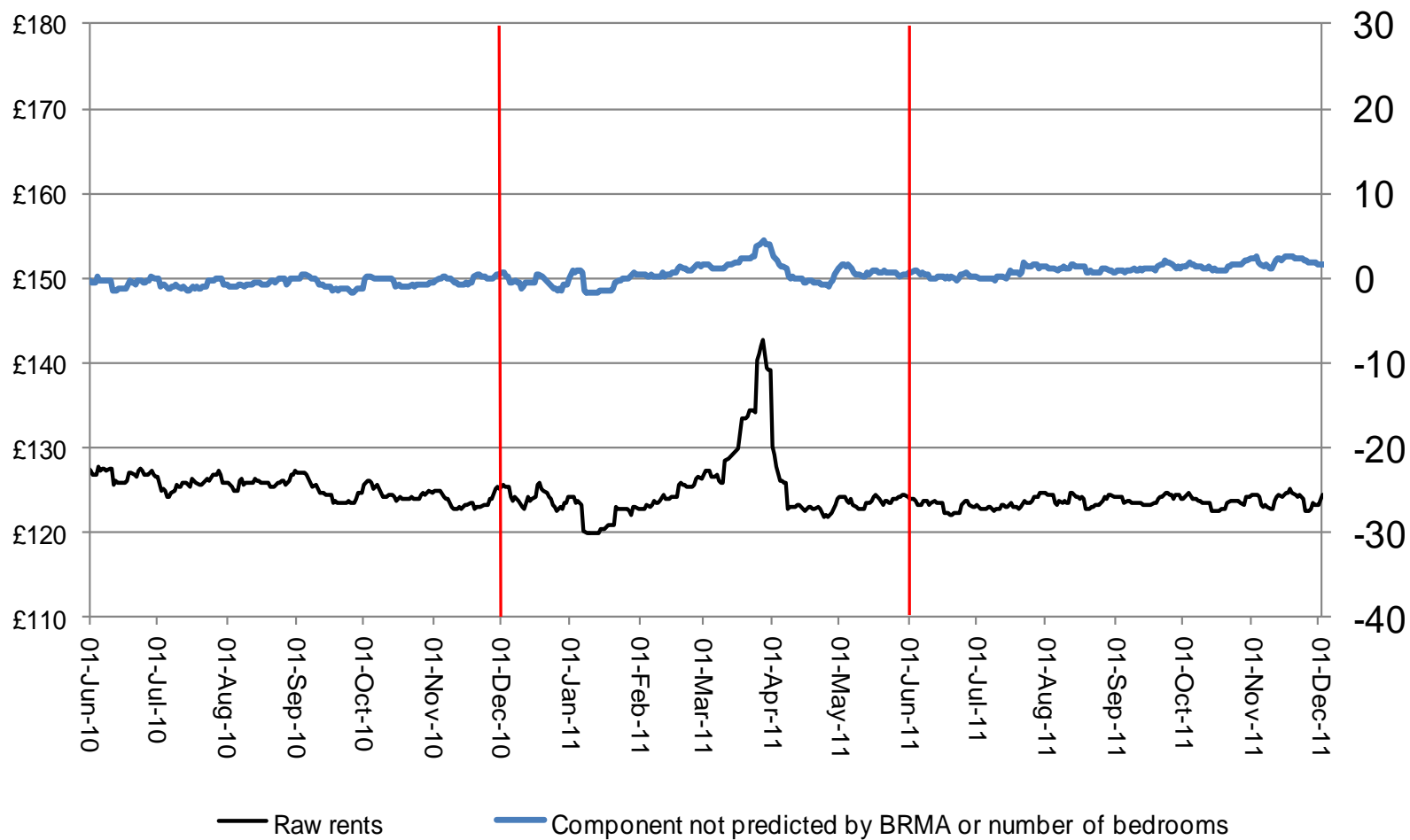
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Key issue: anticipation effects

- Data clearly suggest new claims were 'manufactured' and/or brought forward just before date of reform

  - particularly in high-rent properties

- So we exclude from analysis window of data around reform date

- Trade-off: exclude more data and be surer of getting rid of anticipation effects; but estimated time trends have to extrapolate more, and sample size is lost

- We take very conservative approach, because:

  - Time trends look uncomplicated

  - Sample is very large

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LHA on-flows

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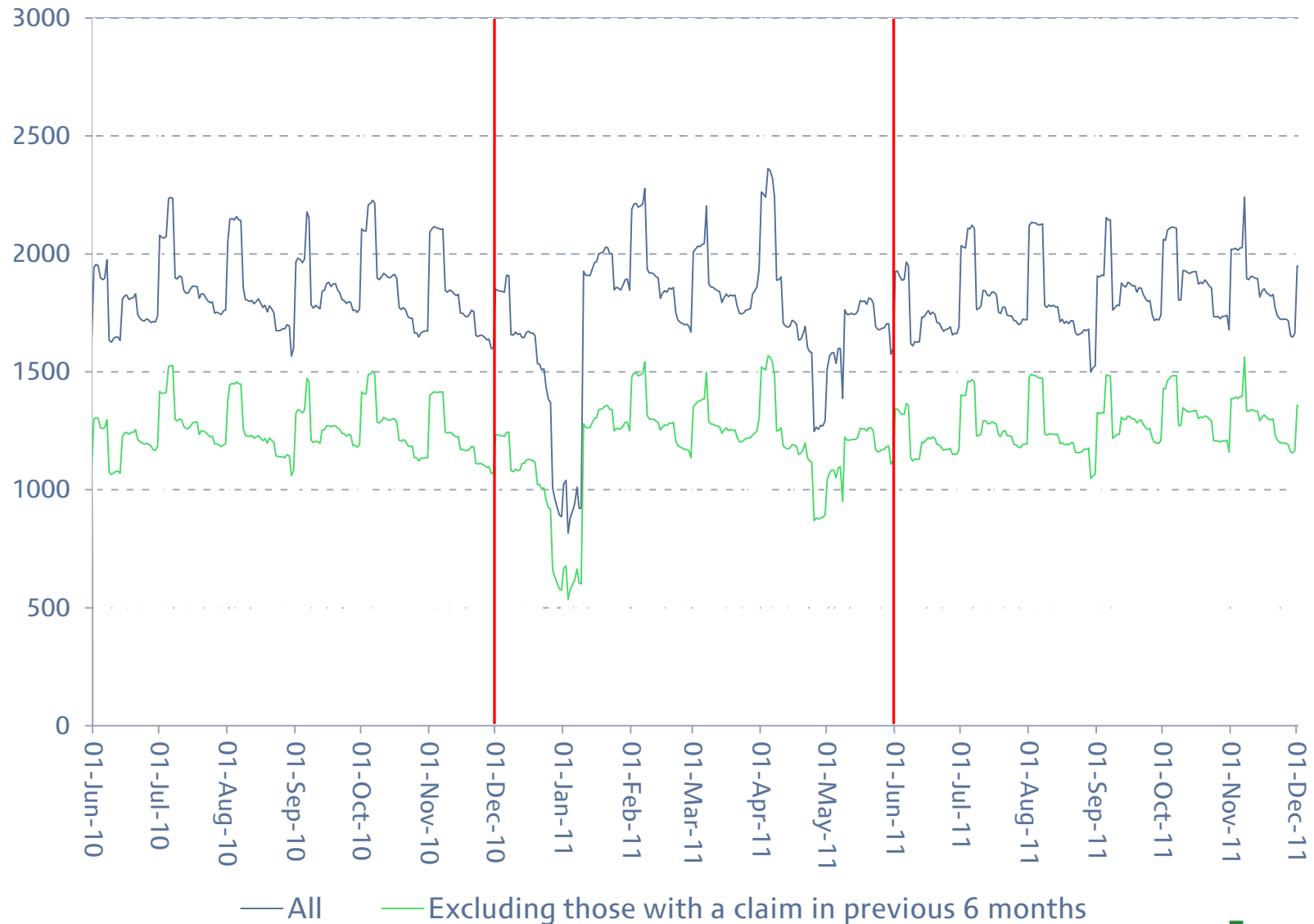
Mean weekly contractual rents: raw and BRMA/bedroom-adjusted

Legend: — Raw rents — Component not predicted by BRMA or number of bedrooms

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Average max LHA entitlements
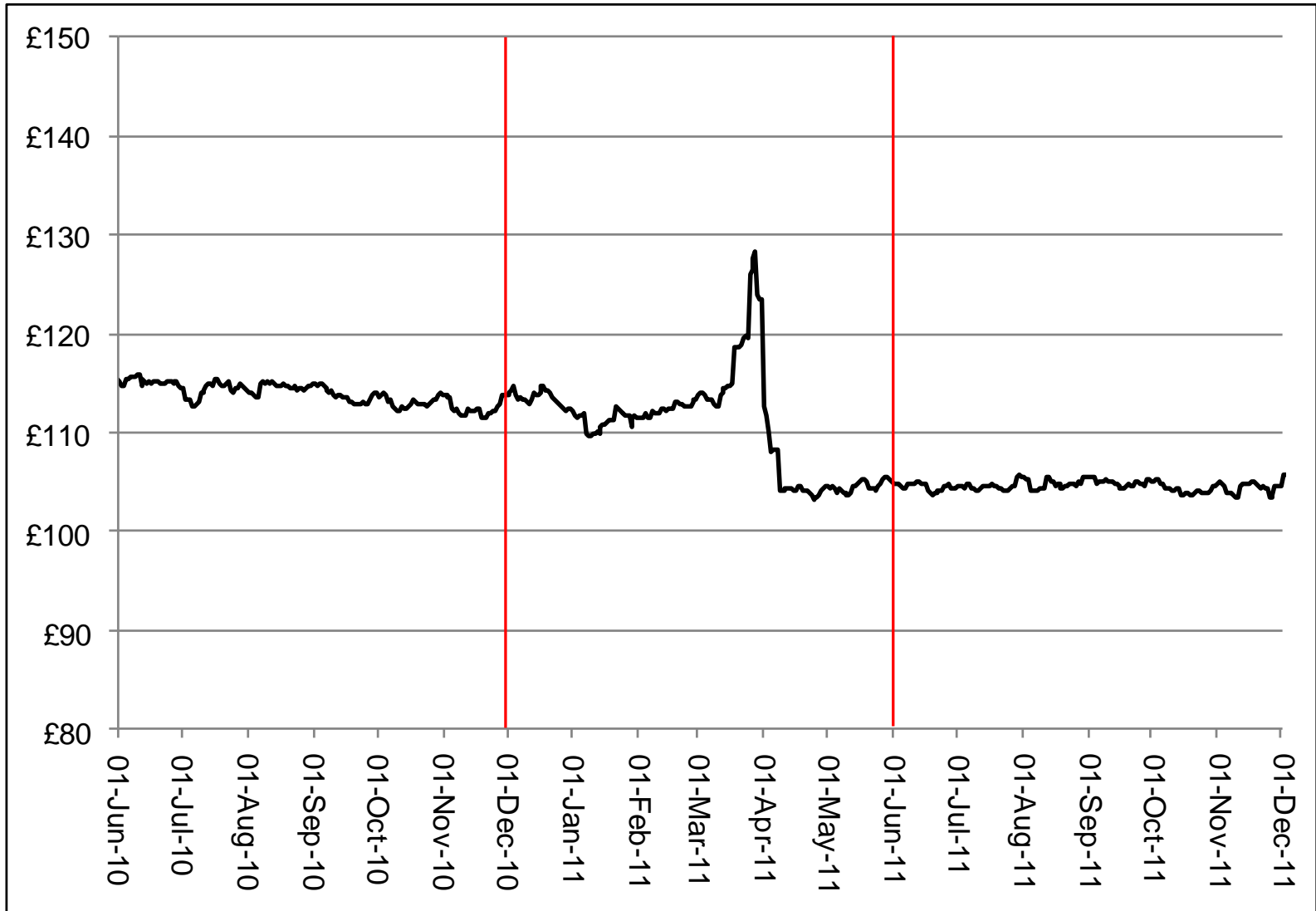
Average shortfall (rent – LHA), based on max LHA
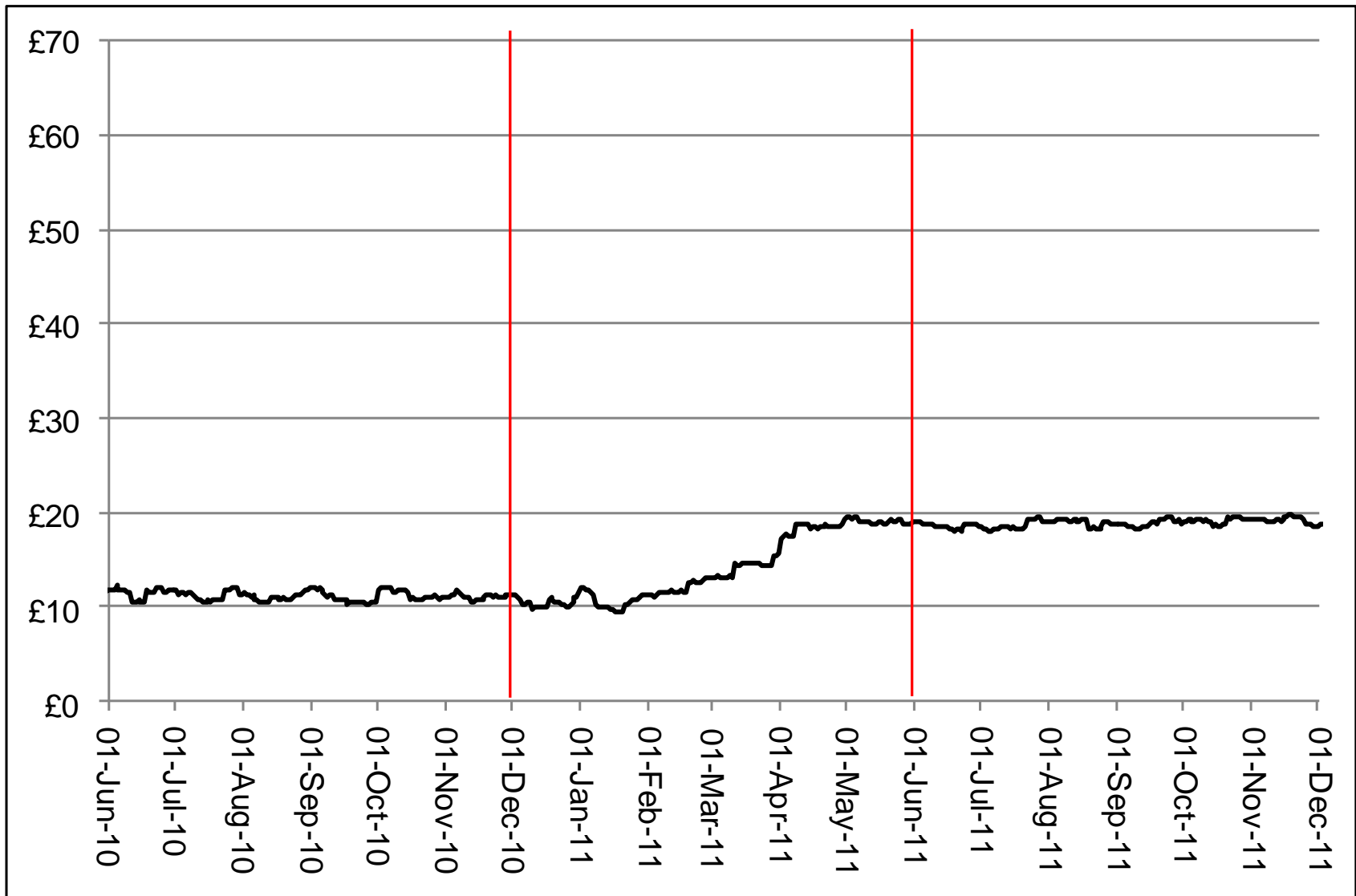
Proportion with shortfall > 0

ESTIMATES OF REFORMS' IMPACTS (REGRESSION RESULTS)
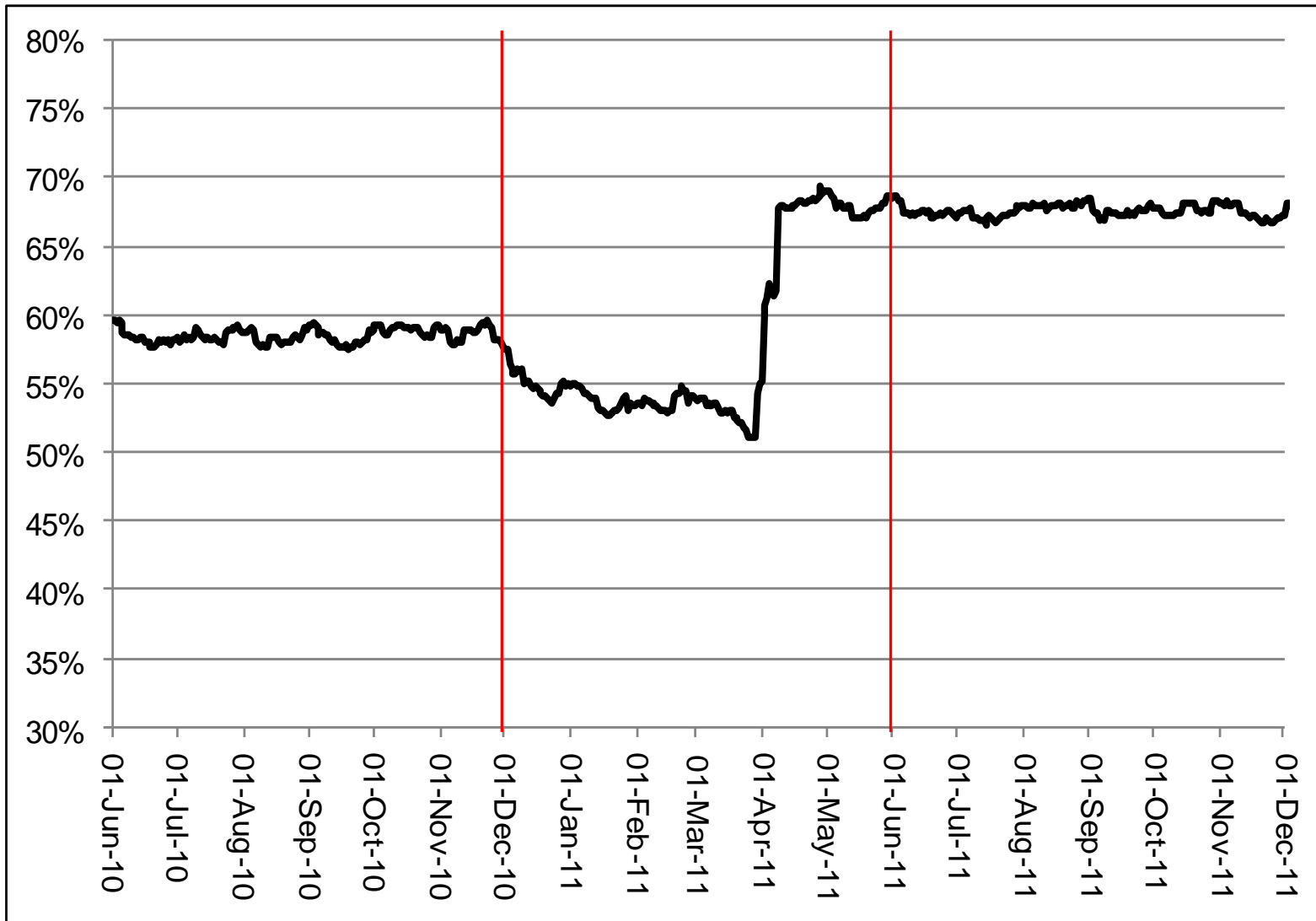
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Did landlords change their rents in response?

- To address this, need to know whether reform caused reductions in rents *in given types of properties*

- Rents could change because (e.g.) tenants moved to cheaper accommodation in response to reform
  - But that would reflect incidence on tenants, not landlords

- Limitation: don't have very rich information on property type

  - Likely bias is to overstate incidence of reforms on landlords, and understate incidence on tenants (because we might pick up changes in housing choices as reductions in rent levels)

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What happened to rents?

Y = rent (£/w)	Right-hand-side variables				
	Post-reform indicator	+ BRMA + LA	+ bedrooms + (BRMA x bedrooms)	+ BRMA*(Linear time trends, 1 pre-reform and 1 post-reform)	+ Family type and age
Post-reform coefficient	--1.57				
Standard error	(1.11)				
R^2	0.000				
Clusters (BRMAs)	191				
N	667,278				

*** p<0.01, ** p<0.05, * p<0.1.
Results from OLS regression
Standard errors robust to heteroscedasticity and clustered errors within BRMAs

What happened to rents?

Y = rent (£/w)	Right-hand-side variables				
	Post-reform indicator	**+ BRMA + LA**	**+ bedrooms + (BRMA x bedrooms)**	**+ BRMA*(Linear time trends, 1 pre-reform and 1 post-reform)**	**+ Family type and age**
Post-reform coefficient	-1.57	0.12			
Standard error	(1.11)	(0.52)			
R^2	0.000	0.256			
Clusters (BRMAs)	191	191			
N	667,278	667,278			

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Post-reform coefficient	-1.57	0.12	1.62***		
Standard error	(1.11)	(0.52)	(0.43)		
R ^{2}	0.000	0.256	0.499		
Clusters (BRMAs)	191	191	191		
N	667,278	667,278	662,764		

*** p<0.01, ** p<0.05, * p<0.1.
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What happened to rents?

Y = rent (£/w)	Right-hand-side variables				
	Post-reform indicator	**+ BRMA + LA**	**+ bedrooms + (BRMA x bedrooms)**	**+ BRMA*(Linear time trends, 1 pre-reform and 1 post-reform)**	**+ Family type and age**
Post-reform coefficient	-1.57	0.12	1.62***	-0.21	
Standard error	(1.11)	(0.52)	(0.43)	(0.66)	
R^2	0.000	0.256	0.499	0.500	
Clusters (BRMAs)	191	191	191	191	
N	667,278	667,278	662,764	662,764	

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Y = rent (£/w)	Right-hand-side variables				
	Post-reform indicator	**+ BRMA + LA**	**+ bedrooms + (BRMA x bedrooms)**	**+ BRMA*(Linear time trends, 1 pre-reform and 1 post-reform)**	**+ Family type and age**
Post-reform coefficient	-1.57	0.12	1.62***	-0.21	-0.46
Standard error	(1.11)	(0.52)	(0.43)	(0.66)	(0.64)
R^2	0.000	0.256	0.499	0.500	0.513
Clusters (BRMAs)	191	191	191	191	191
N	667,278	667,278	662,764	662,764	659,892

*** $p<0.01$, ** $p<0.05$, * $p<0.1$.
Results from OLS regression
Standard errors robust to heteroscedasticity and clustered errors within BRMAs

What happened to maximum LHA entitlements?

Y = rent (£/w)	Right-hand-side variables				
	Post-reform indicator	**+ BRMA + LA**	**+ bedrooms + (BRMA x bedrooms)**	**+ BRMA*(Linear time trends, 1 pre-reform and 1 post-reform)**	**+ Family type and age**
Post-reform coefficient	-9.28***	-7.73***	-6.36***	-7.87***	-8.21***
Standard error	(1.18)	(0.63)	(0.48)	(0.52)	(0.50)
R^2	0.008	0.411	0.792	0.795	0.864
Clusters (BRMAs)	191	191	191	191	191
N	667,278	667,278	662,764	662,764	659,892

*** $p<0.01$, ** $p<0.05$, * $p<0.1$.
Results from OLS regression
Standard errors robust to heteroscedasticity and clustered errors within BRMAs

What happened to shortfalls (rent – maximum LHA)?

Y = rent (£/w)	Right-hand-side variables				
	Post-reform indicator	+ BRMA + LA	+ bedrooms + (BRMA x bedrooms)	+ BRMA*(Linear time trends, 1 pre-reform and 1 post-reform)	+ Family type and age
Post-reform coefficient	7.71***	7.85***	7.97***	7.66***	7.76***
Standard error	(0.34)	(0.35)	(0.35)	(0.49)	(0.49)
R^2	0.007	0.022	0.042	0.044	0.061
Clusters (BRMAs)	191	191	191	191	191
N	667,278	667,278	662,764	662,764	659,892

*** $p<0.01$, ** $p<0.05$, * $p<0.1$.
Results from OLS regression
Standard errors robust to heteroscedasticity and clustered errors within BRMAs

What happened to probability of having shortfall > 0?

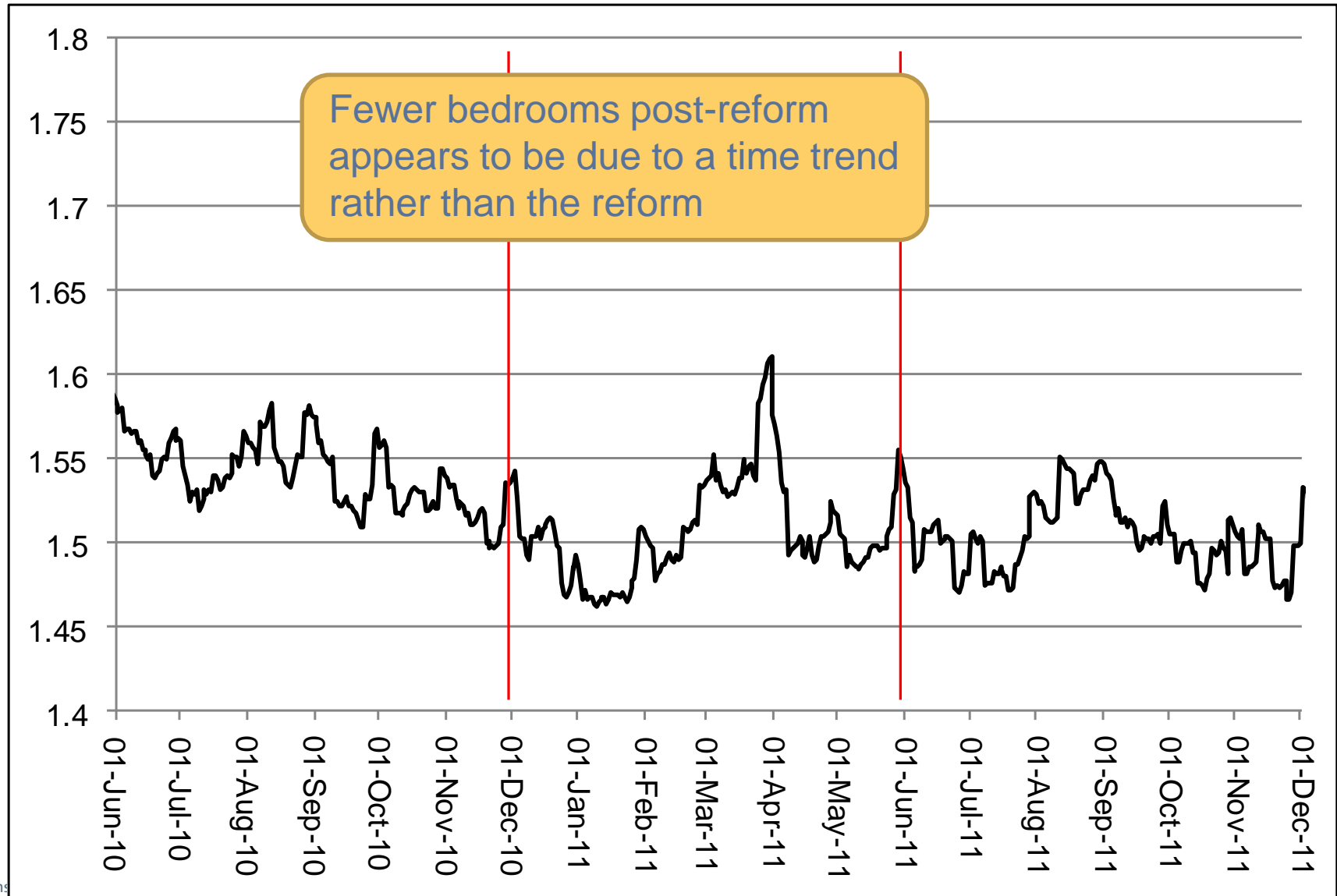| Y = Prob(rent > maximum LHA)	Right-hand-side variables				
	Post-reform indicator	**+ BRMA + LA**	**+ bedrooms + (BRMA x bedrooms)**	**+ BRMA*(Linear time trends, 1 pre-reform and 1 post-reform)**	**+ Family type and age**
Post-reform effect	0.09***	0.09	0.09	0.09***	0.111**
Standard error	(0.01)	(0.08)	(0.08)	(0.01)	(0.04)
Clusters (BRMAs)	191	191	191	191	191
N	667,278	667,278	662,764	662,764	659,892

*** p<0.01, ** p<0.05, * p<0.1.
Results from probit regression
Standard errors robust to heteroscedasticity and clustered errors within BRMAs

Results so far: summary

- Rents conditional on (our measures of) property type fell by about £0.46 per week at the mean

- This is far less than maximum LHA entitlements fell by on same basis: about £8.21 per week

  - So ~94% of LHA reductions for given properties 'incident' on tenants

- Another channel through which ultimate impacts of reforms could be on tenants is if they lived in different properties as a result

  - But we do not find any impacts of reform on number of bedrooms (or people per bedroom)

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Average number of bedrooms (7-day moving average)

Fewer bedrooms post-reform appears to be due to a time trend rather than the reform

Variation in reform impacts

- Not evidence of huge variation geographically

    – Little or no impacts on rents across GB (including in Wales)
    – Some evidence that tenants in urban areas (but not central London) better able to get rent reductions

- Signs that single individuals and younger individuals better able to get some rent reductions

    – Could be because they are more mobile (e.g. can more credibly threaten to move)

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Effects of reforms by household type

Coefficients on interactions between (subgroup x post-reform indicator)	Outcome			% of LHA reduction incident on tenants
	Maximum LHA (£/w)	Rent (£/w)	Shortfall (£/w)	
Single men (35.1%)	-7.19***	-1.28**	5.91***	82%
Single women (18.6%)	-7.13***	-0.37	6.76***	95%
Couples w/o children (7.6%)	-6.84***	0.50	7.35***	107%
Lone parents (24.6%)	-10.22***	-0.41	9.82***	96%
Couples with children (14.1%)	-9.51***	0.89	10.40***	109%
Memo: all	**-8.21***	**-0.46**	**7.76***	**94%**

*** p<0.01, ** p<0.05, * p<0.1.
Results from OLS regression. Other control variables are the same as in the final column of previous tables.
Standard errors robust to heteroscedasticity and clustered errors within BRMAs

Effects of reforms by age of claimant

Coefficients on interactions between (subgroup x post-reform indicator)	Outcome			% of LHA reduction incident on tenants
	Maximum LHA (£/w)	Rent (£/w)	Shortfall (£/w)	
Under 25 (22.9%)	-6.83***	-1.00	5.83***	85%
25-34 (32.9%)	-8.67***	-0.63	8.04***	93%
35-44 (22.8%)	-8.73***	-0.13	8.60***	99%
45-54 (13.1%)	-8.57***	-0.00	8.57***	100%
55-64 (5.6%)	-8.19***	-0.15	8.05***	98%
65+ (2.7%)	-7.85***	0.84	8.69***	111%
Memo: all	**-8.21*** **	**-0.46**	**7.76*** **	**94%**

*** $p<0.01$, ** $p<0.05$, * $p<0.1$.
Results from OLS regression. Other control variables are the same as in the final column of previous tables.
Standard errors robust to heteroscedasticity and clustered errors within BRMAs

Summary

- Overall, majority of initial impact (94%) was on tenants because rents changed very little in response to reforms
  - And this is true for most groups

- Plenty of caveats at this stage:

- Full effects may take time to emerge (e.g. price stickiness, awareness).

- We observe only contractual rents. Some qualitative evidence of landlords accepting informally lower rents.

- On the other hand we may be *under*stating incidence on tenants as we don't have rich controls for property type

- Have only looked at the flow so far; stock may be different

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