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## Social rent policy: choices and trade-offs

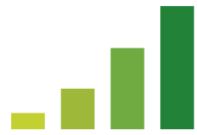
Stuart Adam, Daniel Chandler, Andrew Hood and Robert Joyce



Trust for London

Tackling poverty and inequality





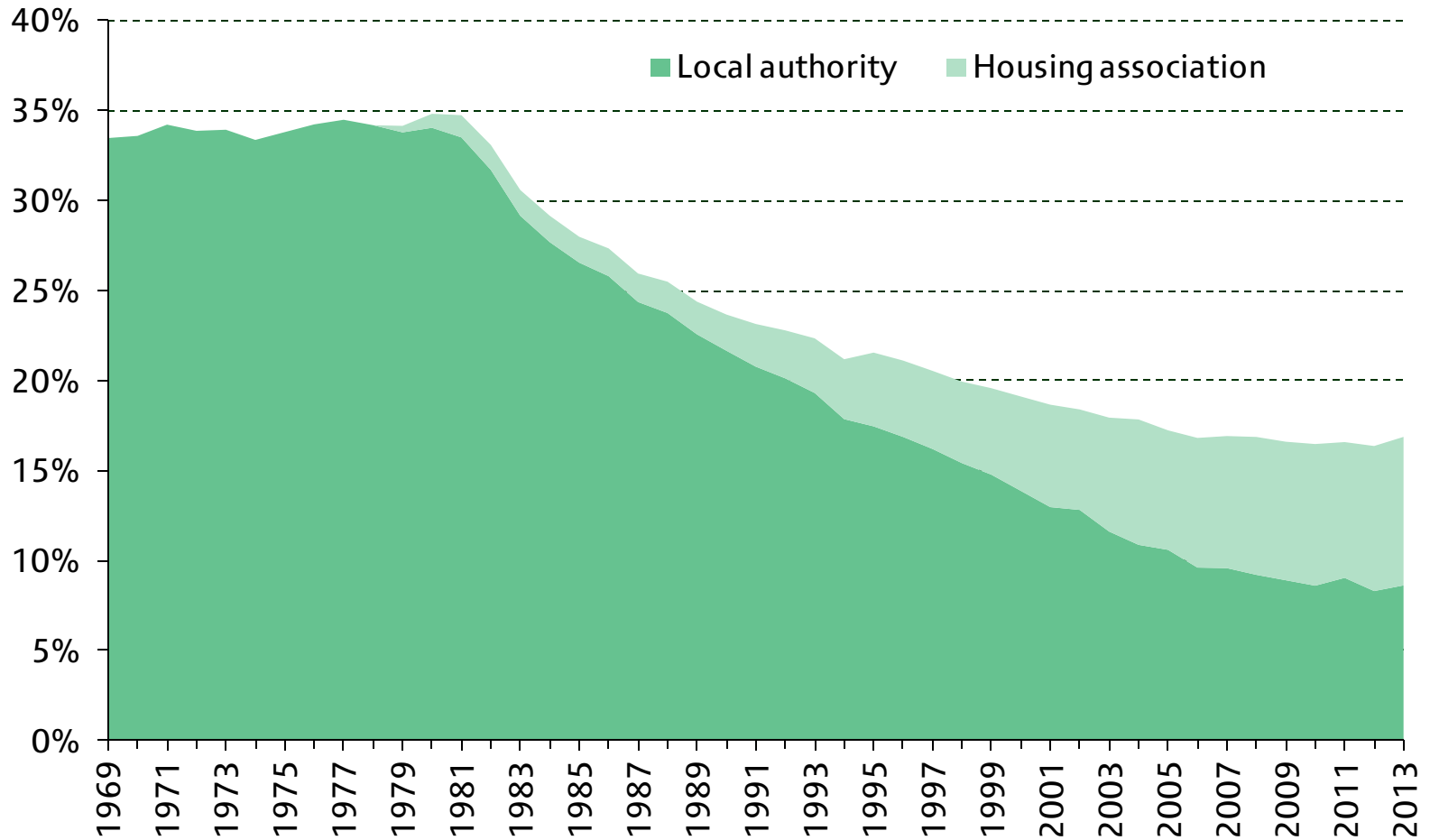
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## Policy background and trade-offs

Robert Joyce

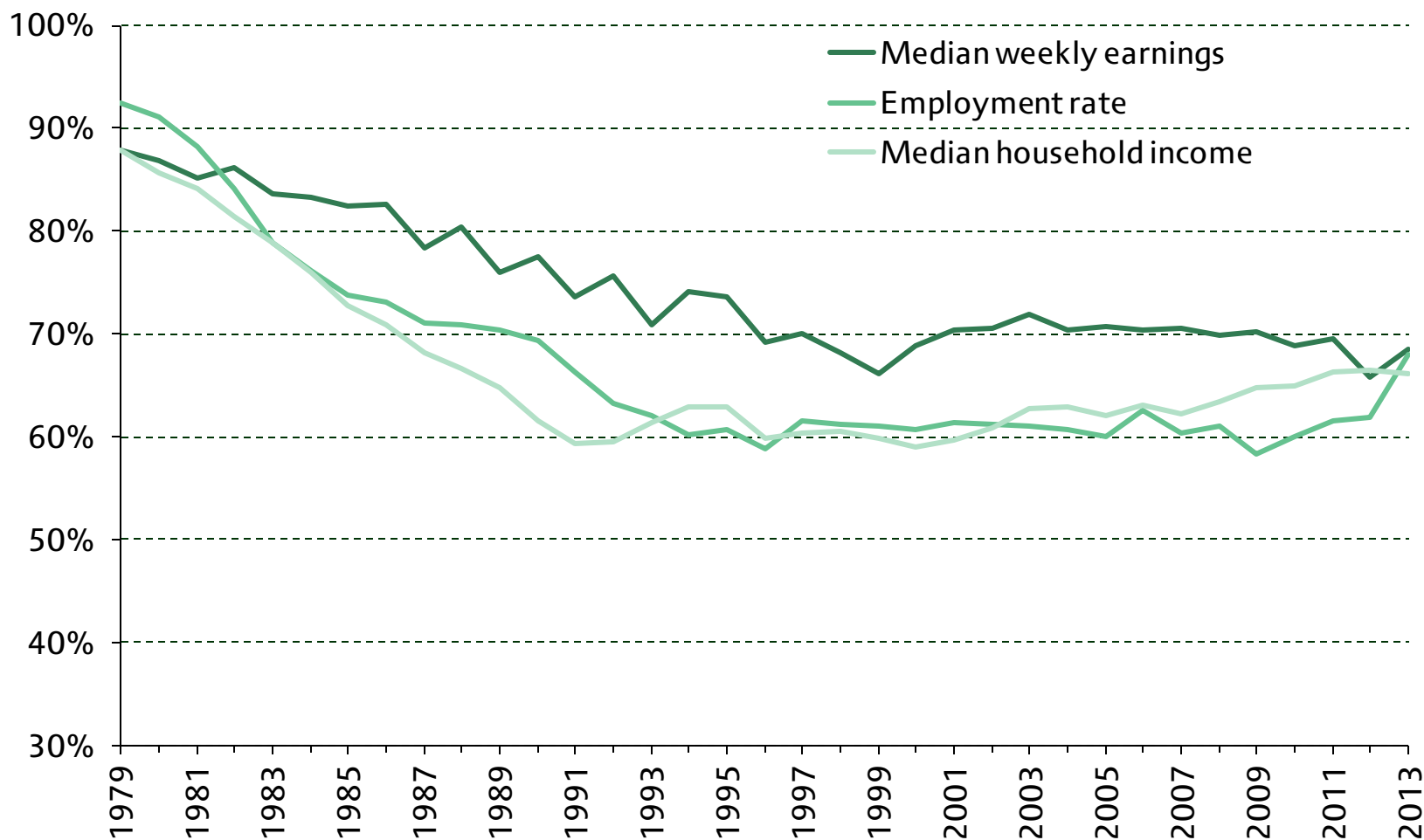
# % of population living in social housing (GB)



Source: Figure 2.1 of *Social rent policy: choices and trade-offs*

# Social tenants are a relatively poor group

% of GB average



Source: Figure 2.2 of *Social rent policy: choices and trade-offs*

# Who lives in social housing?

	Social renters	Whole population
<b>Age</b>		
Under 16	24.3%	18.4%
16–64	59.9%	64.4%
65 plus	15.8%	17.1%
<b>Graduate (aged 25–64)</b>	8.2%	29.0%
<b>Receiving disability benefits (aged 16–64)</b>	17.6%	6.1%

Source: Table 2.1 of *Social rent policy: choices and trade-offs*

# We focus on choice over level of rent they pay

- Social housing providers combine at least three functions:
  - Construction
  - Landlords
  - Sub-market rents
- We focus only on rents
  - Taking rest of social housing system as given
  - But rent changes can have knock-on effects on (e.g.) construction, which we discuss
- Analyse effects of big changes to social rent policy in England
  - ‘Affordable Rents’ (i.e. higher rents) for new tenancies
  - 1% annual cuts in social rents for next four years
  - ‘Pay to Stay’: market or near market rents for higher-income tenants

# Rents in social housing

- Tightly constrained by central regulations
- Since early 2000s, each social property has a ‘formula rent’
  - Depends on capital value, local earnings levels and property size
  - Has increased in real terms each year
  - Properties below formula rent had to gradually move towards it
  - Central aim was to achieve ‘convergence’ between council and HA rents – process now largely complete
- Now, centrally-imposed constraints on most rents are:
  - Cannot be more than 5% above formula rent
  - Maximum annual rent increases for a given property

# Mean weekly rents, 2015

	Private rented sector	Social rented sector	Estimated market rent on social properties	Estimated social rent subsidy	Estimated social rent subsidy (% of market rent)
<b>England</b>	<b>£172</b>	<b>£96</b>	<b>£136</b>	<b>£40</b>	<b>29%</b>
North East	£118	£81	£99	£18	18%
London	£267	£123	£191	£68	36%
South East	£177	£107	£166	£59	36%

Source: Table 2.2 of *Social rent policy: choices and trade-offs*



# Social rent subsidies: how are they financed?

- Social landlords are not-for-profit
- Can cover their costs at below-market rents because:
  - Construction was subsidised by central govt (so lower debt)
  - Much of stock old enough that debt paid off
  - Market rents have risen faster than landlords' costs
- So despite many years of real increases in social rents, gap between social and market rents remains substantial

# Housing benefit (HB) for social tenants

- 2/3 of social tenants receive further rent subsidy in form of HB
- HB entitlement is means-tested against current income and assets
- For poorest, it typically covers all rent. Exceptions:
  - Those affected by social sector size criteria ('bedroom tax'): covers 75% or 86% of rent
  - Those affected by benefit cap
- HB will rise to fully cover a rent increase
  - Or fall to offset the gain to a tenant from a rent reduction
  - Only exceptions are those affected by benefit cap or 'bedroom tax'

# Raising social rent levels: impacts on households

- If not on HB, makes social tenants worse off
- If on HB, most tenants no worse off – HB rises to cover rent rise
- Work incentives typically weakened: more reliance on HB, eligibility for which depends on having low income
- Higher rents also make being in social housing less attractive
  - Weakens incentive to gain access to social housing in first place
  - Weakens incentive for existing tenants to stay in sector (e.g. rather than move for job opportunity or take up Right to Buy)
- These incentive effects could (though will not necessarily) affect people's choices over work and housing tenure

# Raising social rent levels: impacts on central government and housing providers

- Higher rents mean higher HB spending by central government...
- ...but more income for social landlords
  - As not-for-profits, that should get re-invested in housing
  - New construction, extra maintenance or management services, etc
- These indirect effects likely to offset some of overnight impacts
  - e.g. more construction → social housing extended to more people → more people get subsidised rents