Social rent policy: choices and trade-offs

Stuart Adam, Daniel Chandler, Andrew Hood and Robert Joyce
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?

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

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

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

**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