A tale of two regions
Can low and middle income earners afford to live in the South East?

Andrew Heywood
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About the author

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Andrew’s recent publications in the public domain include Housing and planning: what makes the difference? (Smith Institute 2014), Reselling shared ownership properties after improvements (CCHPR 2013) and The Case for a Property Speculation Tax (Smith Institute 2013. His report for Future of London, The Affordable Rent Model in London; delivery, viability, potential has received significant publicity since its launch in June 2013. Andrew writes for Inside Housing and for Social Housing magazine among other journals.

About Moat

Moat is a housing association providing affordable homes in thriving communities for people in the South East of England. For over forty years we have delivered high quality general needs homes for social rent, Affordable Rent, retirement and independent living. We also have a strong low cost home ownership offer, with an excellent track record of helping people into home ownership. We are one of the Homes and Communities Agency’s development partners and currently develop over 500 new homes per year.

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For many the South East remains a collection of comfortable settled semi-rural communities whose biggest problem is the gradual encroachment of the metropolis. Yet as this report makes clear, while in overall terms the South East may be the most affluent region outside London, and while its crime rate may be low, it is actually made up of a series of distinct and diverse communities with very different life chances. In housing terms it is facing a crisis of affordability and for many households on lower incomes, housing choices are severely limited.

This report examines where those on below median incomes are currently living in the South East region. It explores issues of geographical location, the differences in incomes, prices and rents that exist in different communities within the South East and examines movement between tenures and new housing supply. Most importantly, the report discusses the factors that will shape the housing choices of those on lower incomes over the next decade, and tries to identify trends.

In this context the report aims to answer a series of key questions:

- Are there particular communities and locations within the region where those on lower incomes are more likely to be found? What are the causal factors here?
- What market factors are shaping the decisions of those on lower incomes to buy, to find a private landlord, become a shared owner or to access the social rented sector in different parts of the region?
- Does the current and proposed future supply of homes across tenures match need? If not, which households will be disadvantaged?
- What do those with responsibility for meeting housing need and facilitating housing choices think about the prospects for those on lower incomes going forward?

In arriving at its conclusions the report draws on analysis of key data on house prices, private rents, Affordable Rents, social rents, and shared ownership. It also uses a range of other primary and secondary research sources.

Recipients of this report are free to use it as they think fit. Nevertheless, it will be of particular interest to those involved in housing policy at national, regional and local level and to those whose role is to plan and build the new-supply of homes that the region so clearly needs.

A description of the definitions and methodology used throughout can be found at the end of the report.
Executive summary

The emerging picture…

In spite of high average per-capita incomes, low unemployment and other visible signs of affluence, the South East region has an undercurrent of real deprivation, poverty and homelessness. The findings suggest that we are on a trajectory to see these problems become more acute over the next decade.

Until now, poverty has mostly been restricted to unemployed people and households on low incomes. However, the rising cost of housing is now causing financial difficulties for people on medium incomes.

The picture that is emerging from this study reveals that across the South East we are seeing the following shifts:

• Concentration of those on lower incomes in parts of the region where prices and rents are lower and where job opportunities, services and amenities may not always be adequate.

• A rapidly expanding private rented sector [PRS], that is housing an increasing proportion of poor and benefit-dependent households, without always the resources or expertise.

• An affordable housing sector constrained in terms of new supply as a result of reduced capital grant, further downward pressure on Housing Benefit, and a regulatory system that is unduly restrictive.

• Increasingly unaffordable homes for “Affordable” Rent, which as a tenure, is struggling to balance higher rents with some of the impacts of welfare reform, such as the benefit cap.

• A reduction in development under the 2015-18 Affordable Homes Programme. The programme is underbid nationally compared to the 2011-15 programme, and preliminary analysis suggests that the reduction may be significantly more severe in the SE – by approximately a third.

• Falling home ownership rates and acute problems of affordability for would-be home owners.

• A significant and rising level of homelessness and acute housing need that is becoming more concentrated in the parts of the region where prices and rents are lowest, as some local authorities discharge their obligations outside their own areas.

Spatial distribution of people on lower incomes

The study analyses the spatial distribution of lower income households, benefit-dependent and economically inactive households, and those suffering both multiple and housing-related deprivation. There are signs that the income levels are becoming more polarised across the region – a trend that was confirmed via interviews with local authorities [LAs] and housing associations [HAs].
There are a number of LAs where even those on median earnings would find it hard to access home ownership or, worryingly, suitable accommodation in the PRS. This tends to coincide with areas where the supply of social housing is relatively poor. Spatial polarisation raises a number of issues:

- The Index of Multiple Deprivation suggests that many of those living in cheaper areas are relatively deprived in terms of general amenities and housing-related standards, which reinforces the cycle of deprivation.
- Interviews with LAs indicate acute pressure on services in the most deprived areas, where employment opportunities and access to transport are often more limited. Again, this reinforces the cycle of deprivation.
- Despite the gradual shift of low income earners to more deprived areas, LAs do not appear to be properly resourced to tackle the problems of those on low incomes.
- It is a concern that the spatial polarisation of households may lead to less sustainable communities.
- Social cohesion may be threatened in the longer term by spatial segregation of those on higher and lower incomes.

Recommendation 1

HAs are increasingly investing in market activities to cross-subsidise social activities, but are doing so within a heavily constrained regulatory environment. HAs must be given broader control over cross-subsidy, allowing the development of additional social and Affordable stock in areas where the greatest need exists. This would also encourage social landlords to develop products aimed at low income earners to take the pressure off the PRS, and for higher income earners to promote cross-subsidy. The necessary control could be achieved through changes to the regulatory system to ensure that it does not unduly restrict measured and properly-managed risk taken by HAs to support the delivery of additional stock.

The South East: changing housing markets

The balance of tenures in the SE is shifting away from home ownership as it is nationally. The PRS is growing rapidly at the expense of home ownership but also at the expense of the affordable sector.

Within the affordable sector there has been a major shift in the balance of stock between LAs and HAs, mostly as a result of voluntary stock transfers. However, in spite of an upturn in the level of new LA development in the past two to three years,
an upsurge in Right to Buy (RtB) sales following the introduction of enhanced discounts in 2012 means that LAs remain net losers of housing stock – despite Government assurances over one-for-one replacement. Further increases in the discount and a reduction in the qualifying period for RtB (which are in the pipeline) will aggravate the situation. The main problem here is that the loss of affordable stock forces LAs to make increased use of PRS stock to house low income earners. This effectively places the poorest in the most expensive homes (in terms of tenure). This has an obvious impact on the benefit bill.

LAs have also expressed concern at ex RtB stock being transferred into the PRS. This was felt to be exacerbating the problem in that the same properties were being rented out at higher rents and were attracting higher levels of Housing Benefit.

Recommendation 2

There is an urgent need for the Government to reconsider its current policy of expanding RtB. It is clear that RtB sales have always exceeded the rate of replacement in the SE region, and the shortfall appears to be worsening in spite of a commitment to one-for-one replacement. Funds should be diverted away from RtB and into an expanded programme of shared ownership. Shared ownership can be used to assist households into home ownership, but has proven to be a far more cost effective use of taxpayers’ money. Shared ownership allows for the recycling of grant at the point of staircasing and at eventual full sale.

Household projections and housing supply

According to household projections, the SE region requires 67,000 new homes to be completed each year over the next decade simply to keep up with demand. The shortfall in the SE is significantly worse than for England as a whole with completions across all tenures totaling only 19,130 homes in 2013-14. This represents just 29% of the homes the region actually needs every year.

Overall there has been a downward trend in completions across both the private and affordable sectors since 2007-08.

At present it appears that affordable completions are more concentrated in areas of lower prices and rents, but it is not clear whether this will continue. The imperative to focus on viability and to develop more “commercial product” becomes stronger amongst HAs as a response to the low grant environment. This may skew the geographical spread of future affordable development.

With such a dramatic level of under-supply in the region, it is likely that prices and rents will continue to rise rapidly and this will have a knock on effect on the costs of gaining access to Affordable Rent (AR)1 and shared ownership. Homelessness has been rising in the region and there must be a risk of increased overcrowding and even outward migration from the region as the formation of new households is inhibited by constrained access to housing.

Recommendation 3

The housing shortfall in new supply is worse in the SE than across the country as a whole. The Homes and Communities Agency (HCA) should consider the position of the SE in making decisions about grant allocation and other support to promote affordable housing. In particular, homelessness and overcrowding are areas that will need specific support in the short-term, in order to prevent more serious consequences in the long-term.

Home ownership: a receding future for lower income households?

Nationally it has been calculated that approximately 54% of the poor are home owners. Around 60% of low-to-middle earner households are home owners, and around a quarter of those are in the bottom income quintile.

In the SE, home ownership remains a significant tenure for those on below median incomes, but as ownership rates continue to fall, this picture is

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1 Homes developed under the Affordable Homes Programme, and let at up to 80% of market rent.
likely to change over time. The overall trend is away from ownership and into the PRS. Deteriorating affordability is the principal reason for this shift; a prospective buyer on a median income, on average, they can expect to pay over nine times of their income to purchase a house priced at the bottom quartile in the SE.

In this context, the study shows that the areas closest to London are already unaffordable, even for those on median incomes – in terms of monthly housing costs and the challenge of saving for a deposit.

Mortgaged home owners who are already financially stretched will struggle if interest rates rise. It is likely that a high proportion of people who cannot service their mortgages will drift into the PRS and accelerate the overall trend towards the PRS over the medium term.

Recommendation 4
An urgent expansion of shared ownership across the SE is needed, not only to boost supply, but also to take pressure off other housing tenures. The Department for Communities and Local Government [DCLG] and the HCA should also encourage the investigation and development of alternative tenures, including intermediate tenures and other forms of low cost home ownership.

Growth and diversity: the private rented sector
The PRS has expanded to around 700,000 homes in the SE region. Overall, it offers lower entry costs than home ownership and greater flexibility to stay or leave one’s home. While the profile of a typical tenant household is that of a younger working household, it is clear from interviews with both private landlords and LAs that a greater proportion of benefit-dependent and vulnerable households are finding a home in the PRS. The quality and stability of private accommodation, especially for low earners, has been a major talking point in recent years.

One particular group looking at PRS accommodation in increasing numbers, are single people looking for a single room. This appears to be in part because of the Government’s restriction of Housing Benefit for under 35s to the single room rate, and partly due to an increase in student numbers.

Affordability
Single room accommodation for those on median earnings is reasonably affordable across the region and households seeking two bedroom accommodation on one income equivalent to median earnings would find accommodation in most areas. However, for those on lower quartile earnings, the position is more difficult as lower quartile rents are easily outstripping wage growth.

Households earning lower quartile incomes would find themselves requiring Housing Benefit in many parts of the region, particularly when seeking two bedroom accommodation with one income. LAs and private landlords offered anecdotal evidence of movement of lower income households to cheaper areas where there was less certainty about access to employment and transport.

Impact of welfare reform and the LHA on the PRS
Private landlords have indicated an increase in demand from former social tenants as a result of under-occupation rule changes, especially for smaller homes (one bedroom) of which there is a critical shortage in the affordable sector. However, there is no reliable estimate of the numbers moving from one sector to another as a result of under-occupation.

It appears that the benefit cap is affecting some households in the PRS although private landlords believed that the numbers were modest and that problems for such households were being alleviated by Discretionary Housing Payments [DHPs] by LAs. When, and if such payments are withdrawn, landlords may well become increasingly wary of letting to households likely to be affected by the cap. There is a strong case for liaison between LAs and private landlords over this issue so that future problems can be avoided, or at least anticipated.
Universal Credit was seen as a serious future threat to private landlords. Although landlords have some experience of direct payment to tenants via the LHA, it appears that problem cases in many instances are circumvented by payment direct to the landlord. In addition to concern that tenants would fall into arrears, private landlords were also worried that the DWP would prove an inflexible administrator. There was a strong suggestion that private landlords would become more wary of letting to benefit-dependent households as a result of the introduction of Universal Credit.

Less frequent re-assessment and lower annual rent rises under the LHA have weakened the commitment of landlords to let to households in receipt of Housing Benefit.

If there is a significant shift by landlords away from low income households, the consequences (in terms of availability and choice of accommodation) could be very serious given the growing importance of the PRS for this group. Increases in overcrowding, illegal or covert subletting by rogue landlords, and homelessness would be the most likely consequences.

Meeting needs: standards and regulation

Overall, the picture that emerged from the PRS and LA interviews was one of a sector meeting reasonable standards for the majority of tenants, but struggling to provide the level of support that would be required by many of the poorest and most vulnerable households who have traditionally been housed by the social rented sector. It was also clear that for some landlords maintaining their commitment to these groups was a matter of balancing their personal commitment against viability considerations, exacerbated by high property prices and the benefit system.

Planning orders have restricted the conversion of family homes into HMOs (houses in multiple occupation – eg. shared houses) across much of the SE. Despite the intention of protecting the “family” character of local areas, LAs are potentially restricting the provision of accommodation for which there is a genuine need.

All interviewed LAs operated an HMO licensing scheme. Some also operated additional or selective schemes. While all LAs reported themselves as satisfied with their HMO and other licensing schemes, they offered no detailed assessment of how they were effective in raising standards. In contrast, private landlords expressed themselves as critical of licensing. While not all were opposed to licensing in principle, there was a belief that only law-abiding or compliant landlords were actually caught by licensing while the bad landlords simply avoided the schemes.

Institutional investment?

The chimera of institutional investment has hovered over the PRS at least since 2009. In spite of initiatives by Government, the prospect of large-scale investment still appears elusive outside of the student sector.

Private landlords interviewed for this study were aware of corporate/institutional investment in the student sector but did not believe that rental returns were high enough to attract such investment across the sector as a whole. Overall, the study has found little evidence that there might be sufficient institutional investment in the PRS in the medium term to change its strong reliance on individual landlords using buy-to-let or other loan finance.

Additional security

A common plea from LAs was that tenants in the PRS should have greater security of tenure and that there should be a legal framework to moderate excessive rent increases (without putting off potential investors). There was support for the concept of a three year tenancy, and private landlords were not against greater tenant security in principle. Landlords were keen to stress that tenants who stayed for longer periods were usually more profitable to the landlord. However, in practice landlords wanted the ability to end a tenancy that had broken down. Landlords also pointed out that mortgage lenders currently insist on assured shorthold tenancies being used as a condition for granting a loan.

On rent increases, landlords did not object to “built in” increases along the lines of the continental model but were worried about red tape. Overall, there seemed to be room for negotiation on these issues.
Recommendation 5
The PRS is providing homes for an increasing number of very low income and vulnerable households. Private landlords do not, in a significant number of cases, have the resources to support such households. To date, little new funding has been made available to provide support for this group in the PRS, which has the potential to discourage landlords from housing these people in future. We therefore call for:

- A full revision of the support system for vulnerable residents, keeping in mind that larger landlords (both HA and PRS landlords) are better placed to scale-up support, leading to greater efficiencies.
- Government must investigate whether such households should be offered additional support via local authorities and to ascertain the cost-benefit ration of such intervention.

Recommendation 6
There are concerns amongst landlords over the implementation of HMO and other licensing schemes by some LAs. Increased dialogue between LAs, HAs and private landlords to explore the future of HMO licensing would be mutually beneficial to reconcile promotion of standards with the avoidance of red tape. In addition, there should be dialogue to resolve differences over the use of planning orders to restrict the conversion of family accommodation to provide smaller units.

Recommendation 7
Preliminary analysis suggests a willingness amongst private landlords to look at longer term tenancies and more predictable rent rises. However, it is likely that certain assurances will be necessary to avoid putting off future investment. We therefore call for dialogue between DCLG, LAs, national and regional landlord associations, and lenders to:

- Extend greater security of tenure for tenants, resolving concerns about terminating failing and failed tenancies.
- Investigate whether a framework for predictable annual rent increases could be introduced into the PRS as already happens in a number of European countries and in the affordable sector in England.

The affordable sector
Social rent and the Affordable Rent model
HAs have not depressed AR levels in more expensive areas of the SE in response to the benefit cap, as they have in London. It appears that rents for larger properties are lower as a percentage of a market rent across the region, suggesting that these rents have been held down to ease affordability and to avoid the effects of the cap on benefit-dependent households. The inability to charge higher rents has been a significant factor in inhibiting the development of larger homes. As the level of the cap is not linked to inflation, its effects on development will become more pronounced over time, and this is clearly a concern for HAs and investors.

While the proportion of working households in traditional social and AR homes is rising year on year, traditional social renting still has a majority of benefit-dependent households. Income levels for working households in traditional social and AR homes are broadly similar, but remain significantly lower than single full-time earnings at the lower quartile.

It appears that the shift towards placing a higher proportion of working households in social housing is largely a result of LAs changing their allocations policies during the past two years to give higher priority to working households and reduce waiting lists. While these changes may meet local political imperatives they raise a serious question as to where workless benefit-dependent households will live. PRS landlords have indicated that they may become more reluctant to take these households due to the impact of welfare reform and the problems of offering adequate support. If this proves to be the case, the range of choices available to these benefit-dependent households will diminish progressively as more LAs change
their allocation policies. This can only lead to more households becoming homeless or residing in temporary accommodation, and higher rates of overcrowding. There may also be a negative impact on the opportunities for households to move in order to seek work or for other valid reasons, particularly as LAs allocations policies frequently give higher priority to local households.

While traditional social renting remains affordable for most (although not all) lower income households in the SE, the picture of AR is rather different. One and two bedroom AR homes are broadly affordable for people on median full-time earnings. While rents for single person households on lower quartile earnings tend to be affordable also, the high rent-to-income ratio presents a strong incentive to move to a cheaper area; which is not something that every household is in a position to do. The situation for households on the equivalent of a single lower quartile income looking for a two bedroom home is much more challenging, as median AR levels in 27 areas are above the 35% affordability threshold.2

Sadly it appears that for many working households “Affordable Rent” is not affordable without recourse to Housing Benefit. There are negative implications here for work incentives and for the exchequer. Nevertheless, the recourse to Housing Benefit goes to the heart of the AR development policy, involving as it does a move from capital subsidy to revenue subsidy in the form of Housing Benefit.

Shared ownership: an intermediate option
There were 33,199 shared ownership homes in the SE region in 2012-13. This represents around 10% of the total affordable housing stock in the region. There were 2,155 sales of shared ownership properties in 2012-13. The average value of a shared ownership home is £170,000; this is higher than for any region outside London and reflects higher house prices in the SE. The large majority of shared owners are, unsurprisingly, working households.

A positive factor is that, at present, shared ownership appears to be helping households on below median incomes into home ownership. The median head of household income is around £23,000 and a high proportion of shared ownership is financed on one income, suggesting that many households with an income equivalent to lower quartile full-time earnings are gaining access to shared ownership. Analysis of monthly costs confirms that shared ownership is widely affordable for households in the bottom 20% of earnings and that it is cheaper than buying an equivalent home in full. However, saving for a typical deposit would be a formidable obstacle for many, and the emerging picture from the SE suggests that this will become more difficult over the next decade. It may be that schemes could be developed to make deposits easier to fund, although care would have to be taken to ensure that such demand-side intervention did not simply put upward pressure on prices. Preliminary findings suggest that the biggest drawback attached to shared ownership as a valuable contributor to the affordable housing mix is that there is not enough of it.

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2 The 35% threshold is a commonly used measure for determining excessive household expenditure relative to income. In this case, it refers to 35% or more of gross earnings used on housing costs.
Affordable development: at the crossroads

Nationally, the 2015-18 AHP programme is underbid, and the number of proposed new homes is down by over a third compared to the current round. In the SE region, a partial analysis and discussion with HAs suggests that the reduction may be significantly more severe with a substantial shift away from AR development. This may be counterbalanced with a shift towards shared ownership with some additional development for outright sale and market renting; although the full extent of this shift is unclear.

It would seem that for the SE region, the additional risks posed by development in an area of high land values and rents may have been partly responsible for a severe downturn in planned development and made AR in particular less attractive. The impact of the benefit cap (particularly in respect of larger homes) and fears about other aspects of welfare reform may also have played their part. In relation to bids for 2015-18, HCA inflexibility in insisting on 80% market rent, regardless of circumstances, may also have contributed to a reluctance to continue development on the same scale as before. It also appears that there may be a progressive overall shift in the distribution of affordable development from poorer to more expensive areas, where higher land values can enhance the opportunity for cross-subsidy.

The implications of a reduced AHP in the SE region will be significant for those on lower incomes. While the impact may not be so severe for those able to gain access to shared ownership, the lowest income and workless households will be worst hit by the reduction in AR development as they look to join the PRS.

Recommendation 8

The Secretary of State for Communities and Local Government should avoid reducing the benefit cap as trailed by the Chancellor at the 2014 Conservative Party conference, but should index the benefit cap for inflation. Failure to do so will result in development across the SE region becoming more constrained over time, particularly in relation to larger homes. There may also be a strong case for monitoring the effects of the cap in different regions, to determine whether future levels of the cap should vary according to regional factors such as rents and land values.

Recommendation 9

Although sympathetic to the political imperatives of prioritising working households, there is evidence to suggest that it is leaving vulnerable and benefit-dependent households at risk of deprivation and homelessness. In the cases where these households are accommodated in the PRS, there is every likelihood that the rent to be covered by Housing Benefit is greater – meaning a higher cost to the Exchequer overall. Allocation policies are most effective when housing need takes precedence, with other imperatives following thereafter. There is a strong case for DCLG to review its direction to LAs on this issue, reversing the unintended consequences of the policy.

Recommendation 10

As significant numbers of working households across the SE require Housing Benefit in order to sustain AR tenancies, there is a need for a review of the appropriate balance between capital and revenue subsidy to develop new homes. We support the CBI’s stance that there is a strong case for spending more on capital grant for new homes, resulting in lower rents for those households that need them, and reducing reliance on Housing Benefit.

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3 CBI, Housing Britain: Building New Homes for Growth, September 2014, p.24
Homelessness: compounding the crisis?

Homelessness can be viewed as the most serious symptom of a lack of affordable housing. Homelessness is on the rise in the SE region and LAs are increasingly using the PRS to discharge their homelessness obligations. This is therefore another conduit through which vulnerable and very low income households are finding their way into the PRS and another example of how the poorest in society are being housed in inappropriate tenures. Interviews with private landlords suggest that they are aware of lacking the resources and expertise to provide adequate support for this group, which may lead to higher care costs down the line. Welfare reform is also making some private landlords less willing to house those who depend on benefits.

A further disturbing development is that many LAs are “shipping out” households in priority housing need to cheaper areas, sometimes long distances from family and community and not always to areas where job prospects and transport are adequate. It also appears from interviews with LAs that it may be common practice to fail to inform the LA whose area is the recipient of these households and who will have to provide additional resources/support in consequence.

Recommendation 11

DCLG must collect comprehensive data on the incidence of ‘shipping out’ and should then move to place a binding obligation on local authorities to adequately support households who are moved to cheaper areas. The obligation must include:

- The creation of a standard that places the onus on the outbound LA to measure the impact of the move in relation to job prospects, access to transport, family and community.

- The obligation that LAs who dispatch households must inform receiving LAs of the move, giving those councils the authority to charge compensation for the provision of an appropriate level of support.
The South East: not all it seems?

For many, the South East of England [SE] could probably be summed up in the phrase “leafy affluence”. Mention of the name conjures visions of the South Downs, the Devil’s Punchbowl and perhaps the so-called stockbroker belt. Further reflection might evoke memories of traditional seaside holidays and walks to the end of the pier at Brighton or Eastbourne. Somehow it all seems established, safe and comfortable.

In certain respects the SE is indeed all these things yet as will be seen, that is not the whole story. The region is one of contrasts; between visible affluence in land and less visible poverty on the coasts, between the picturesque rural and semi-rural areas and the often decayed urban centres of the south and east of the region and between the suburban districts to the south and west of London, the rural central areas and the coastal strip that extends from Dartford to Southampton.

In housing terms there are contrasts too, as well as profound change. These contrasts and changes are the subject of this report and reflect a range of factors. The contrast between comfortable homeowners in Epsom and low income households struggling in shared rental accommodation in Hastings is striking and real but is only one symptom of the outcomes produced by a series of different housing markets, some of which would be considered dysfunctional.

In terms of land area, the SE is the largest region in England at 19,100 square kilometres. This equates to 8% of the land area of the UK (ONS, 2013). With a population of 8.7 million the SE has seen its population increase faster than the UK as a whole.

The SE population is relatively rural; 20.4% of people live in rural areas compared to 17.6% in England as a whole (Causer & Park, 2011). Yet overall, the SE has a denser population than the rest of the country at 458 persons per square kilometre compared to 411 for England (ONS, 2013b). Portsmouth is the most densely populated unitary authority outside London (Causer & Park, 2011).

The SE is less ethnically diverse than the UK in general with individuals designated as “white” making up 90.7% of the population as opposed to 86% for England and Wales as a whole. This represents a modest rise of 2% in the minority populations within the region since 2001 (ONS, 2012) (ONS, 2005).

The SE population is older than the UK average at 40.8 years compared to 39.7 (ONS, 2013). The SE has lower proportion of individuals in the 20-34 age group than in the rest of UK and more in the 35-64 group (Causer & Park, 2011). Life expectancy in the SE is longer at 80.0 years for men and 83.8 for women compared to 78.9 and 82.9 for England as a whole. Life expectancy was the highest for any region for the period 2009-11 (ONS, 2013b).
The relative affluence of the SE region is reflected in economic output. (Gross Value Added- GVA). The SE contributes 15% of UK GVA although it has only 14% of the UK population.

In terms of unemployment, the rate in the SE is exceptionally low. In April 2014 unemployment for the region stood at 5.1% - the lowest of any region except the South West. The average for the UK stood at 6.9%. The employment level in the SE was the highest for any region at 76.3% compared to 72.6% for the UK as a whole (ONS, 2014b). In Q2 2013, the SE had the lowest proportion of children living in workless households of any English region at 9.7% compared to 13.6% for England as a whole (ONS, 2013). A reminder of the proximity to and economic weight of the capital is that 410,000 people commute to London each day to work.

In 2013 median earnings for full-time employees were £559.70 per week; these were the highest outside London and significantly higher than the English average (£520.70) (ONS, 2013). Incomes in the South East have generally risen faster than the average, although of course such increases are unequally distributed.

The highest rate of car ownership is in the South East with 68 cars for every 100 people aged 17 years or more (Causer & Park, 2011).

The SE has a lower crime rate than the English average for 2012/13 (56 against 64 recorded offences per 1,000 population), although it does not have the lowest crime rates; the South West, East and North East all record lower rates (ONS, 2013).
Low income households and where they live

Characteristics of lower income households and emerging trends

The relatively wide range of households included in this study (households on below median incomes, i.e. 50% of households) can be focussed where needed by tighter definitions to focus more directly on particular groups. Thus, the concept of poverty has been the subject of study in its impact on housing, although the interrelationship between the two has been less of a focus (Clarke, et al., 2014). A common definition of poverty in Europe and in the UK is to define households with less than 60% of the national median household income as in poverty (Tunstall, et al., 2013). Another definition, which is close to this in practice in the UK, and has been the subject of analysis by DWP and others, is to define households in poverty as those in the bottom quintile of the income distribution. It has been estimated that 15% of individuals in the South East are in the bottom income quintile compared to 20% for England as a whole Before Housing Costs [BHC]. The comparable figures After Housing Costs [AHC] are 16% and 20% respectively. The relationship between housing and poverty can be pernicious. Poor, inappropriate or badly located housing can:

- Cut disposable income after housing costs.
- Contribute to material deprivation.
- Undermine work incentives.
- Inhibit child development.
- Adversely affect adult health.

Overall, it has been suggested that poor quality or insecure housing can create the risk of poverty or exacerbate the effects of poverty on living standards. (Marmot Review Team, 2011).

It has been estimated that the proportion of the UK population living in poverty BHC was 16% in 2010/11 but that this figure rose to 21% AHC (Tunstall, et al., 2013). However, the outcomes vary dramatically by tenure. Nationally, it has been calculated that 54% of the poor are homeowners BHC but only 38% AHC. This demonstrates the relative financial advantages of buying over renting. 19% of the poor are private renters BHC and 30% AHC. Similarly 27% of the poor are social renters BHC and 32% AHC in spite of subsidised rents (DWP, 2013). Although, as elsewhere, home ownership levels are falling in the SE, it remains a financially advantageous tenure. Indeed recent evidence from the Institute for Fiscal Studies [IFS] suggests that real housing costs for mortgaged owner occupiers reduced by 37% between 2007-08 and 2012-13 driving a reduction in the proportion of income paid in housing costs down from 18% to 13%. In contrast, the proportion of income spent on housing costs for renters increased from 26% to 28% over the same period, with both social and private renters experiencing an increase (Belfield, et al., 2014).

The IFS also suggests that the SE has experienced the biggest falls in real incomes both BHC and AHC; more than any region except Northern
Ireland and the West Midlands between 2011-12 and 2012-13. However, the SE remains the region with the highest real median income (BHC) when consumer prices are taken into account (Belfield, et al., 2014). Nevertheless, given the relatively high costs of housing in the region, the data above suggests that one should look to see increased pressure on households attempting to gain access to housing; particularly amongst those seeking to rent.

Housing tenure is an indication of poverty as far as social renting is concerned. This is shown in Chart 1 above.

There is a strong correlation between the lowest quintile and living in social housing both before and after housing costs. Interestingly, there is little correlation with the PRS BHC but a stronger correlation AHC, indicating the relative impact of non-subsidised rents in that sector when compared to the social rented sector, where the impact of housing costs is far less. The chart also suggests the importance of social housing for the lowest income groups in providing access to housing that has only a limited effect on living standards.

Another common definition for a section of those on below median incomes is Low to Middle Incomes [LMI]. Defined as households in deciles two to five of the income distribution, they were calculated to have a home ownership rate of 63% of households nationally in 2009-10 with 21% renting privately and 16% in the social rented sector (Whittaker, 2012). However, analysis reveals a long-term drop in the proportion of LMIs in home ownership and a corresponding rise in private renting. This change appears to have been led by a rapid decline in home ownership in the under 35 age group, amongst whom private renting had replaced home ownership as the largest tenure by 2007-08; even before the curtailment of mortgage lending precipitated by the banking crisis. It appears that deteriorating affordability for the LMI group is the most important factor in their inability to access home ownership and this has been exacerbated by more restrictive mortgage lending, particularly in respect of high loan to value mortgages. It was calculated that in 2012 it would take a typical LMI household 22 years to save for an average first-time buyer deposit (Whittaker, 2012). As the present report makes clear, recent relaxation in lending has been modest and could prove to be fragile.

Overall, the deteriorating access of LMI households to home ownership nationally would suggest that a trend away from home ownership and towards private renting amongst those on below average incomes is likely to be a feature of housing markets in the South East, where affordability is particularly stretched and home ownership declining. These issues will be returned to later in the report.
Spatial distribution of those on lower incomes

Earnings of those at work
It is important to gain an impression of where those on below median incomes actually live. This is relevant in terms of the future provision of services for this group and for planning future housing development. An initial overview can be gained by mapping local authority level earnings data across the region to offer a visual sense of spatial distribution.

Map 1 provides a clear indication that those with lower earnings are concentrated at the periphery of the region and in particular along the south and east coasts. Those with the highest incomes tend to be situated closest to London. As will be seen below, there is some correlation here with lower house prices and private rents. However, this is a picture of the earnings of individuals in full-time employment. It does not relate to households and does not include the self employed, pensioners or those dependent on benefits. While it gives an indication of where low-income earners are resident, it does not paint a complete picture.

Benefit dependency and economic inactivity
An indirect approach to showing where households on low incomes, including the exclusively benefit-dependent, are situated is to map the spatial distribution of those in receipt of state benefits.

Map 2 shows a clear concentration of benefit claimant households in Kent, along the south coast, the Isle of Wight and in some urban areas including Southampton, Brighton, and Eastbourne. The areas nearest to London (where earnings are also highest) and rural areas possess relatively low concentrations. The distribution of economic activity using 2011 Census data confirms this pattern but highlights the distinction between the more affluent rural areas and the urban areas, illustrated in Map 3.

One factor that could influence the spatial distribution of those on very low incomes is the availability of social housing. Since social housing is easier for those on very low incomes to access than for those with higher incomes, the above picture could, to a degree, reflect the relative availability of social housing.
Map 2: Proportion of resident population aged 16-64 in receipt of state benefits (Nov 2013)
Source: DWP, via Nomisweb

Map 3: Proportion of working age head of households who are economically inactive
Source: 2011 Census via Nomisweb, CCHPR calculations
Therefore, to provide an additional check against a “social housing effect”, Map 4 includes only those who are economically inactive but are home owners or private tenants. It suggests that economic inactivity of those not in social housing follows similar patterns to overall rates, although the relationship between inactivity and coastal settlements appears stronger still.

In attempting to identify a trend it is helpful to look at where the increase in economic inactivity, (in this case measured by the increase or decrease in the number of benefit claimants) has been highest or lowest over the period of a decade. Map 5 does this.

The overall trend here is one of polarisation of areas – those which have the highest concentrations of benefit claimants are also, typically, those that have seen the biggest growth in benefit claimants in recent years. However, there are exceptions to this pattern: Brighton and Hove, with a strong decrease in the number of claimants being perhaps the most obvious example. The area to the west of London has seen the biggest fall in benefit dependency rates, whilst parts of Kent, Surrey Heath and Rushmore have seen growth. The whole of the south coast has seen a growth in benefit claimants, with the exception of Brighton. This could suggest either that jobs are becoming more concentrated in places such as the west of the region and Brighton (so people in these areas found jobs between 2003 and 2013, or were more likely to keep them), or that people on benefits are finding it increasingly hard to live in these areas, and have moved to cheaper areas. There is a strong correlation between the above areas of claimant concentration and lower house prices and private rents.

**Pensioners**

These datasets cover both working and benefit dependent households. However, they are all limited to working age households. There is in addition a large group of low income pension-age households, who include those dependent on the state pension but without recourse to occupational or private pensions and others whose entitlement to a pension is limited. Unfortunately, data on pensioners dependent on the state pension only, is not available at a local level and neither is other data that might delineate low-income households of pension age. However, localised data is available on all those in receipt of state pensions. Since the

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**Map 4: Proportion of working age private tenants and homeowners (heads of households) who are economically inactive**

Source: 2011 Census via Nomisweb, CCHPR calculations
Map 5: Increase in proportion of population aged 16-64 in receipt of state benefits (Nov 2003-Nov 2013)
Source: DWP, via Nomisweb

Map 6: People in receipt of state pension as proportion of population 2012
Source: DWP, via Nomisweb and ONS population estimate for 2012, CCHPR calculations
spatial distribution of all pensioners is of interest to local authorities and HAs who are planning new development and the provision of services, it was decided to include mapping of pensioners with the strict proviso that this is not a valid proxy for low-income households of pension age. In fact the latest DWP data suggests that pensioners as a whole are actually less likely to be in poverty than the general population AHC (DWP, 2014). Map 6 portrays the distribution of those claiming state old-age pensions.

The picture is more mixed than for working-age benefit claimants, with pensioners relatively well represented in rural areas. Nevertheless, pensioners are present in higher concentrations along the east and south coasts and in lower concentrations in some of the affluent areas nearest to London. In spite of a similarity between the distribution of working age claimants/economically inactive households and pensioners the trend for pensioners is rather different, as Map 7 shows.

This mixed picture would seem to suggest that while some coastal areas retain their popularity with pensioners there is also a strong movement towards some of the rural areas, including those in the west of the region. This probably reflects the fact that by no means are all pensioners on lower incomes and that many are “equity rich” or outright home owners, enabling them to gain access to a wider variety of areas as home owners, particularly if they are prepared to downsize to a more modest property.

Multiple deprivation
Measuring and analysing levels of deprivation across a number of indices is another indirect way of identifying those who are likely to be on lower incomes. The Index of Multiple Deprivation plots indices of deprivation at local level. It has not been updated since 2010 and therefore has to be used with some caution. The Index is in the process of being updated and will be re-published in 2015. The index shows the relative level of deprivation using seven main indices:

- Income deprivation,
- Employment deprivation,
- Health deprivation and disability,
- Education deprivation,
- Crime deprivation,
- Barriers to housing and services deprivation,
- Living environment deprivation (DCLG, 2013).

The mapping of the 2010 Index in terms of overall scores is given in Map 8. The highest scores indicate the highest levels of deprivation.

The pattern of highest deprivation scores tends to follow that of economic activity. Deprivation scores are highest along the coastal strip and in larger towns and cities. It is worth noting that, nationally, Hastings is amongst the 20 local authorities with the highest proportion of the most deprived local areas4 within its boundaries. The index is not simply a statistical abstraction, it charts the distribution of people who are deprived of key elements that constitute a decent life, accepted as normal for the majority.

In addition to scoring overall deprivation the Index also has Barriers to Housing and Services Domain. These barriers include overcrowding, homelessness, access to owner occupation, and the distance to various amenities such as a GP surgery and primary school. Mapping this domain offers a useful overview of where such barriers are greatest.

Map 9 is interesting in that it again shows significant levels of deprivation along the coast and in areas further from London. The rural areas also score relatively badly suggesting that housing provision is comparatively poor in these localities. While this map does not provide as useful an indication of where lower-income households actually live as the full index (see Map 8) it does offer an indication of where it could be particularly difficult for them to gain access to adequate housing.

Overall, the picture that emerges of where those on lower incomes live is complex, but certain patterns do emerge. Those on lower earned incomes tend to live in the coastal areas, in urban areas and in those areas further from the London fringe. This pattern is followed by those who are economically inactive, although here there may be a stronger tendency to live in the larger urban areas. There appears at first sight to be a correlation between the areas where incomes are lower and those where house prices and rents are cheaper. This is confirmed later. At this point, it is interesting to note that the above trends were noted amongst both HA and LA

4 Called Lower Layer Super Output Areas [LSOA's].
Map 7: Increase in proportion of population in receipt of state pension (Nov 2003-Nov 2013)
Source: DWP, via Nomisweb and ONS population estimate for 2012, CCHPR calculations

Map 8: Index of Multiple Deprivation Score (2010)
Source: IMD 2010, ONS, via Nomisweb
interviewees. This was sometimes because they were moving low income households into cheaper areas; sometimes to discharge homelessness responsibilities:

“We are starting to move people out of the area because of overheating and the benefit cap.” (LA interviewee)

“People are moving out to cheaper places... and others move in from London.” (LA interviewee)

The impact of high and rising house prices, high private rents and the effect of the benefit cap on workless households in the private and social rented sector are recurring themes in this report and will be dealt with in more detail later. LAs and HAs were well aware that moving to peripheral “cheaper” areas often meant moving to areas where employment was less plentiful. Local authorities recognised potential negative impacts on the chances of workless households further out from areas of employment.

Some localities were seen as having relatively poor communications including some of the South Kent/ East Sussex coastal towns.

It is worth noting that HAs questioned about the impact of inadequate supply of affordable housing going forward drew attention to the likelihood of a continuing displacement effect on low income households:

“I guess we are going to see a drift towards the cheaper areas.” (HA interviewee)

“My view is that people will have to leave London and the South East.” (HA interviewee)

The pattern for pensioners is similar to that of the low-income working-age groups in terms of their propensity to live along the east and south coasts. However, there is a recognisable trend amongst pensioners to live in rural areas and toward the more affluent west of the region. While this interesting trend is not indicative of the behaviour of low-income pension-age households, it may be of significance in its own right to planners, developers and service providers.

Note: a higher deprivation barrier score implies greater deprivation.
The South East: changing housing markets

The housing markets of the SE belie the image of the region as stable and conservative. All the main sectors (home ownership, private renting, affordable) of the housing markets in the region are in the process of change.

Housing tenure

Comparatively, the SE has an unusually high rate of home ownership. In 2011 home ownership stood at 69.5%, higher than for any other region except the South West (70.2%). The full comparative tenure breakdown is shown in Chart 2.

Interestingly, at 17.3% private renting is only slightly lower than the figure for England as a whole, while renting from a housing association and local authority are both somewhat lower. The tenure distribution is not, of course, even throughout the region. It has historically been affected by Large Scale Voluntary Stock Transfer [LSVT] between local authorities and housing associations and is therefore of limited significance. However, the overall balance between private sector and affordable sector does vary, as Chart 3 illustrates.

Nationally, home ownership has been falling in relative terms since 2003 and absolutely since 2007. There has been very significant growth in the PRS, which has now overtaken the affordable sector as the second largest tenure. In England as a whole in 2012 homeownership stood at 63.9% (from 69.1% in 2003), private renting at 18.5%, HA renting at 10% and LA renting at 7.3%.

At a national level a number of social, economic and market factors have combined to cause the decline in home ownership:

- The affordability of owner occupation has deteriorated over the long-term. Average house price increases outstripped average earnings from 1970 to 2000 in all areas of the UK except Scotland. Since 1980 the incomes of higher earners have risen faster than those of others, leading to greater pressure on those at the margins of home ownership (Whittaker, 2012). There has been a long-term drop in the proportion and numbers of first-time buyers [FTBs] and decline in rates of owner occupation amongst younger age groups since the late 1980’s.

- The UK mortgage market has changed radically since 2007. These changes are unlikely to be temporary. The number of loans for house purchase more than halved between 2007 and 2010 and improvement has been limited since then. High LTV lending, lending to those with chequered credit histories or low and insecure incomes and to those with small deposits were particularly hard hit and remain constrained in spite of recent improvements. The Bank of England has recently announced measures to limit high loan to income borrowing, which, although largely symbolic at this stage, may be a pointer towards the future (Financial Times, 26 June 2014).
Chart 2: Dwelling stock % by tenure and region (2011)
Source: DCLG

Chart 3: Selected local authorities: combined % of private sector dwellings (2013)
Source: DCLG

Note: DCLG does not publish separate district level data for home ownership and private renting. The above data combines the two tenures.
Household formation is likely to be fastest amongst single adults and over-65 households. This is consistent with declining rates of home ownership as neither group tends to access home ownership in such large numbers as "conventional" families.

Migration is now a significant factor with the Home Office granting 2.1 million entry visas in 2010. Recent migrants have tended not to access home ownership but have chosen the PRS.

Work patterns are changing with more labour mobility, less secure full-time employment and more self employment. Overall, job security has been eroded. The PRS is more appropriate for an increasing proportion of the workforce.

Personal indebtedness in the UK is a factor. High levels of unsecured debt make it difficult for a wide swath of individuals to access mortgage finance or to remortgage if they are already home owners. A related problem is that of mortgage arrears and negative equity which can inhibit households from entering or remaining in homeownership. This is dealt with in more detail later. The increase in student debt since the mid-nineties has impacted on the age at which FTBs enter home ownership and on their propensity to do so.

During the past 20 years there has been a shift in the balance of direct taxation in favour of landlords and away from owner occupiers. The benefit system is inequitable between tenants and owner occupiers. (Tunstall, et al., 2013).

Increased longevity, inadequate saving and pension provision, together with the collapse in defined benefit occupational pension schemes, will all tend to promote disinvestment in the housing market amongst older age groups. The costs of elderly care are exacerbating this. This is likely to contribute to further falls in home ownership levels (Heywood, 2011).

The SE region has followed the national trend in terms of the changing distribution of tenures, with home ownership falling, the PRS growing and the affordable sector also declining overall with the balance of affordable provision tipping in favour of HAs.

The shifting tenure balance is well illustrated in Chart 4 (national) and Chart 5 (the SE).

Chart 4: Numbers of dwellings by tenure - national (000's)
Source: DCLG
On the basis of current trends in the SE and taking account of the strong reasons for the fall in home ownership and rise in private renting nationally, it would be reasonable to extrapolate that in overall terms households over the next decade in the region are:

- Less likely to be in home ownership, although the majority are likely still to be homeowners.
- More likely to rent privately with private renting continuing to expand.
- Less likely to rent from a local authority and more likely to rent from an HA, although with the affordable sector in slow relative decline overall.

However, there are characteristics and trends within the individual tenures of the SE that enable these broad trends to be distinguished further and which enable inferences to be drawn on the likely housing choices of those households on lower incomes. These are examined later in the report.

**Household projections and housing supply**

The relationship between new housing supply and the number of households needing housing is clearly an important factor in determining availability and likely price trajectories. The UK has a chronic shortage of new housing supply which is likely to have the largest impact on those on lower incomes in terms of their capacity to make rational housing choices without assistance, via benefits or through access to subsidised housing.

One commonly used measure of the average number of new homes that will be required each year is the household data showing the projected growth in the number of households. If taken on their own, these figures underestimate the number of new homes actually required as they do not take account of the homes that are destroyed, become uninhabitable and homes that are empty, whether by neglect, intention or simply because they are in the wrong place.
According to the 2011 household projection for England, the number of households is expected to increase from 22,102,000 to 24,307,000 between 2011 and 2021; an increase of 2,205,000 or roughly 220,000 per year (DCLG, 2013b). This implies that 220,000 additional homes would be required each year simply to keep pace with the growth in the number of households. In fact completions of new homes in England have averaged 112,683 for the past three years and totalled 112,630 in 2013-14 (DCLG, 2014b).

Relative to household growth, the rate of house building in the SE region is even more inadequate:

According to the household projections, SE household numbers are expected to increase from 6,213,000 to 6,883,000 between 2011 and 2021 (DCLG, 2013b). That represents an average increase of 67,000 households per year. In fact 19,130 homes were completed in the region in 2013-14. A breakdown by tenure can be seen in Chart 6.

In the SE, the trend across all tenures has been downwards since 2007-08, illustrated in Chart 7.

The very small numbers of completions amongst local authorities and the declining trend amongst housing associations is particularly concerning in the context of provision of homes for those on lower incomes. It should not be forgotten that owner occupation remains important for those on lower incomes (see next section). The likely outturn from the Affordable Homes Programme of 2015-18 will be discussed with other affordable housing issues later.

Interestingly, the ten local authority areas in the region with the lowest house prices produced 2360 completions in 2012/13 of which 550 were completed by HAs or LAs (23%). The ten LA areas with the highest house prices completed 1900 homes of which 200 were completed by HAs or LAs (11%). This suggests that affordable homes in the region are more likely to be completed in areas where house prices, and therefore land values are lower. This ties in with reports by some interviewed HAs that they are tending to build where prices are lower to maximise the number of completions for a given level of investment; this was not identified as a general trend amongst interviewed HAs.

Local authority completions and the Right to Buy
Local authorities have been encouraged by Central Government to engage in new development for several years. In addition, the Housing Revenue Account [HRA] settlement has given authorities the headroom to borrow prudentially to fund new development. In spite of this changed environment

![Chart 6: SE region: dwellings completed by tenure (2013-14)](source: DCLG)
Chart 7: SE SE region: dwellings completed annually by tenure
Source: DCLG

Chart 8: Completions by tenure (2013-14): ten authorities with lowest house prices and ten with highest house price
Source: DCLG data, author’s calculation

*Calculations for Portsmouth and Hastings were based on 2012-13 completion data as 2013-14 data was not available.*
the outcomes in terms of completions by local authorities have been modest. In the SE, 60 new homes were completed in 2013-14 by local authorities, down from 240 the previous year. In fact, when the Right to Buy (RtB) is taken into account, local authorities in the SE remain net losers of housing, as is also the case nationally.

There has been a strong upturn in RtB sales since the Government introduced an increase in the maximum cash discount payable to £75,000 (£100,000 in London) in April 2012 (see Chart 9). The Government has announced plans for additional enhancements to the RtB including an increase in the maximum discount from 60% to 70% and a reduction in the residency qualification period to exercise the RtB from five years to three. Therefore, it seems certain that the upward trend in RtB sales will continue, at least for the medium term. In spite of the Government making provision for local authorities to replace former RtB properties on a one-for-one basis, it is clear that this is not happening so far. Not all the local authorities in the SE still hold housing stock and some were unaware of the increased sales. However, some were aware:

“It has not been possible to ensure a one-for-one replacement.” (LA interviewee)

“70% of new applications are from people on benefit... their children are buying them.” (LA interviewee)

A further phenomenon noticed by a number of SE authorities was that of former RtB properties being transferred into the PRS. This issue raised by such transfers has received attention due to analysis undertaken in London suggesting that over 36% of former RtB properties are now in the PRS (Copley, 2014). A number of local authorities were aware of this:

“It’s huge; something like 25% have gone into the PRS.” (LA interviewee)

Where such transfers were noted, the authorities concerned saw them as a problem, principally because the tenants were paying higher rents for properties that were frequently identical to the ones still owned by the authority and also because of the effect on the Housing Benefit bill.

In the context of an overall fall in the level of affordable completions in the SE and the low level of completions from all tenures relative to need, the net loss of local authority stock via the RtB...
must be considered particularly worrying from the perspective of low income households. Where such properties end up in the PRS the situation could be seen as taking on an element of farce; instead of encouraging home ownership it really is a case of “From right to buy to buy to let” (Copley, 2014). An announcement by the Housing Minister Brandon Lewis, that RtB discounts will increase in line with the Consumer Price Index [CPI] is unlikely to bring reassurance to those attempting to deal with an ongoing deficit in the supply of new social housing (Inside Housing, 7 August 2014).

An overall shortage

It is clear that there is a grave shortage of new housing supply in the SE and that within that, affordable completions have been declining. A shortfall in supply means that homes will not be available for some households unless they move out of the region, or accept overcrowding. Anecdotal reports from interviews with local authority and HA representatives suggested an increase in overcrowding in those tenures. Increased homelessness is another potential impact of chronic shortage of supply.

Another impact is likely to be an upward pressure on house prices and on private rents, where supply and demand impact directly. It is also likely that homes provided by HAs under the Affordable Rent [AR] model will also show rent increases since the rents of these homes are linked to market rents. These questions will be examined later.

Homeownership: a receding future for lower income households?

Many of those on lower incomes continue to live in the homeownership tenure. 54% of those who are defined as poor are in home ownership. 13% of individuals with incomes below 60% of the median are home owners and 16% of those are in the lowest income quintile (DWP, 2013). Some 60% of low-to-middle earners (those within deciles two-five of the working age income distribution and who are receiving less than 20% of their income from means-tested benefits), are home owners in spite of having average net household incomes of around £21,000 pa. (Alakeson & Cory, 2013).

As a region, the SE poses particular challenges to those attempting to gain access to, or to sustain, home ownership. In January 2014 the average house price for the region was £221,780 compared to the average for England and Wales at £168,658 (Land Registry, 2014). In fact the SE has higher house prices than any other English region except London. SE house prices are steadily diverging from those of the country as a whole, as seen in Chart 10 below.
In 1995, SE prices were only 15.4% higher than those of England and Wales. By 2014 that difference had risen to 31.5%. This has an impact on relative affordability and is a worrying trend for those keen to promote home ownership and mobility in and out of the region. It should be noted from Chart 10, that by January 2014 prices in the South East had recovered to within approximately 2% of their pre-banking crisis peak of £227,142 in January 2008 (by May 2014 the gap had narrowed to less than £1,000 as average prices had risen to £226,334). By contrast, prices in England and Wales were still 7% from their February 2008 peak of £181,327. While this will be good news for the SE households plunged into negative equity, it again confirms the trend of SE prices escalating in relation to all other regions except London.

House prices do not of themselves provide a clear indicator of affordability. To look at the position for those on median household incomes, it is first useful to examine the ratio of median house prices to median incomes, illustrated in Chart 11.

The chart demonstrates both the wide difference in affordability between the cheapest and most expensive areas within the region and the relative lack of affordability in the SE compared to the rest of the country.

To put these figures into perspective it should be noted that mortgage lending has become much more constrained since the banking crisis with high loan to value [LTV] and loan to income lending severely curtailed in spite of some recent improvement, shown in Table 1 below.

Chart 11: Median house price compared to median income, including lowest and highest LAs in the SE (2013)

Source: DCLG

<table>
<thead>
<tr>
<th>Portsmouth</th>
<th>5.62</th>
</tr>
</thead>
<tbody>
<tr>
<td>Elmbridge</td>
<td>14.3</td>
</tr>
<tr>
<td>SE Region</td>
<td>8.75</td>
</tr>
<tr>
<td>England</td>
<td>6.72</td>
</tr>
</tbody>
</table>

Table 1: % of mortgage loans issued at high LTV and high loan to income (Q1, 2007-Q1, 2014)

Source: Bank of England/Financial Conduct Authority

<table>
<thead>
<tr>
<th></th>
<th>Q1 2007</th>
<th>Q1 2008</th>
<th>Q1 2009</th>
<th>Q1 2010</th>
<th>Q1 2011</th>
<th>Q1 2012</th>
<th>Q1 2013</th>
<th>Q1 2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>% of loans with LTV over 90%</td>
<td>14.1</td>
<td>10.6</td>
<td>3.4</td>
<td>1.6</td>
<td>1.8</td>
<td>2.4</td>
<td>2.1</td>
<td>3.6</td>
</tr>
<tr>
<td>% of loans LTV over 0% and income multiple over 3.5/2.75&lt;sup&gt;a&lt;/sup&gt;</td>
<td>8.78</td>
<td>6.9</td>
<td>1.9</td>
<td>0.9</td>
<td>0.9</td>
<td>1.3</td>
<td>1.3</td>
<td>2.6</td>
</tr>
</tbody>
</table>

<sup>a</sup> SE regional figure is authors calculation.

<sup>b</sup> Single income/dual income.
The difficulties for those on median incomes to gain a mortgage on a median priced house in the SE are very clear. In Q1 2014 the Financial Conduct Authority [FCA] produced data showing that only 0.53% of loans were issued with an LTV of over 95% (FCA, 2014). While the situation is easier than in the immediate aftermath of the crisis the prospects for further significant improvement are limited given the future prospect of rising interest rates, the existence of the new more burdensome FCA regulatory regime for lenders and the recent intervention by Mark Carney, Governor of the BoE, on high loan to income ratio lending (Financial Times, 26 June 2014).

The challenge of raising a deposit for median income households should not be underrated. A median household income saving 5% per year (£1,235) towards a deposit, would take over 18 years to save a 10% deposit on an average priced SE home. It would take 27 years for a home in Surrey. This is not to say that the position outside the SE is good; an LMI household in England would need to save for 22 years to raise a deposit on a first house (Alakeson & Cory, 2013).

Even if a median income household is able to source a mortgage offer to purchase an average price home, the loan then has to be serviced. A household borrowing 90% of the value of an average price SE home for 25 years would face an annual mortgage repayment of £11,698\(^{11}\). This represents 47.4% of the SE median equivalised disposable income of £24,700. With a widespread expectation that interest rates will rise over the medium term, neither the immediate nor the longer-term prospects for servicing a loan look particularly promising. A 2% rise in interest rates would increase payments on a new loan for the same borrower to 58.2% of disposable income.

For those on significantly below median incomes a common house price measure adopted to gauge affordability is that of lower quartile prices compared to lower quartile incomes. The Department for Communities and Local Government [DCLG] prepares such data. In 2013 the ratio of lower quartile house prices to incomes was 9.25 for the SE and 6.45 for England. The trend since 1997 is striking, as seen in Chart 12.

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\(^{11}\) Calculated on the basis of a repayment mortgage with a 3.3% variable interest rate over a 25 year term. The interest rate is the average for Q1 2014 as reported to the FCA for new variable rate mortgage loans.

\(^{12}\) SE region figure, author’s computation.
From the perspective of a household on a lower quartile income seeking a lower quartile price home the position is, if anything, more discouraging than for the median income household seeking a median price home. It has also been deteriorating for a long period and has become worse across the SE relative to the country as a whole. The prospects for raising a deposit, finding a mortgage offer and sustainably servicing the loan in a rising interest rate environment are very poor. When the above lower quartile figures are taken to LA level, the range and distribution are interesting, as illustrated in Chart 13.

It is noticeable that all six of the most affordable areas are at the periphery of the region and at maximum distance from London. Five out of six are coastal towns. In sharp contrast four of the most unaffordable areas are in Surrey and five are in close proximity to London. Examination of the chart and analysis of the data for all local authorities in the region would strongly suggest that those on below median incomes seeking access to home ownership would be most likely to find success in the less affluent coastal urban centres and areas furthest from London. They would be least likely to be successful in the semi-rural and suburban areas in close proximity to the capital. This is consistent with trends identified by interview respondents that those on below median incomes will increasingly have to access properties in the areas furthest from London, whether the tenure of those properties is AR or private rent.

Negative equity and arrears: lower-income homeowners at risk

The deteriorating affordability of the SE in both absolute and relative terms and the likely impact on the numbers successfully gaining access to home ownership has been noted. However, there are also two additional factors which could lead to a proportion of existing owners failing to sustain home ownership over the medium term. These factors are the number of households in negative equity and the incidence of mortgage borrowers who are “highly geared” (Whittaker, 2014).

According to a CML estimate for 2009 around 5.75% of SE homeowners were in negative equity at that time. This would imply around 150,000 households out of over 2.6 million. In April 2014 HML estimated that nationally around 463,000 households were in negative equity which probably represents a drop of roughly 50% from post-crisis peak levels. This implies that up to 75,000 households might still be in negative equity in the SE, although rapid increases in prices will have eroded numbers faster in the SE than elsewhere. Nevertheless, a substantial number of households will still be in negative equity. These households are particularly vulnerable to mortgage payment rises due to interest rate increases, or falls in income, since they do not have housing equity on which to draw and lenders are more constrained in their ability to offer forbearance in the event of arrears. In addition, if they move house they are likely to have difficulties in accessing another owner occupied property unless they have additional funds for a deposit and to pay off their existing mortgage. A significant proportion of households in negative equity are likely to drift out of home ownership into private renting or, possibly, the affordable rented sector. Recent research suggests that predicted interest rate rises may highlight the plight of those borrower households who have been described as “highly geared”, spending more than one third of their disposable incomes on mortgage payments (Whittaker, 2014). It has been estimated that nationally, some 13% of mortgaged households are currently highly geared. If the BoE base rate rises to 2.9% by the end of 2018 this figure could more than double to 27%. Whittaker has estimated that in the South East 18% of mortgaged households are “highly geared” and that such a rise in base rate could push this figure to 31%. Within these estimates low income households are believed to be more exposed:

“Lower income households are most exposed but the affordability issue is set to stretch up the income distribution as rates rise... Around 61% of mortgagees in the bottom decile of the income distribution are highly geared.” (Whittaker, 2014)

While it is impossible to predict how many of these households will eventually default on their loans they clearly represent a higher risk group, with those on low incomes at even higher risk. Until now low interest rates, a rising housing market and lender forbearance have assisted the “highly geared group” and indeed kept mortgage arrears at historically low levels.

Should interest rates rise, many households could see their mortgage payments escalate to un-manageable levels as Chart 14 illustrates.
Chart 13: Lower quartile prices compared to lower quartile incomes (2013): six lowest ratios in the
SE (in blue) and six highest ratios (in red)
Source: DCLG

<table>
<thead>
<tr>
<th>Location</th>
<th>Ratio</th>
</tr>
</thead>
<tbody>
<tr>
<td>Portsmouth</td>
<td>6.38</td>
</tr>
<tr>
<td>Southampton</td>
<td>6.47</td>
</tr>
<tr>
<td>Medway</td>
<td>6.58</td>
</tr>
<tr>
<td>Milton Keynes</td>
<td>6.75</td>
</tr>
<tr>
<td>Dover</td>
<td>6.77</td>
</tr>
<tr>
<td>Hastings</td>
<td>6.92</td>
</tr>
<tr>
<td>Chichester</td>
<td>11.78</td>
</tr>
<tr>
<td>Waverley</td>
<td>12.17</td>
</tr>
<tr>
<td>South Bucks.</td>
<td>12.7</td>
</tr>
<tr>
<td>Elmbridge</td>
<td>12.97</td>
</tr>
<tr>
<td>Epsom</td>
<td>13.17</td>
</tr>
<tr>
<td>Tandridge</td>
<td>13.9</td>
</tr>
</tbody>
</table>

Chart 14: Mortgage repayments as a % of disposable income for a median income household
borrowing £175,000 over 25 years
Source: Author's calculation
Home ownership: a receding future?
The SE is a region where those with higher incomes will probably always be able to access home ownership, although even for these groups it is likely to take up a higher proportion of household income. For lower income households the picture is less positive.

Against a backdrop of falling home ownership overall in the region (and nationally), it is likely that home ownership amongst those on below median incomes will fall disproportionately. While this has happened nationally, affordability pressures for these groups in the SE are particularly acute. A fall due to general affordability constraints plus broader social and economic factors could be exacerbated in the SE by a proportion of households in negative equity drifting out of home ownership but also by the failure of a significant number of “highly geared” mortgaged households to successfully sustain home ownership as interest rates rise.

In addition to a leakage of lower income households from home ownership to other tenures, it is likely that there will be a gradual shift of home owning lower income households away from the suburban and semi rural areas in close proximity to London, towards the edges of the region and in particular the coastal towns with lower house prices and which already house a greater proportion of lower income households.

Growth and diversity: the private rented sector

Expansion
The private rented sector [PRS] comprises around 700,000 dwellings in the SE region and is the second largest tenure after home ownership. In relative size it is close to the national average but has been growing rapidly as already noted (DCLG, 2014e). Private landlords interviewed for the research had all noticed rapid expansion of the PRS in their local areas:

“It has definitely expanded in the last ten years - sheer demand.” (PRS interviewee)

Landlords were clear that the most significant cause of growth was the rise in house prices making it difficult for prospective homeowners to get onto the property ladder:

“Young people are finding it harder to get on the property ladder.” (PRS interviewee)

“The shortage of housing and the difficulty in buying housing in the past few years.” (PRS interviewee)

Landlords were also clear that constraints on the supply of social rented housing were having an impact. All interviewed PRS landlords were confident that their sector would continue to expand over the next decade as a result:

“Yes, in the absence of Government being able to provide funding for social housing, the PRS will take up the slack.” (PRS interviewee)

Landlords also felt that there were advantages to renting in the PRS which could also in part account for its growth. The key advantage was seen as flexibility for those who wished, or needed, to move relatively frequently for work or family reasons:

“Also the PRS gives you flexibility; you can walk away after six months and you never have to do any repairs.” (PRS interviewee)

Who is being housed?
Nationally, private renters are slightly more likely to be working than owner occupiers and less likely to be retired. They are very much more likely to be working than social renters and again, less likely to be retired. Chart 15 shows a breakdown by tenure.

In part the higher levels of employment and lower level of retirement reflect the relatively young age of private tenants. 50.8% of PRS tenants are in the 16-34 age group compared to only 9.5% of owner occupiers and 18.7% of social renters. In contrast, only 7.6% of PRS tenants are aged 65 or over, compared to 32.1% of owner occupiers and 28.5% of social renters. The PRS is thus characterised by younger residents who are likely to be working.

Private renters are more likely to be couples (with or without children) than social renters, although less so than owner occupiers. This is reflective of the large-scale use of the sector by students and by younger single people renting rooms; there is also a relatively high proportion of multi-person households. However, contrary to popular belief, the PRS has a lower proportion of single person households than the social rented sector (see Chart 16).
Nationally, in terms of gross weekly income of heads of household and partners, PRS tenants stand midway between owner occupiers (£616) and social renters (£252) with a weekly income of £425. This is significantly below the median income for all households (£500). By extension, one might broadly expect the PRS in the SE region to be characterised by younger, working households with a significant number of couples, with or without children, on below median incomes.

Interviewed PRS landlords were asked about which groups were most likely to use the PRS in their area. Their responses are broadly consistent with the above picture. One landlord cited a “mixed bag” of tenants; private, “Housing Benefit” (sic) single
ment or women ("singles"), young single mothers, victims of domestic abuse, those with mental health issues and those with disabilities. It was interesting, but consistent with the national picture above, that PRS landlords rarely mentioned older households.

All the landlords took households on benefits although they were at pains to point out that by no means all landlords would let to these households:

“Yes we do; there is a terrible shortage.”
(PR interviewee)

“On benefits, I look for a single parent with children [because they tend to stay in the property longer]”
(PR interviewee)

“Certainly there is a shortage of social housing... families on benefits are desperate.”
(PR interviewee)

All landlords interviewed let single rooms to individuals, including those claiming the single room rate of Housing Benefit, although on occasions there had been difficulties in sustaining the tenancy:

“I have had a few issues with younger people.”
(PR interviewee)

One issue with “singles” that arose in more than one interview was that of the need to obtain planning permission under “Article 4” which restricts the ability of landlords to convert former family homes to serve this market in a number of areas within the region. Interviewees claimed that the student market was similarly affected. PRS landlords claimed that this distorted the housing market by reducing the value of family homes in some areas and that it was causing a shortage of homes for singles. LA interviewees confirmed their use of Article 4 in this way but saw it as an issue of preserving the character and amenity value of a neighbourhood rather than one of restricting the supply of homes. Students were also seen as a significant market by some but not all interviewed landlords. Some clearly saw the student market as specialist and referred to the influx of institutional investment, often in partnership with universities:

“Maximum number of units on minimum floor plan.”
(PR interviewee)

Landlords recognised that students would usually pay higher rents but that they could cause problems with surrounding residents. This was an issue picked up by some LA interviewees also. They were concerned that a high proportion of students in some urban wards could distort the residential nature of a locality and could make maintenance of some services (such as schools) more difficult. LAs and PRS landlords referred to wards with 60-85% of properties let to students. It is clear that there is an ongoing tension between private landlords and LAs over housing students, and it is clear that expansion of higher education has increased the size of the market in recent years.

Interestingly, as will be discussed later, student housing is almost the only PRS sub-market where institutional investment has permeated by building purpose-built accommodation. It may be that as the proportion of students housed in purpose-built accommodation grows, tensions between local authorities and private landlords will ease. However, private landlords are, ultimately, servicing a demand created by Government education policy and there is a strong case for local authorities and landlords to work together to see how this demand can be met effectively without causing problems for some neighbourhoods.

Finally, one landlord remarked that:

“There is an enforced market- from London and expensive areas to affordable areas.”
(PR interviewee)

This landlord was referring in part to housing the homeless (see opposite) but also to a more general drift amongst those on lower incomes. Given the concentration of those on lower incomes and claiming benefits in the less prosperous east and coastal areas already identified, this remark is worth noting.

Rents and affordability

Rents in the SE region are higher than for any other region except London. Valuation Office Agency (VOA) SE median monthly rents were £750 and lower quartile rents £600 for 2013-14. Chart 17 shows the inter-regional comparisons.

---

13 Article 4 of the Town and Country Planning (General Permitted Development) Order 1995, which restricts what would normally be permitted development, e.g. to convert a family home into multiple individual units.
Rents are not equal across the region and tend to be higher in the areas closest to London and to the west of the region. This is illustrated in Chart 18 over the page.

The distribution of rents shows a significant correlation with the areas where those with lower incomes and on benefit are more concentrated (See above section: Spatial distribution of those on lower incomes). The coastal areas including Dover, Hastings, the Isle of Wight and Portsmouth have the lowest rents, while the highest rents are those of the boroughs nestling close to south and west London such as Windsor and Elmbridge. Again, rural areas tend to have higher rents than urban areas. This distribution, combined with the spatial distribution of those on lower incomes offers a useful picture of where those on below median incomes are more likely to be living in the PRS and adds support to the proposition that the region is likely to become geographically more polarised for private tenants. The fact that rents are lower in a particular local authority area does not necessarily mean that they are more affordable for those who actually live in that area. As has been seen, incomes tend to be lower in areas where prices and rents are lower. Lower rents make an area more affordable to an individual who is not constrained in terms of mobility. However, households are constrained in their ability to move by a number of factors including:

- The need to keep a job, or access training
- Family and cultural ties
- Responsibilities as a carer
- Inability to incur the costs of moving

Thus in measuring relative affordability it is usual to compare the incomes for a particular area with rents for that same area. Comparison of median private single room rents with ASHE local median incomes data for authorities across the SE region shows no discernible spatial pattern to affordability.
Chart 18: Median and lower quartile monthly rents by LA (2013-14)

Source: VOA
Chart 19: Median single room rent as a % of median FT earnings

Source: VOA/ASHE

Note: rent data was unavailable for a few authorities.
As can be seen in Chart 19, the most “affordable” location is New Forest with a rent to income percentage of 9.2%, while the least affordable is Hastings at 20.5%. Overall, the percentage for the SE as a whole is 15.7%. The data suggests that for a single person on a median income, rents are likely to be affordable across the SE if the affordability criterion of 35% of income is employed.

The picture for lower quartile rents compared to lower quartile incomes is less positive in terms of affordability (shown in Chart 20).

There is no obvious spatial distribution but the affordability range goes from 13.7% for New Forest to 25.4% for Oxford. The percentage for the SE overall is 20.2%. An individual earning the lower quartile income would be more stretched in terms of the percentage of their income taken in rent than an individual on median earnings paying a median room rent. This is significant since it is generally recognised that those on lower incomes can normally afford to spend a lower proportion of their income on rent, unless they are assisted by Housing Benefit. Nevertheless, using the 35% threshold for affordability lower quartile single room rents are affordable in the main.

A comparison has also been made taking median and lower quartile earnings and comparing these with the median and lower quartile rents for two bedroom properties in the SE region (shown in Chart 21).

Both of these charts show a discernible geographical pattern, with the coastal urban centres and Kent tending to be more affordable. However, taking the above comparisons as a proxy for a one income household renting a two bedroom home, the picture is more stretching. Even for a household on median earnings the average rent as a percentage of earnings is 30.9%. The most affordable authority is Dover at 24.7% and least affordable is Oxford at 42.7% of earnings.

The picture for those on lower quartile earnings is significantly more difficult given the capacity of lower income households to spend a lower proportion of their incomes on housing costs. This is illustrated in Chart 22. Overall for the SE region lower quartile rents are 37.83% of lower quartile earnings. The most affordable authority is again Dover with lower quartile, two bedroom rent, at 31.7% of lower quartile earnings. The least affordable is Mole Valley at 55.17%.

Overall, this analysis suggests that in some parts of the SE, households on median incomes will require a subsidy such as Housing Benefit to afford a median income property, while the situation for lower income households renting a lower quartile property is very challenging with overall median rents above the 35% affordability threshold.

It should be noted that affordability when measured as rent as a percentage of earnings is worse for lower quartile households accessing lower quartile properties than for median income households accessing median income properties (of all property sizes). This is shown in Chart 23.
Note: rent data was unavailable for a few authorities.
Chart 21: Median two bedroom rents relative to the 35% threshold of median FT earnings

Source: VOA/ASHE

Note: rent data was unavailable for a small number of authorities.
Chart 22: Lower quartile two bedroom rents relative to the 35% threshold of lower quartile FT earnings

Source: VOA/ASHE

Note: rent data was unavailable for a small number of authorities.
It is easy to see why there may be financial pressure for lower income households to move to (or be placed in) areas where rents are lowest, even though these may not always be the most affordable for those already settled in those areas. One LA interviewee on the south coast put this point bluntly:

“People move here from other more expensive areas… it is the last place you end up when you are priced out.” (LA interviewee)

Affordability is, of course, more stretched for a lower quartile earning household aiming to gain access to properties at Local Housing Allowance [LHA] rates which are set at the 30th percentile rather than the 25th as above. This suggests that for significant numbers of benefit dependent households, LHA rent levels will represent a very real disincentive to find work since earnings may well be insufficient to meet private rents without recourse to Housing Benefit.

As shown in Table 2, year-on-year rent increases for the SE over the past two years have been slightly higher than for England as a whole but relatively modest when compared to London where rent increases have been large, particularly in relation to lower quartile rents.

Table 2: Year on year [YoY] private rent increases: England, London and the SE region (2011-12 to 2013-14)

<table>
<thead>
<tr>
<th></th>
<th>YoY increase 2011-12/2013-13 (%)</th>
<th>YoY increase 2012-13/2013-14 (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>England median rents</td>
<td>1.7</td>
<td>1.7</td>
</tr>
<tr>
<td>England lower quartile rents</td>
<td>0</td>
<td>3.3</td>
</tr>
<tr>
<td>London median rents</td>
<td>10.4</td>
<td>4</td>
</tr>
<tr>
<td>London lower quartile rents</td>
<td>11.8</td>
<td>5.9</td>
</tr>
<tr>
<td>SE median rents</td>
<td>3.5</td>
<td>0</td>
</tr>
<tr>
<td>SE lower quartile rents</td>
<td>3.5</td>
<td>1.8</td>
</tr>
</tbody>
</table>
It is interesting to note that for the SE region lower quartile rents have been rising faster than median rents, suggesting that affordability for lower income groups may be becoming more rapidly stretched than for those on median incomes. Given the affordability constraints for those on lower quartile incomes identified above this is a worrying trend.

Impact of welfare reform and the Local Housing Allowance

The impact of welfare reform on the social rented sector has been much discussed. However, the impact of welfare reform on the PRS has received much less attention, yet discussions with private landlords indicate that it is very significant. The elements of the Government’s welfare reform measures that landlords believed had an impact on them, or their tenants, were:

- The establishment of size criteria to discourage under occupation of social housing by those of working age (the “bedroom tax”, or the “spare room subsidy” – referred to in this report as the under-occupation rules).
- An overall cap on maximum benefits payable to households of £350 per week for single adults and £500 per week for other households (the benefit cap).
- The introduction of the single room rate for individuals under 35.
- The proposed direct payment of Universal Credit to tenants rather than landlords.
- Changes to the LHA including reducing the threshold to the 30th percentile in 2012 and changes making adjustments to LHA rent levels less frequent and, from April 2014 subject to a cap of the previous LHA plus 1%, with increases for the year beginning in April based on LHA levels for the previous September.

Under-occupation rules

Under-occupation rules do not apply to the PRS, although the sector is subject to size criteria under the LHA as a number of landlords pointed out. Any impacts are therefore indirect. Private landlords were aware of under-occupation rule changes, with some unsympathetic to the way the policy had been introduced:

“It is one thing for Government to say you can’t stay in a council house for life but they must make other provision available.”

(PR interviewee)

“One bed properties don’t stack up for HAs; why should the PRS provide them?”

(PR interviewee)

There was some scepticism as to whether HAs were always responding adequately:

“I sit on the regional homeless forum and the welfare reform body on the Council. I questioned one of the bigger HAs about the bedroom tax. My question was: “how many one bed properties are you now building?” – “none - we are waiting for a Labour government to repeal it”.

(PR interviewee)

The Consortium of Associations in the South East [CASE], which represents ten of the largest HAs in England, has previously stated its opposition to building one bedroom properties in response to under-occupation rules:

“[One bedroom properties] are, in general, an inflexible and ineffective housing solution. At one end of the age spectrum, one bedroom properties are short-sighted as the target group is likely to have children in the short to medium-term. At the other end, people will have aged care needs, and therefore use the space to accommodate carers. We therefore cannot support the construction of one bedroom properties in order to fix the structural deficit caused by under-occupation.” (CASE, 2011)

In any case, the group stated that in order to make up the structural deficit of one bedroom properties, it would need to re-build the equivalent of 7.5% of its total rented stock as one bedroom homes (CASE, 2011). It concluded that this was not a practical or viable strategy for mitigating the impact of the rule changes.

Overall, private landlords did not see under-occupation rules as a threat to their businesses but they were sceptical about how it was working from a tenant perspective.
Benefit cap
The interviewees had all noticed some impact on tenants from the cap.

“The benefit cap has also made people search for smaller properties.” (PRS interviewee)

“There are tenants affected but it’s surprising how few... LAs pay money [Discretionary Housing Payments] for families needing larger accommodation.” (PRS interviewee)

There must be a question as to what will happen when, and if, LAs cut back on Discretionary Housing Payments. It was not clear that landlords were already turning people away because of the cap but awareness was widespread enough for this to be an issue that would justify further investigation. Certainly LAs were concerned about negative attitudes to Housing Benefit amongst private landlords but it was not clear if this related to the cap or to other aspects such as Universal Credit or the LHA (see below).

Single Room Rate
The Single Room Rate [SRR] has had a significant impact on both private landlords and their tenants.

“Yes, it has had an effect; probably I am getting fewer young people going into self-contained flats. [They are] either sharing or staying at home.” (PRS interviewee)

Interviewed landlords were taking steps to respond to the SRR:

“We just have to watch that as they have to make up the rent.” (PRS interviewee)

“If I look for a single tenant I look for someone over 35.” (PRS interviewee)

“We get £62.50 for each room for under 35’s and I cannot manage to keep a property going on that so I decided to come out of that market, even though I was assisting young people...” (PRS interviewee)

It was clear that the SRR had had a direct effect on landlord behaviour in respect of the under 35 single group. It is not possible to quantify this effect but the interview responses suggest it could be significant. More investigation is needed at a local authority level.

Universal Credit
The long-awaited introduction of Universal Credit appeared to divide interviewed landlords into two. The first were anticipating its introduction and were very concerned. The second, smaller group, were comforted by strong doubts that Universal Credit would ever be successfully introduced as envisaged by the DWP. Concerns were partly about direct payment of rent to tenants rather than landlords. This appears surprising at first sight since the LHA ostensibly introduced direct payment into the PRS some years ago. However, it was clear that landlords were alive to the possibilities of receiving rent direct even under the LHA and saw Universal Credit as a threat to this. The other concern for landlords was that tenants would be faced with competing demands for limited funds and that paying the rent might not be the top priority:

“It’s scaring the shit out of landlords.” (PRS interviewee)

“Landlords are uncomfortable with the Universal Credit proposition.” (PRS interviewee)

“People are not used to responsibility.” (PRS interviewee)

“We have tenants who cannot manage their money; just setting up standing orders for about £50 rent top-up is a problem.” (PRS interviewee)

The centralisation of the administration of Universal Credit was also seen as a potential problem:

“Furthermore at the present we have a good working relationship with local authorities, so if a tenant does fall behind with their rent, or face an eviction notice due to arrears then we can work with the council to have future rents paid direct, and work a way to clear arrears, this way the tenant remains in their home, the deposit isn’t sucked up and the local authority doesn’t have to deal with another homeless person. This arrangement won’t happen with Universal Credit as all the payments are going to be dealt with by DWP who don’t even answer the phone or emails, so as a result, the landlords will cease offering properties to Housing Benefit tenants as most of them do not want to be social workers to offer support so their rent gets paid.” (PRS interviewee).
It is clear that Universal Credit is seen as one of the more threatening aspects of welfare reform from a private landlord perspective. It is probably the biggest single reason for their hardening attitudes towards benefit-dependent tenants.

**LHA changes**

Landlords were aware of the changes to the way the LHA is calculated. They were concerned about more limited choices for tenants but also about the impact on profitability:

“No it doesn’t offer good choice of accommodation, as you are limited to the amount you can spend each month on a property, and the Government expects landlords to drop the rents to LHA rates, but at the same time expects Decent Homes Standard housing with heavy legislation and no tax benefits.”  
(PRIS interviewee)

“They [tenants] have to take what they can get… they are scared stiff.”  
(PRIS interviewee)

“Rents will drop way behind market rents.”  
(PRIS interviewee)

Changes to the LHA ranked along with Universal Credit as a major cause for negative attitudes to tenants in receipt of benefits.

**Welfare reform and private landlords: a deteriorating situation**

All interviewed landlords believed that overall, welfare reforms had made them less likely to take tenants who depended on benefits. Furthermore, they believed that attitudes across the PRS had become more negative towards benefit claimants as a result of the welfare reform. This view was supported by comments from two local authorities also:

“We try to maintain the status quo; we try to use Discretionary Housing Payments to mitigate the effects of welfare reform.”  
(LA interviewee)

“LHA does not meet landlords’ expectations anymore.”  
(LA interviewee)

“Landlords are pulling out of taking HB tenants – risk of not being paid… More are charging rent in advance and larger deposits.”  
(LA interviewee)

Local authorities and HAs have attempted to modify their own behaviour in the face of welfare reform. However, they are constrained by a range of legal requirements and have the capacity to shoulder additional burdens- at least for a while. Private landlords have the choice to take tenants claiming benefits, or to avoid taking those tenants, and in most cases have limited resources to deploy to manage the impact of welfare reform. Demand in the sector from non-benefit dependent households is strong in many areas of the region. Yet the PRS is the second largest tenure in the SE and has traditionally been flexible in taking up the excess demand created by a shortage of affordable housing. If private landlords cut back significantly on the number of benefit-dependent tenants they are prepared to house then there will be a crisis, which will have an immediate effect on local authorities, who will have to deal with a rise in homelessness and acute housing need with little in the way of new resources to tackle such problems. Shortage of social rented housing receives much popular and political focus and rightly so. Yet were there to be substantial disengagement from the welfare system by private landlords, the impact could well be greater. This is a serious and urgent issue.

**Meeting needs: standards and regulation**

**Standards**

Nationally, tenant satisfaction levels across the rental sector are not dissimilar between the social and private subsectors. According to the English Housing Survey, 80.6% of social renters are satisfied with their accommodation against 84.6% of private renters. When asked whether they were satisfied with the way the landlord carries out repairs and maintenance social renters gave an overall satisfaction level of 69.1% with 67.1% of private renters expressing satisfaction. Within the social renter response HAs scored a little above private renters (74.1%) and LAs a little below (63.1%) (English Housing Survey, 2012-13).

Private landlords were asked about overall standards in the PRS and were generally positive about their sector.

“Standards are unrecognizable compared to a decade ago.”  
(PRIS interviewee)
“The rogue landlords are always around, but the average landlords provide a pretty good service ... tenants vote with their feet.” (PRS interviewee)

There was, nevertheless, a recognition that not every landlord met these standards. Local authorities, who interact with private landlords regularly on a range of matters from deposit guarantees to licensing, gave a measured response on PRS standards. The picture overall, was a mixed one of a majority of competent landlords and a small minority of incompetent or poor landlords. The much discussed “rogue landlords” were little in evidence:

“They [environmental health] do not have a real problem with rogue landlords.” (LA interviewee)

“There are some rogue landlords but they are very much in the minority.” (LA interviewee)

Landlords were also asked a more focused question as to how well their sector met the needs of those on below average incomes. The responses to this question were thoughtful and there was a strong sense that landlords felt that they had been placed in a difficult position particularly in the light of welfare reform and cut backs to the LHA in a context of increasing property prices putting pressure on rental returns:

“Most households below median incomes are on income support. (sic) It does not [meet the needs of households] really because a lot of landlords will not take people on social security.” (PRS interviewee)

“The Government, particularly DWP, is making the poor impossible to house.” (PRS interviewee)

“Many of my properties were purchased in the late 50’s and 60’s- I could not purchase them today and let them at the rents I do.” (PRS interviewee)

“That is the most challenging question- some [landlords] do it well and some do it diabolically.”

In spite of responses that could only be described as gloomy, there were positive signs of a sector characterised by small landlords playing to its traditional strength; the ability to build personal relationships with tenants and those in need of a home.

Private landlords were generally positive about their day-to-day relationships with LAs over resolving issues of homelessness and dealing with the benefit system; the latter was felt to be overly bureaucratic. LA deposit guarantee schemes were seen as helpful and as a sensible way of avoiding placing households in bed and breakfast accommodation. LAs saw these schemes as important also, although at least one was facing the possibility of no longer being able to fund their scheme. There was a sense of a “business as usual” relationship from both private landlords and LAs with both working in the main to ensure that problems were overcome and that tenants received appropriate homes with tenancies that were, as far as possible, sustainable.

The picture that emerged from the PRS and LA interviews was one of a sector meeting reasonable standards in the main, but struggling to provide the level of support that would be required by many of the poorest and most vulnerable households who might once have hoped to find a home in the social rented sector. It was also clear that for some landlords maintaining their commitment to these groups was a matter of balancing their personal commitment against viability considerations caused by high property prices and the benefit system. It is by no means clear that these landlords will continue to absorb deteriorating margins indefinitely.

**Regulation**

LAs and private landlords have an important interface in terms of regulation of the PRS, principally through licensing of houses in multiple occupation [HMOs], additional licensing schemes to widen the scope of HMO licensing and selective licensing of the broader PRS. These schemes were all brought in under the Housing Act 2004. In addition, some LAs operate voluntary accreditation schemes of various kinds which private landlords can choose to join (gov.uk, 2014).

While some LAs had introduced additional or selective licensing schemes, the majority of those interviewed had only the statutory HMO licensing scheme that they are required to operate. LAs
appeared to be generally satisfied with their schemes, although none offered any evidence of their effectiveness beyond the anecdotal. Some were aware that lack of resources could affect their ability to tackle problem landlords.

“Currently rubber-stamp the good ones; soon hunting the others (sic).” (LA interviewee)

Private landlords were equivocal in their response to the impact of licensing. While all those interviewed appeared to accept that the PRS required some regulation they were by no means confident that licensing had been an unmitigated success.

“Licensing schemes only touch the compliant landlord.” (PRS interviewee)

While the old joke about turkeys voting for Christmas may have some relevance here, there was a strong and consistent perception amongst interviewed landlords that licensing schemes tended to be under resourced and that this could lead, in turn, to them functioning as mechanical “tick-box” processes that simply caught those who were disposed to comply in any case. Two landlords also indicated that they would not invest in properties that would fall within a licensing scheme because of what they perceived as the red-tape involved. There does appear to be a case for an investigation into the extent to which licensing has raised standards and into how LAs assess whether their own schemes are effective in meeting stated objectives.

Institutional investment?

Successive governments have been convinced of the need to encourage more institutional investment into the PRS, to improve standards and to increase capacity. The last Government introduced its PRS initiative and this was followed by a Treasury consultation paper pointing to the need for institutional investment to supplement buy-to-let lending, particularly in a constrained lending market (HM Treasury, 2010). Since then the present Government has introduced a range of measures to encourage institutional investors including a £1 billion Build to Rent fund, and a £10 billion debt guarantee scheme (DCLG, 2014f).

Yet such investment remains elusive, in spite of some high-profile individual projects including a much publicised partnership between Kier and Kent County Council (Morby, 2013). Institutional investment is seen by some as a potential way of creating a stock of purpose-built rental units which might create the opportunity for better overall management and freeing up existing PRS stock for those who do not require such a “structured” environment.

Private landlords were asked whether there were signs of institutional investment activity in their localities. In general they were sceptical about the possibility of such investment:

“Corporate/institutional investors have steered clear because of the uncertainty [around welfare reform].” (PRS interviewee)

“I have not seen any growth in institutional investment and I do not think we will because it is simply not profitable enough for them.” (PRS interviewee)

Private landlords were aware of their ability to compete successfully with institutions because of their ability to keep costs down by discounting their own time/labour; a phenomenon noted by the Rugg Report in 2008 (Rugg & Rhodes, 2008). The one exception to this lack of investment noted by several landlords was institutional investment in the student rental market, where rents can be relatively high and which is particularly suitable for investment in purpose built blocks of units.

Insofar as students may be considered to be (temporarily at least) a low-income group, such investment may be encouraging and may ultimately free-up some traditional PRS accommodation for other groups such as under 35 singles. However, it is by no means clear that this investment has done any more than help keep up with increased demand generated by the expansion in university numbers. Also, one LA interviewee commented that rents on new purpose built student accommodation were often so high as to be only affordable to better-off overseas post-graduates. Both private landlords and local authorities were of the opinion that student rents were relatively high when compared to similar accommodation let to other groups.

This report has not found evidence that institutional investment in the PRS in the SE region is, in the short term at least, going to substantially increase the capacity of the PRS to house low income households, or to provide additional support for the more vulnerable households who make their homes in the sector.
Government intervention

Private landlords were asked what Central Government could do to improve the supply and suitability of accommodation for those on lower incomes. There was a significant amount of discussion about longer tenancies to offer tenants more security. Landlords were not against these in principle but wanted safeguards, particularly when tenancies broke down due to non-payment.

“I do not mind three year tenancies so long as I can get the tenant out if they do not pay their rent.” (PRS interviewee)

There was some concern that Government could move to limit the landlord’s right to take possession of properties, which it was felt would inhibit new investment. It was also pointed out that mortgage lenders usually required landlords to let on an Assured Shorthold Tenancy [AST] as a condition of obtaining a buy-to-let mortgage and that this would have to change if there was to be any reform to introduce longer tenancies. Several interviewees were keen to make clear the commitment of most landlords to keeping successful tenancies going as a means to maximise rental returns.

One landlord mentioned that Capital Gains Tax on rental properties should be eased in order to enable landlords to buy and sell properties without large penalties and thus to encourage landlords to manage their portfolios efficiently. There was a strong feeling amongst some interviewees that they had been left with an increasingly difficult job by a Government that they believe is not committed to housing those on lower incomes.

“HAs are becoming more and more selective about who they house; that is wrong… Government cannot assume that we can be the sole housing providers of the social housing that they are not providing.” (PRS interviewee)

The overall picture of the PRS that emerges from this research is of a sector that is expanding rapidly and which, by and large, offers reasonable standards to the large majority of its tenants. However, landlords themselves recognise that they do not have the resources to give full support to tenancies involving the most vulnerable, lowest income households. In addition, welfare reform in its different aspects has placed their commitment to housing households in receipt of benefits under increasing strain. Expenditure on Housing Benefit in the PRS compared to the social rented sector (£9.32 billion compared to £14.45 billion in 2013-14) demonstrates the importance of the sector for lower income households. Its relative importance is growing: in 2000-01 Housing Benefit expenditure in the PRS was 25.5% of the total. By 2013-14 the proportion had risen to 39.2% (DWP, 2014d). Policy makers will need to consider the implications of landlords drifting away from making provision for lower income households with various degrees of benefit dependency: as can be seen from later in this report, there is little likelihood that the affordable sector will be able to bridge the gap.

The affordable sector

Social housing: social rent and the Affordable Rent model

Although there has been an expansion in shared ownership development and in other intermediate tenures, the overwhelming proportion of homes within the affordable sector are social housing owned by HAs and LAs and comprising in the main, of homes let at traditional social rents but with a small but increasing percentage of homes for Affordable Rent [AR]. The latter homes have been developed under the Affordable Homes Programme [AHP] 2011-15 or, in greater numbers, as conversions of existing social rent properties to AR as part of the funding for that programme. In 2012-13 there were 273,404 units of general needs social rented housing in the SE region plus around 14,075 units of supported housing (HCA, 2013). There were 33,199 units of shared ownership in the region.

Spatial distribution of rents

It is useful to start this analysis by examining the spatial distribution of mean weekly rents for new tenants in traditional social rented properties. As can be seen in Map 9, these vary significantly across the region.

Rents are lowest in the eastern areas, including Kent, and along the eastern and southern coastal strip. They are highest in the southern London fringe areas and in the West of the region. These areas where rents are lower tend to correspond to those where house prices, private rents and median earnings are also lower.
Map 9: Mean weekly social rent for new tenants (2013-14)
Source: CORE 2013-14Q2

Map 10: Mean weekly AR for new tenants (2013-14)
Source: CORE 2013-14Q2

Note: data is not yet available for the full year 2013-14 but sufficient data exists for the year to Q2 to enable analysis to be undertaken.
If a similar distribution is shown for AR (see Map 10), the picture is more disturbing from the perspective of a low income household.

This starker picture is explained by the closer link between AR and market rents than for social rented housing, given the pressure from the HCA to achieve 80% of market rent where possible. Clearly, in relation to affordable rented housing there is significant pressure on lower income households to settle in the cheaper parts of the region unless their situation is mitigated by Housing Benefit and benefit dependency is not a consideration.

Rent levels: Affordable Rent

Analysis of AR levels across the area from the least expensive to the most expensive areas suggests that there has been little overall compression of rents in more expensive areas. This stands in contrast to London where earlier research by this author showed rents in Inner London as a lower percentage of a market rent than in Outer London; a result which HAs asserted was as a result of the need to avoid the effects of the benefit cap of £500 per week (Heywood, 2013). In fact AR in the region varies according to how expensive the area is in terms of market rents, suggesting that the benefit cap is less of a factor in rent setting in the SE (see Chart 24).

Where the cap did appear to have an impact was on the rents of larger properties in more expensive areas. Here the percentage of a market rent did reduce for larger properties in more expensive areas (see Chart 25).

Interviewed HAs confirmed that the benefit cap was a factor in respect of larger homes:

"Traditionally the key thing we hear from LAs is, "we want more family-sized homes" but with the cap it is often not viable". (HA interviewee)

"All areas significantly affected by the benefit cap." (HA interviewee)

"The overall benefit cap has changed the way we view four bed properties and has put us in a difficult position." (HA interviewee)

The same interviewee made it clear that households are being caught by the cap and that the situation will get worse if the cap stays at its current level and rents rise. Another interviewee claimed that their HA put a ceiling of £180 per week on rents for conversions in order to avoid the cap. The impact of the cap on new development will be examined later on.

Tenant work and benefit profile: social rent and Affordable Rent

While the relatively high level of worklessness and benefit-dependency in traditional social rented housing has long been recognized, there has been less certainty about AR. The HCA Affordable Homes Programme Framework made it clear that “Affordable Rent is a form of social housing” and that homes would be allocated in the same way as for traditional social rent (HCA, 2011). Nevertheless, some hopes persisted that AR allocations might produce a different profile of tenant with a higher proportion of working households. There was early recognition amongst HAs and commentators that AR, with its higher rents could cause problems through the impact of the Government’s welfare reform programme. There were specific fears that larger households would be caught by the benefit cap and that direct payment of rents under Universal Credit could cause high levels of arrears. It was hoped that local authorities might use their discretion to change allocation policies in relation to social housing and that this might have a particular impact on AR allocations, allowing a higher proportion of working households to gain access to these homes.

Early analysis of AR lettings in London and England by this author suggested that in fact this was not the case and that the profile of tenants in terms of whether they were working, their incomes and their dependency on Housing Benefit was substantially the same for AR and social renting (Heywood, 2013).

That analysis has been undertaken for the SE region, as shown in Chart 26. In terms of income, traditional social tenants and AR tenants have very similar incomes, even when tenants who are entirely benefit dependent are excluded.

While the income of tenants in new-build AR properties appears a little higher than for conversions, the overall picture for AR is of households whose entire household incomes are significantly lower than the median full-time earnings for individuals for the SE of £559.70.
Chart 24: Median AR by VOA market rent quartile areas and bedroom size
Source: CORE/VOA

Chart 25: Ratio of AR to market rent by area and bedroom size (2013-14)
Source: CORE/VOA
Chart 26: Median weekly income (excluding households known to be exclusively dependent on benefits)

Source: CORE 2013-14

Chart 27: Proportion of new tenants working part or full-time in the SE

Source: CORE 2013-14
In terms of working full and part-time the picture for AR and social renters is again similar.

Interestingly AR tenants in the SE are more likely to be working than social renters (which is different in London where the incidence of working is closer between the two groups). There is a rising trend towards working households amongst both groups, probably reflecting changed LA allocation policies (see Chart 27).

Although a modestly higher proportion of AR tenants are working than are social renters, they are more likely than social renters to be claiming Housing Benefit even when working.

Chart 28 illustrates the impact of putting low income working households into AR properties at significantly higher rents than traditional social rents. When non-working households are taken into account overall Housing Benefit dependency is very similar, but one must conclude that the effect of AR on the national Housing Benefit bill is substantial. What is also concerning is the inability of around a quarter of full-time workers and over 70% of part-time workers in AR properties to support themselves without recourse to Housing Benefit, as well as the implications that this will have in terms of work incentives — even taking into account the tapered formula of Universal Credit.

Overall, the profile of social rent and AR tenants is similar in terms of incomes, although AR tenants are slightly more likely to be working than traditional social renters. AR tenants are more likely to be dependent on Housing Benefit whether working full or part-time but Housing Benefit dependency for both social and AR tenants when working is significant.

A modest trend towards a higher proportion of working households was noted above in terms of both AR and social rent lettings. The following chart illustrates the extent to which the composition of households in social housing depends on local authority nominations.

Chart 29 demonstrates the importance of local authority referrals for both AR and social lettings but particularly in respect of AR, for both new lets and conversions/re-lets. Local authorities gained additional discretion to change their allocations policies under the Localism Act 2011. Since then there has been much discussion within LAs and

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Chart 28: Proportion of social renting or AR households working full or part-time in the SE and claiming Housing Benefit

Source: CORE 2012-13, 2013-14
many moves to change those policies, particularly in respect of setting stricter local residency eligibility criteria (or offering higher priority in respect of local residents) and offering higher priority to working households. The Government issued supplementary statutory guidance to assist the process in December 2013 (Wilson, 2014).

LA interviewees were asked whether they had changed, or were considering changing their allocations policies. All but two authorities had changed their policies and of these two, both were considering change. Those who had changed their policies had done so during the previous two years; in some cases changes had only come into force in 2014. All the changes focused on giving higher priority to local households but most had also given increased priority to working households.

Other groups whose priorities had increased included the armed forces and those volunteering within their communities.

The most visible effect of these changes had been a dramatic drop in the size of the local waiting list as households were removed through failure to meet local residency requirements. However, there was also a consensus that there would be some change in the socio-economic profile of tenants, although it was expected that these would be modest:

“Local connections are prioritised – two years settled in the community... Working households are also prioritised.” (LA interviewee)

“It has made a bit of a difference.” (LA interviewee)

“It will make a small difference- not a huge one.” (LA interviewee)

As has already been noted, the proportion of working households has been rising for both traditional social rent and AR lettings and it is reasonable to assume that this is due at least in part to changed allocation policies by local authorities. However, it is also clear that in most cases allocation policies have changed very recently so that it is unlikely that changes in the proportion of working households would be apparent earlier than 2012-13/2013-14 and indeed the CORE data for AR for England as a whole shows no significant change between 2011-12 and 2012-13 (Heywood, 2013). It appears that there are signs that new allocations policies are having some effect in respect of the proportion of social housing allocated to working households but it is too early to know how significant this effect will ultimately be.
Changes to LA allocation policies raise important questions in the context of where lower income households in the SE will live. If a higher proportion of lettings go to working households and to local households, which households will be displaced in a situation where the supply of social housing is limited? Interviewed LAs offered no data to enable early effects to be monitored and were in any case more concerned with achieving a smaller waiting list than precisely how the composition of social housing lettings would change. However, if the above CORE data is indicative of a significant shift towards working households then there must be at least a working supposition that benefit-dependent households will find it more difficult to access social housing, particularly if this involves moving from one LA area to another. If a greater number of these households cannot gain access to social housing there are several alternatives of which the most likely are:

- Continuing to stay with friends or relatives.
- Finding accommodation in the PRS.
- Presenting as homeless and going into bed and breakfast or hostel accommodation and ultimately end up in the PRS or perhaps social housing- although the latter possibility is becoming less likely (see section on homelessness to follow).

The consequences of these options would appear to be higher levels of overcrowding, greater pressure on the PRS to house the poorest workless households- which it is least equipped to support, and higher Housing Benefit costs for those in the PRS who would previously have been in social housing. There is an obvious and urgent need for Government and LAs themselves to assess the likely longer term effects and consequences of changing LA allocation policies if the risk of serious adverse consequences is to be avoided.
Rent, earnings and affordability

Social rent
There is limited point in undertaking a detailed analysis of the affordability of traditional social renting in the SE. There are several reasons for this:

- As noted above, the large majority of tenants are not earning and a higher proportion are workless than for AR.
- Social rents represent a relatively low percentage of market rents compared to AR and are significantly lower than lower quartile market rents.
- Social rents for equivalent properties show less variation between highest and lowest than do rents for AR properties because the link to market rents is less direct.
- As a percentage of even lower quartile earnings traditional social rents are comparatively very low. They are, by such measures affordable across the region.

The median traditional social rents in the SE region for a one bed and two bed home are £84.91 and £117.19 respectively. The highest and lowest one and two bedroom rents and the rents as a percentage of lower quartile incomes are set out below.

By the approach used here, social rents are affordable for most working households. Nevertheless, there is an incentive for mobile working households to move towards cheaper areas. However, recent research by Whitehead et al. offers a useful reminder that even traditional social rents will be unaffordable without recourse to Housing Benefit for a small proportion of working households in the South East and elsewhere (Whitehead, et al., 2014).

Affordable Rent
Affordable Rent is growing steadily as a percentage of the total social housing stock, as a result of new-build properties developed under the AHP but even more because of the conversions from social rent to AR that take place when properties fall vacant as an additional source of AHP funding.

Because of their relatively direct relationship to market rents, AR levels are more likely to show similar patterns of variation to those rents than to resemble the pattern for traditional social rent noted above. In fact rents vary widely as shown in Chart 30.

The lowest one bedroom rents are in Hastings at £320 per month and the highest are in Oxford at £632. In fact, AR levels show more variation between highest and lowest than do traditional social rents. The variation in rents is thus much larger than for traditional social rents, with the rent in Oxford almost double that in Hastings. The median one bedroom rent for the region is £478 per month which is 81% of an equivalent market rent. There is a noticeable spatial pattern, with the cheaper rents tending to be found in Kent, the east of the region and the coastal strip with higher rents being found in the West and nearer to London. In terms of affordability, the median SE rent at £478 per month represents 19.7% of median full-time earnings. The rent for Oxford

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<th>Table 3: Highest and lowest one bedroom rents as a % of lower quartile incomes (2013-14)</th>
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<td><strong>Median one bed rent (£)</strong></td>
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<td>SE region</td>
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<td>Eastbourne</td>
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<td>Elmbridge</td>
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<th>Table 4: Highest and lowest two bedroom rents as percentage of lower quartile incomes 2013-14</th>
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<td><strong>Median two bed rent (£)</strong></td>
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<td>Eastbourne</td>
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<td>Mid Sussex</td>
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(a) Elmbridge was the highest rent area for which sufficient data to provide a useful figure was available.
Chart 30: Monthly median rents for one bedroom AR home by LA (Q2, 2013-14)

Source: CORE 2013-14

Note: LAs where there were less than 5 AR lettings were eliminated from the calculation.

represents 27.3% of the median income; still affordable. The figure for Hastings is 17.9%. When compared to lower quartile earnings the result is more stretching. Overall, the percentage of lower quartile rent for this category is 27.8% of lower quartile earnings. The figure for Oxford is 37.1%; above the affordability threshold. Hastings scores 22.6%, within the threshold. Rents are by and large affordable for this category of housing but there are some exceptions and a mobile earner would have a significant incentive to move to cheaper areas other considerations being equal.

AR for two bedroom homes were also calculated by local authority area, highlighted in Chart 31.

The median two bedroom rent for the SE region is £579 which is equivalent to 78% of a market rent. Again, rent levels vary widely across the region with the difference between the highest and lowest rents significantly greater than for social rent homes. As might be expected the west of the region and the southern London fringe tends to have higher rents than the coastal strip and the east of the region including Kent. What is also interesting is that rents,
Chart 31: Median monthly AR for two bedroom homes by LA

Source: CORE 2013-14
Chart 32: Two bedroom AR as a % of median market two bedroom rent by LA

Source: CORE/VOA
is that rents, as a percentage of market rent, vary widely also.

Chart 32 shows that in almost half of the LAs in the region, rents are above 80% of a median market rent and in three LAs they are above 100%! (Although low numbers of properties may be partly responsible for the latter outcome). It is also interesting that the percentage of a market rent tends to be higher in the more “expensive” parts of the region and lower in the “cheaper” areas. This is not what one might expect from an affordability perspective and different to the situation in London where AR properties are usually a lower percentage of a market rent in more expensive areas (Heywood, 2013). The cause of AR moving closer to market rents in higher rent areas deserves further research.

What is clear is that rents for larger AR properties are lower as a proportion of a market rent than they are for smaller properties regardless of area. This is shown in Chart 33.

This suggests that HAs have been influenced by the level of the benefit cap and the desire to ensure that larger workless households are not affected. This depresses the rents of larger properties in relation to market rent. Interviewed HAs confirmed this in discussions of the impact of welfare changes on rents and on their development strategies.

In terms of affordability, Median two bedroom rents were calculated as a percentage of median full-time earnings by local authority area.

As might be expected, the overall percentage for the SE is 24% and all areas are affordable using the 35% threshold. It would indeed be an anomaly if “affordable” two bedroom rents were unaffordable for those on full-time median earnings. When rents are measured against local median incomes, there is no clear spatial distribution across the region.

As one might expect, affordability is more stretched if two bed AR levels are calculated against lower quartile FT earnings. This is shown in Chart 34.

Rents as a percentage of lower quartile incomes for the SE come out at 33.7%. However, in 27 LAs for which calculations could be made, the percentage was above the threshold of 35% of FT earnings with the highest percentage being for Brighton and Hove at 42.7%. It is concerning that “Affordable” Rents can be considered unaffordable by such a measure in such a high proportion of LA areas.

Overall, AR levels in the SE region are generally affordable for those on median earnings but are by no means affordable for those on lower quartile earnings. This matters in the context of the increasing proportion of working households housed in AR homes, since it implies that a

Chart 33: Ratio of AR to market rent by area and bedroom size
Source: CORE/VOA
Chart 34: Two bedroom median AR as a % of FT lower quartile earnings

Source: CORE/ASHE
significant proportion of working households will still be dependent on Housing Benefit. As noted earlier, the weekly income of SE region AR households not solely dependent on benefits is £320.30; significantly below the weekly lower quartile earning figure of £396.50 suggesting that in practice the position may be worse than the above exercise would imply.

Social housing and welfare reform

HA interviewees were asked about the impact of welfare reform on their tenants, on their own position as landlords and on their future development plans.

For HA interviewees the key welfare reforms were:

- Under-occupation rules, which apply directly to social housing tenants (unlike PRS tenants),
- The benefit cap,
- Universal Credit.

Under-occupation rules

The new under-occupation rules had affected all interviewed HAs in one way or another but ultimately it came down to the financial implications for tenants and, ultimately, for them as landlords:

“The consequences for AR are severe.”
(LA interviewee)

“Our risk is on the ongoing payment record of residents.” (LA interviewee)

Allocations policies had been tightened to prevent under-occupation going forward and stricter affordability criteria were being imposed. In addition, support was being offered to tenants wishing to downsize. One HA had relaxed its prohibition on tenants exchanging properties when there were rent arrears in circumstances where a move to a smaller property could help clear arrears over time. One HA claimed that tenants affected by under-occupation rule changes had a 7% rate of arrears compared to 4% for other tenants not affected by welfare reform.

Benefit cap

HA interviewees believed that only a limited number of tenants in the SE were currently affected by the cap. Nevertheless, it was clear that the cap had affected allocations and development practice (the lower rents relative to market rent achieved on larger AR properties can be seen in Chart 33, replicated below).

Chart 33: Ratio of AR to market rent by area and bedroom size

Source: CORE/VOA
We have pretty much given up building four and five bedroom homes and are concerned about where we will build three bedroom homes." (HA interviewee)

"The benefit cap has changed the way we view four bed properties and has put us in a difficult position." (HA interviewee)

"Traditionally the key thing we hear from LAs is, "we want more family-sized homes" but with the cap it is often not viable". (HA interviewee)

"Our development strategy is in favour of working households [as a result of the cap and Universal Credit]." (HA interviewee)

Another HA commented that although the LHA remained, the upper limit for new-build AR homes conversions were capped at a maximum of £180 per week to avoid the benefit cap.

In was clear that for these HAs, the cap has had a significant impact in reducing the number of larger homes that they are prepared to build and that this was a direct result of the interaction of the benefit cap with the higher rents required for AR homes. One HA was clear that under AR, the benefit cap militates against building anything above three bedrooms: "They just don't work."

Shared ownership: an intermediate option

There are around 33,199 shared ownership units in the SE region. This accounts for 10.4% of the total affordable sector stock in the SE region. While shared ownership is a relatively small tenure in terms of numbers of homes, it is worth serious consideration as it is becoming a more significant component of HA development programmes (see below). Importantly, this section also demonstrates that shared ownership is used to house those on below median earnings.

Shared ownership is a permanent tenure for the majority. In the SE, 645 shared owners staircased to 100% ownership in 2012-13, representing a rate of 1.9% of the total stock. This is consistent with the national picture which suggests that staircasing rates have declined over the past decade, probably as a result of stretched affordability. Another factor will be the upper limit of £60,000 pa. of household income imposed on those wishing to gain access to shared ownership and the actual median levels of household income of purchasers: £37,000 pa. for the SE. For many of these purchasers, the original 25-50% share will have exhausted their financial capacity, making the increase in income necessary to achieve 100% ownership unattainable in practice.

There were 2155 shared ownership sales in the SE in 2012-13, compared to 2,855 in London and 9714 across England (CORE, 2012). Of these sales, the majority were 1st sales (ie. new-build properties) rather than resales of second-hand properties.

It is useful to gain an impression of where shared ownership homes are being developed in the SE region. In order to obtain a distribution of first sales by local authority area that is not too distorted by particular developments, the total first sales for 2010-11, 2011-12, 2012-13 and 2013-14 were added and broken down by local authority area and shown in Chart 35.
Chart 35: Cumulative shared ownership first sales for SE region by LA

Source: CORE 2010-11, 2011-12, 2012-13, 2013-14 Q2
It is difficult to see any pattern to the distribution of development. One is left with the impression that the highly unequal distribution may reflect the availability of suitable development sites where land values are sufficient to support viable development, but other factors could well be at play also. The distribution of development/sales does not appear to reflect the distribution of those on lower incomes, but given the relatively small numbers of shared ownership sales each year and the potentially high demand, the distribution of sales across the region is probably not of crucial importance since the criteria for eligibility to purchase shared ownership serve to limit the upper income levels of potential purchasers in any case.

In terms of HA providers, the top ten developers in 2012-13 judged on the number of first sales are set out below.

Table 5: Total shared ownership first sales by owning organisation (2012-13)

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<thead>
<tr>
<th>Organisation</th>
<th>Sales</th>
</tr>
</thead>
<tbody>
<tr>
<td>Moat</td>
<td>187</td>
</tr>
<tr>
<td>Catalyst Housing</td>
<td>162</td>
</tr>
<tr>
<td>Sovereign</td>
<td>149</td>
</tr>
<tr>
<td>Hyde Group</td>
<td>142</td>
</tr>
<tr>
<td>Guinness South</td>
<td>141</td>
</tr>
<tr>
<td>Swaythling HS</td>
<td>123</td>
</tr>
<tr>
<td>Thames Valley HA</td>
<td>106</td>
</tr>
<tr>
<td>Sentinel HA</td>
<td>99</td>
</tr>
<tr>
<td>Thames Valley Charitable HA</td>
<td>95</td>
</tr>
<tr>
<td>Orbit Group</td>
<td>86</td>
</tr>
</tbody>
</table>

Source: CORE 2012-13

Shared ownership is thus a tenure suited to working rather than workless households; an important factor when considering the overall balance of affordable housing provision in the SE.

The median income for shared owner head of households in the SE is £22,626. This is very close to, but slightly lower than the national median of £22,676. It may be that the latter figure reflects the relatively high proportion of shared ownership sales in London, where incomes and prices are higher. In over 50% of cases, purchasing households have only one income but where there are two incomes, the overall median household income for the SE is £37,000. It is interesting to note that the head of household income of £22,626 is only a little higher than the lower quartile full-time earnings figure for the SE region (£20,618), suggesting that significant numbers of households on lower quartile earnings are gaining access to shared ownership.

The average deposit paid amounted to £17,119 which equates to 10% of the market value of a purchased shared ownership home. The average percentage of equity purchased was 42%.

Affordability of shared ownership

To work out the typical cost of purchasing a shared ownership property of median market value, one must work out both the mortgage repayment cost of buying an average equity stake of 42% and the rental cost on the share retained by the HA. The chosen mortgage interest rate for purposes of calculation is 4% and the mortgage term 25 years. The average deposit (£17,119) has been deducted before mortgage costs are calculated. The rent on the retained share is calculated at 2.75% of the retained equity; the maximum permitted by the HCA. In addition, shared owners normally pay a service charge but this has been omitted for this purpose since a full home owner would pay for some of the components of the service charge (such as buildings insurance) by private arrangement.

Table 6: Monthly cost of purchasing a shared ownership property of value £170,000 with 42% initial equity stake

<table>
<thead>
<tr>
<th>Item</th>
<th>Monthly cost</th>
</tr>
</thead>
<tbody>
<tr>
<td>Monthly cost of 25 year repayment mortgage of £54,281 @ 4% (assumes deposit of £17,119)</td>
<td>£287</td>
</tr>
<tr>
<td>Monthly cost of rent on £98,600 retained equity @ 2.75%</td>
<td>£226</td>
</tr>
<tr>
<td>Total monthly cost</td>
<td>£513</td>
</tr>
</tbody>
</table>
| Total monthly cost as percentage of median head of household shared owner income of £1,886 | 27.2%
A large majority of sales are for one or two bedroom homes, with very few four or five bedroom homes (see Chart 36).

Shared owner purchasers normally have to obtain a mortgage in order to buy their home. Therefore, it is not surprising that the majority are working full-time and that very few are neither working or retired (see Chart 37).

As might be expected given the relatively high house prices in the SE, the median value of shared ownership properties sold was relatively high at £170,000 (see Chart 38).
By way of comparison, the cost of buying a home worth £170,000 with a deposit of £17,119 on a 25 year repayment mortgage at 4% would be:

<table>
<thead>
<tr>
<th>Item</th>
<th>Monthly cost</th>
</tr>
</thead>
<tbody>
<tr>
<td>Monthly cost of 25 year repayment mortgage of £152,881 @ 4% (assumes deposit of £17,119)</td>
<td>£806</td>
</tr>
<tr>
<td>Total monthly cost as percentage of median head of household shared owner income of £1,886</td>
<td>42.7%</td>
</tr>
</tbody>
</table>

Thus the initial monthly cost of purchasing a property using shared ownership with a 42% equity stake is significantly less than the cost of buying the same property with a mortgage. Indeed the cost to the shared owner of 27.2% of income is well below the affordability threshold of 35% whereas the monthly cost for the full owner is well above the threshold at 42.7%. For a household with an income equivalent to lower quartile FT earnings the percentage of income would be 29.9%.

It should be noted in passing that the monthly costs to the shared owner will rise year-on-year because the rental component is index linked to inflation using the formula RPI plus 0.5%\(^21\). This means that as the rental component increases, the monthly costs of shared ownership will gradually approach those of full ownership. One HA interviewee suggested that shared ownership usually became more expensive than equivalent full ownership within a decade of purchase, but clearly much would depend on interest rates. A way to avoid this situation for shared owners would be to staircase but this does not seem to be an option taken up by the majority\(^22\).

There are other factors at play in determining whether shared ownership is a more accessible option. In the above example that shared owner would need to obtain a mortgage with a loan to value [LTV] of 76% and a loan to income ratio of 2.4 times annual income. These are well within normal lending parameters even at the present time. However, the full owner of the same property would be seeking a mortgage with an LTV of 90% and a loan to income ratio of 6.8. Such a mortgage would be hard to find for an individual with the median income of a shared ownership purchaser unless they were able to gain access to the Government’s Help to Buy loan guarantee scheme.

A significant drawback for lower income households in relationship to shared ownership is the need for a deposit. A head of household on the lower quartile full-time earnings saving 5% of their income per year would take around 15 years to save a deposit of £17,119, the typical deposit offered by a successful shared owner in the SE region. Clearly, two income households would find the position easier and some purchasers would require a lower deposit. Nevertheless, the deposit is inevitably a barrier for a lower income household deciding whether to enter shared ownership or to rent.

Shared ownership is an accessible option for many on below median earnings in terms of monthly payments, including many of those on lower quartile incomes, although the deposit will be a barrier for many. However, the supply of shared ownership is very limited compared to other tenures. While there are signs that new supply of shared ownership properties is increasing, over the longer term, supply will need to be further increased if it is to become a practical option for many of those for whom it is suitable. Scaling up the development of shared ownership homes will require commitment from the HCA and ultimately from government. Indeed, scaling up could encourage additional mortgage lenders to provide mortgages for shared ownership properties because it may become more viable to put new back-office systems in place and to promote the product. However, the increase in the scale of development would have to be substantial and be sustained over a significant period if more lenders were to be attracted to the tenure.

### Affordable development: at the crossroads?

Although there is some non-grant funded affordable development, the focus of affordable development outside London remains the Affordable Homes Programme [AHP]. There has been speculation as to whether the HCA would be able to attract enough suitable bids for the 2015-18 AHP or whether the programme would be under-bid. This speculation, which also embraced the London...
Programme focused on a number of issues:

- Whether HAs would wish to replace diminished grant with additional borrowing for a further programme.
- Whether AR development would be considered as too high risk, or as unviable, in the context of welfare reform and diminished grant. Such speculation was applied particularly to larger AR homes.
- Whether HAs would extend their commercial, non-grant aided programmes as contributing more effectively to financial viability in a situation where the grant for AR was low and the risks high.

The national picture

The successful bids for the AHP 2015-18 were published in July 2014 (HCA, 22 July 2014). When compared with the AHP 2011-15 the contrast is striking:

Table 7: Total successful bids expressed as housing units under AHP 2011-15

<table>
<thead>
<tr>
<th></th>
<th>Number of units</th>
</tr>
</thead>
<tbody>
<tr>
<td>AR units</td>
<td>57,330</td>
</tr>
<tr>
<td>Affordable home ownership units</td>
<td>11,348</td>
</tr>
<tr>
<td>Total units</td>
<td>68,678</td>
</tr>
</tbody>
</table>

Table 8: Total successful bids expressed as housing units under AHP 2015-18

<table>
<thead>
<tr>
<th></th>
<th>Number of units</th>
</tr>
</thead>
<tbody>
<tr>
<td>Grant funded units</td>
<td>37,685</td>
</tr>
<tr>
<td>Nil-grant units</td>
<td>6,136</td>
</tr>
<tr>
<td>Total units</td>
<td>43,821</td>
</tr>
</tbody>
</table>

Sources close to the HCA indicate that “grant funded” and “nil-grant” do correspond to the “Affordable Rent” and “affordable home ownership” categories.

Nationally, the 2015-18 programme as announced is significantly smaller than its predecessor. This has led some commentators to conclude that the 2015-18 programme was underbid, particularly as only around 50% of funds have been allocated and as the GLA programme has also not allocated a high proportion of its funds. The HCA press statement indicates that the remaining funds have been held back for “Continuous Market Engagement” and does not suggest that there was a lack of suitable bids. It describes the list of successful bidders as “A significant initial contribution to the Government’s ambition for 165,000 affordable homes by March 2018” (HCA, 22 July 2014). This may be an adequate explanation for the low level of allocation but the HCA 2015-18 prospectus suggests that the original intention was:

“Subject to receiving sufficient good quality bids which meet our assessment criteria, it is our intervention to allocate up to a maximum of 75% of the capital grant funding available at the outset of the programme. We intend to hold back around 25% of the capital grant available for future market engagement.” (HCA, 2014)

It has been suggested that the HCA were reluctant to allocate funds to “indicative projects” rather than “firm schemes” as happened under 2011-15. There may be some truth in this but again, the HCA 2015-18 prospectus allows established providers to submit indicative bids.

At this stage it appears likely that there was a lack of suitable bids for 2015-18 and this view is supported by comments of HAs interviewed for this report about their intentions.

The picture in the South East

The picture in the SE region is difficult to gauge on the basis of the limited information currently available. Not all bids by SE-based HAs are for homes to be built in the SE, and conversely homes are to be built in the SE by HAs whose base is elsewhere. However, to gain an impression of the pattern of bidding for the region, the bids of the SE-based CASE group of HAs (excluding those who did not bid in both rounds) were analysed, to compare their 2011-15 and 2015-18 bids.
The number of units bid for by the above HAs for the 2015-18 Programme has dropped from over 9,000 to under 3,000 (see Chart 39). In addition, it appears that there has been a significant swing away from AR development towards affordable home ownership, which means, in practice, mainly towards shared ownership.

It was reported in *Inside Housing* that LAs had made many more successful bids in 2015-18 (53 bids) than in 2011-15 (19 bids) (Apps, 29 July 2014). Analysis of the two programmes suggests that for the SE region, successful bids from LAs are significantly reduced in terms of both the number of bids and units as shown in Chart 40.
The above picture for 2015-18 is consistent with comments by interviewed LAs. While the majority of LAs had either implemented, or were planning to implement a development programme, this was often to be over a long timescale, numbers were very modest and some of the programmes were not grant aided. LAs did not comment specifically on the size of their bids for the AHP programmes (as grant was clearly less important than for HAs), one must make inferences about the reasons for reduced bids in the latest programme from the discussions held with SE HAs. Overall, it is clear the LA affordable grant-funded development is a very small proportion of the total for the SE and that development continues, in the main, to be driven by HAs. While LA AHP units are reduced in numbers by almost half, the reduction is not as great as that noted in relation to the CASE HA bidders. On the basis of information currently available, it appears that the SE region has seen a larger downturn in development levels than the country as whole.

Two factors would seem relevant in accounting for the relatively large downturn. The first is the benefit cap. Outside of London (which has its own development programme), the SE is the region where the cap is most likely to bite in relation to AR properties because market rents are relatively high. The impact of the cap on HA development in the region in reducing the number of new three and four-plus bedroom homes was highlighted by HA interviews and noted in an earlier section of the report. Another possible factor is the high land/property prices in the SE region; second only to London. In a low grant environment the funding and market risks faced by developing HAs are likely to be high relative to other regions and this may have had an impact on the numbers of AR homes, and at least partly account for the apparent shift towards the development of shared ownership and other “commercial” products.

Interviewees commented that:

“In areas where land prices are low it is easier to secure opportunities but it is as viable to develop in high value areas”. (HA interviewee)

“I used to feel we can work in less prosperous locations but now we seem to be developing in prosperous places.” (HA interviewee)

Developing in areas where land values are higher enabled better returns in terms of market rents and shared ownership prices could be higher. However, an interviewee noted that there is a ceiling on AR levels on affordability grounds, which can undermine its viability where land values are high.

An HA with a strong commitment to shared ownership commented that they were still committed to AR and had a bid in with the HCA but remarked that “we are not pushing that hard.” Another interviewee stated that a number of other developing HAs had cut back on AR development and that some had withdrawn from such development altogether, preferring to focus on more commercial development.

Another HA confirmed that:

“We are building more commercial product than we did before.”

This included both properties for open market sale and for market renting.

HA interviewees were clear that in a higher risk operating environment considerations of housing need had to be underpinned and shaped by considerations of commercial viability:

“It is the former [commercial viability]. As much as there is a nod to housing need the programme has to stack up from a cross-subsidy perspective.” (HA interviewee)

“After that [housing need] it moves over to funding and viability… on market led schemes it is just money – we might even sell the affordable element to someone else.” (HA interviewee)

HAs saw themselves as having to compete with commercial developers for land and as having to maintain their viability and efficiency in order to maximise the opportunities to cross-subsidise AR housing. The lack of grant had exacerbated this situation. For some the logical step was to increase the proportion of shared ownership, open market sale and to a lesser extent, market renting within their programmes in order to minimise the risks and maximise returns. The impact of the cap has been referred to above, but interviewees were also very aware of the risks to their cash flow created by under-occupation rules and (potentially) by Universal Credit. The impact of these aspects of welfare
reform in creating a more cautious development climate, particularly in relation to AR, should not be underrated.

Overall, the feedback from HA interviewees is consistent with the available data on the 2015-18 AHP programme. It implies a smaller development programme with a shift away from AR (particularly in respect of larger homes) towards “commercial” product, predominantly shared ownership, which is capable of generating a surplus and which is relatively free from the risks associated with low grant levels and welfare reform. It would appear that cutbacks in development levels also apply to the LA sector.

The implications of such a shift for those on lower incomes are significant. For those able to gain access to shared ownership; broadly those on lower quartile incomes and above with the ability to raise a deposit, the picture may improve slightly in terms of new supply, although development is likely to be more concentrated in areas with higher land values. With the tendency of those on lower incomes to live in the areas of lower land values (the east, Kent and the coastal strip) this may create a situation where commercial imperatives will tend to place such development away from areas where the need is greatest. There will be some modest increase in the overall supply of good-quality homes for market rent, which will benefit particularly working households on lower incomes. The real losers will be workless households on the lowest incomes, who will see new supply cut back, adding to the problems already created for this group by welfare reform and changes in LA allocation policies.

This study has raised some difficult questions: much more work needs to be done to confirm new trends in affordable development in the SE region and their implications for those on below-median incomes, particularly the poorest and workless households. Nevertheless, the picture is not wholly bleak; there are many interesting examples of solution-led innovative development and regeneration projects.

**Government intervention**

Affordable sector interviewees were asked how Government could best act to improve the supply and suitability of accommodation for those on lower incomes. There were, predictably a wide range of responses but certain themes came through with a high degree of consistency.

The most common request was for government to move away from revenue funding of new affordable development via Housing Benefit and return to higher levels of grant. There was a widespread perception that the Government had forgotten that provision of homes at sub-market rents required a subsidy:

“Capital subsidy remains a much more efficient way of subsidising development.” (HA interviewee)

“If you are going to suppress both capital subsidy [grant] and personal subsidy [HB] it is not going to work.” (LA interviewee)

“You can’t have subsidised housing without subsidy.” (HA interviewee)

“I think a revenue funded model [for affordable development] works in theory but in reality has culled the supply of affordable housing.” (HA interviewee)

Interviewees were also clear that AR was not in their view viable or sustainable as means of development, and that it did not produce rents that were affordable:

“I think that Affordable Rent and cross-subsidy from re-lets is very short termist [as an approach].” (HA interviewee)

“Affordable Rent at 80% of market rent is not a long-term sustainable position.” (HA interviewee)

“My key message is around the development programme – do not push AR as much. If we give more grant it will lower benefit dependency – give more grant at the beginning.” (LA interviewee)

The RtB was a widespread concern amongst interviewees. It was felt that it eroded affordable stock that was much needed without adequate provision for replacement.

“Reduce the Right to Buy discount again.” (LA interviewee)

“End the sale of council houses.” (LA interviewee)
The other widespread concern was security of tenure and stability of rent levels for households in the PRS:

“We think rent control should be introduced in the PRS with five year leases and rent increases in line with the CPI.” (LA interviewee)

“The one thing we feel would be incredibly beneficial is to stabilise the PRS market … introduce longer tenancies and try to stabilise the rents.”

The above concerns surfaced time and again in interviews with HAs and/or LAs. They are not new; these issues have been raised before by commentators, practitioners and politicians. However, what is striking is that they have not gone away as concerns. They are worth further consideration.
Homelessness has been rising in England from 2010 after a period during which it fell steeply. The numbers of households accepted by local authorities as homeless and in priority need stood at 52,270 in 2013-14. While the rate of homelessness in the SE region is lower than for England as a whole, the region has also seen a rising trend with the number of households accepted as homeless and in priority need rising from 4,520 in 2010-11 to 5,896 in 2013-14; an increase of 30.4%.

Homelessness is unevenly distributed across the SE region as it is across the country as a whole. It is clear from DCLG data that the levels of homelessness in the SE do not follow the spatial patterns of distribution of other lower income households. In fact, some of the areas where lower income households are more concentrated such as East Kent and some coastal areas have the lowest levels of homelessness and so also do some of the rural areas in the west of the region. Homelessness appears highest in proximity to the capital, in

Chart 41: Homeless households in temporary accommodation in the SE region (at the end of each quarter)
Source: DCLG

![Chart 41: Homeless households in temporary accommodation in the SE region (at the end of each quarter)](chart41.png)
Oxford, in Brighton and in certain other urban and semi-urban areas where house prices and rents are high.

There are significant levels of households in temporary accommodation in the SE as shown in Chart 41.

Around 48% of these households are housed in the private sector; as seen in Chart 42.

There was a major shift away from using HA and LA stock for temporary accommodation over the previous decade; in Q1 2003 for instance, only 30% of households were housed temporarily in the private sector.

LA interviewees were asked about how they discharged their homelessness duties in terms of the type of accommodation used and its location.

Chart 42: % of households in temporary accommodation in the SE (Q2, 2012)

Source: DCLG23

Note: Q2 2012 is the last date for which such data was published in reasonably accessible form for the SE region.
A number of LAs used their own accommodation or that of local HAs but there was clearly a trend to make more use of the PRS:

“Usually it is into the social rented sector still but we are beginning to discharge our duty into the PRS.” (LA interviewee)

“We do not discharge our duty directly into the PRS – we might in the future.” (LA interviewee)

“We look at private rented accommodation more than in the past but it is becoming more difficult [because landlords are less willing to get involved with the LHA].”

“We have long-term agreements with private landlords… we have hostels as well but they tend to be for people with additional issues.”

It was still usual to discharge the obligation within the local authority, although there were some authorities who sought accommodation elsewhere in “cheaper” parts of the region. This appeared to be more common when bed and breakfast accommodation was used.

A phenomenon that has received considerable press attention is that of London boroughs “shipping out” those in priority housing need to cheaper areas outside the capital; sometimes as far away as the West Midlands and the coastal towns (such as Hastings) of the South East. London boroughs are reported to have made 1918 such placements since April 2012 (Inside Housing, 18 July 2014). According to London Councils, placements by London boroughs outside London amount to approximately [LTV] 350 households per quarter. LAs were asked about whether they were aware of their authority being used as a repository for households from other parts of the country. A number of LAs were aware that they were being used in this way, and these LAs were usually, but not always, in the cheaper parts of the region for housing costs.

“It is certainly a feeling we are getting… and more local inward migration… from other parts of [the country].” (LA interviewee)

Disturbingly, it does not appear that it is normal practice for authorities “shipping out” households to inform the receiving authorities. Only one authority had been approached by one other wishing to send people to their area; in all other cases the response was along the lines of “they do not tell us” (LA interviewee).

LAs were not happy with the situation. In one case a London LA had made an arrangement with a private landlord who the interviewee described as “dodgy” without seeking advice first. LAs were concerned about the increased pressure on services the incomers would create and the political implications of being seen to use resources on households from elsewhere.

“The problem is it creates additional social care needs and no funding.” (LA interviewee)

“We are vigorous if councils try to fob us off [with people].” (LA interviewee)

There was some concern about the impact on the households themselves. One SE region LA interviewee who admitted shipping out households as far afield as Swansea and Birmingham described the impact as “quite negative really”. There had been over 50 appeals to this authority in respect of such decisions on grounds of losing local connections and/or support networks. Another HA interviewee was concerned that these households tended to be sent to parts of the SE which were cheaper, at least in part, because local employment prospects were poor and transport infrastructure inadequate.

With local authorities experiencing unparalleled austerity it is perhaps not surprising that some should seek to save money by “shipping out”. However, there are profound negative consequences attached to this expedient, most of which do not fall on the LA undertaking the shipping. Many of those in acute housing need are likely to be workless and/or will have other vulnerabilities. To ship them to areas where their chances of finding work may be diminished and where their community and family support networks may be out of reach smacks of irresponsibility.
To fail to inform the local authority that will have to attempt to provide support and assistance is worse still. If welfare is about helping households to re-build their lives and to become successfully self-sustaining, then “shipping out”, as currently practiced, is a travesty. It is vital that the Government acts to ascertain the extent of these practices as well as their effects on the households concerned and on receiving local authorities. In addition, Government must act decisively to prevent further abuse.

Homelessness, and the way some LAs are discharging their homelessness obligations adds the final and perhaps the saddest dimension to the question of where those on lower incomes are living and will live in the SE region. It would seem that there is likely to be an increased concentration of those with priority housing needs in the parts of the region where rents, and particularly private rents, are lower. These households will be increasingly housed in those areas – the east, Kent, the coastal towns – where those on below median incomes are already more concentrated.
Conclusions and recommendations

There are very significant geographical variations in house prices and in both market and “Affordable” Rents. Those on below median incomes are living in higher concentrations in the east of the region, in Kent, in the towns that lie along the east and south coasts and at the furthest extremes from London. While it is inevitable that the affordability of housing will play a significant part in the choice as to where one will live it would be unfortunate if affordability of particular towns or areas became the overriding criterion.

In spite of the relative affluence of the SE region as a whole, all is not well for those on lower incomes who attempt to make their homes there. Along with the country as a whole, the SE is experiencing a falling rate of home ownership which inevitably impacts hardest on those with relatively low incomes. The PRS is expanding and filling the vacuum left by poorer access to home ownership and the inadequate supply of affordable housing.

For some, the PRS provides an opportunity to rent a good quality home that serves their needs. However, for those on the lowest incomes and with various vulnerabilities, the PRS simply does not have the resources and support mechanisms traditionally associated with social housing. Indeed there are signs that PRS landlords may be less willing to house such tenants in the wake of the Government’s welfare reform measures. This is happening at a time when the affordable sector is changing its focus towards working households who can afford to rent in the post-welfare reform environment or who can afford shared ownership. While these developments are largely a consequence of Government policies, they risk leaving a gap in provision for those workless and vulnerable households who have traditionally used the sector.

It may not yet be a case of “no room at the inn” in the SE but for an increasing number, the “inn” is becoming overcrowded, too expensive and far away from family, community and employment prospects.

The emerging picture

In spite of high average per-capita incomes, low unemployment and other visible signs of affluence, the SE region has real deprivation, poverty and homelessness. While affluence is reflected in high house prices and rents, those indicators of relatively high housing costs cause genuine hardship and difficult choices for those on below median incomes. This report has identified:

- A concentration of those on lower incomes in parts of the region where prices and rents are lower and where job opportunities, services and amenities may not always be adequate.
- Falling home ownership and acute problems of affordability for lower income would-be home owners.
• A rapidly expanding PRS which is having to adjust to housing an increasing proportion of poor and benefit-dependent households.

• An affordable housing sector, housing significant numbers of those on the lowest incomes but constrained in terms of new supply, and struggling to adjust positively to a low-grant environment in which “affordable” housing at higher rents interacts with welfare reform to produce perverse results.

• Increasingly unaffordable homes for “Affordable” Rent, which as a tenure, is struggling to balance higher rents with some of the impacts of welfare reform, such as the benefit cap.

• A reduction in development under the 2015-18 Affordable Homes Programme, which is underbid nationally compared to the 2011-15 programme.

• A significant and rising level of homelessness and acute housing need that is becoming more concentrated in the parts of the region where prices and rents are lowest, as some local authorities discharge their obligations outside their own areas. Spatial distribution of those on lower incomes.

Analysis was undertaken of the spatial distribution of lower income households, benefit-dependent households, the economically inactive and those suffering both multiple and housing-related deprivation. This suggests that those on lower incomes tend to be concentrated in the east of the region, Kent, the towns along the eastern and southern coastal strips and those areas furthest from London, with the more affluent tending to live in the areas closer to the capital, in rural areas and to the west of the region. There are signs that this situation is becoming more polarised. There are a number of issues raised by this phenomenon:

• Homes in these “cheaper” areas are not always more affordable for those who actually live in them since incomes tend to be relatively low in these parts of the region. However, they offer a gravitational pull to those on lower incomes who are mobile.

• The Index of Multiple Deprivation suggests that many of those living in these “cheaper” areas are relatively deprived in terms of general amenities and housing-related standards. The research indicated acute pressure on services in these areas with employment opportunities and access to transport more limited.

• LAs are not better resourced to tackle the problems that housing a greater proportion of those on low incomes brings.
There is evidence that the spatial polarisation of households is leading to less sustainable communities, as those on lower incomes become more concentrated in certain areas and the impact this will have on social cohesion.

**Recommendation 1**

HAs are increasingly investing in market activities to cross-subsidise social activities, but are doing so within a heavily constrained regulatory environment. HAs must be given broader control over cross-subsidy, allowing the development of additional social and Affordable stock in areas where the greatest need exists. This would also encourage social landlords to develop products aimed at low income earners to take the pressure off the PRS, and for higher income earners to promote cross-subsidy. The necessary control could be achieved through changes to the regulatory system to ensure that it does not unduly restrict measured and properly-managed risk taken by HAs to support the delivery of additional stock.

**The South East: changing housing markets**

While at 69.5%, the rate of home ownership remains higher in the SE than in any other region except the South West, the balance of tenures in the SE is shifting away from home ownership as it is nationally. This is for a complex set of reasons of which deteriorating affordability over many years is probably the most significant. The PRS is growing rapidly at the expense of home ownership but also at the expense of the affordable sector.

Within the affordable sector there has been a major shift in the balance of stock between LAs and HAs. In spite of an upturn in the level of LA new development in the past two or three years, an upsurge in RtB sales following the introduction of enhanced discounts by the Government in 2012, means that LAs remain net losers of housing stock. Further increases in discounts and a reduction in the qualifying period for RtB in the pipeline, suggests that the haemorrhage of LA stock will become larger before it subsides. LAs and HAs have increased use of local HAs and the PRS to house low income households. LAs were concerned that ex RtB stock was being transferred into the PRS and was often being rented out at higher rents and were attracting higher levels of Housing Benefit.

**Recommendation 2**

There is an urgent need for the Government to reconsider its current policy of expanding RtB. It is clear that RtB sales have always exceeded the rate of replacement in the SE region, and the shortfall appears to be worsening in spite of a commitment to one-for-one replacement. Funds should be diverted away from RtB and into an expanded programme of shared ownership. Shared ownership can be used to assist households into home ownership, but has proven to be a far more cost effective use of taxpayers’ money. Shared ownership allows for the recycling of grant at the point of staircasing and at eventual full sale.

**Household projections and housing supply**

According to household projections, the SE region requires 67,000 new homes to be completed each year over the next decade simply to keep up with the growth in the number of households. The shortfall in the SE is significantly worse than for England as a whole with completions across all tenures totaling only 19,130 homes in 2013-14.

There has been a downward trend in completions across both the private and affordable sectors since 2007-08. At present it appears that affordable completions are more concentrated in areas of lower prices and rents. It is not clear whether this will continue in the future as the imperative to focus on viability and to develop more “commercial product” becomes stronger amongst HAs. This dramatic level of under-supply in the SE suggests that prices and rents will continue to rise rapidly and impact on the costs of gaining access to AR and shared ownership. Homelessness has been rising in the region with the risk of increased overcrowding and even outward migration from the region as the formation of new households is inhibited by constrained access to housing.
Recommendation 3
The housing shortfall in new supply is worse in the SE than across the country as a whole. The HCA should consider the position of the SE in making decisions about grant allocation and other support to promote affordable housing. In particular, homelessness and overcrowding are areas that will need specific support in the short-term, in order to prevent more serious consequences in the long-term.

Homeownership: a receding future for lower income households?
Nationally it has been calculated that approximately 54% of the poor are homeowners. Around 60% of low-to-middle earner working households are homeowners, and 16% of those in the bottom income quintile. Given the relatively high level of home ownership in the SE it is reasonable to conclude that home ownership is still the most significant tenure for those on below median incomes.

The level of home ownership is falling so it is likely that this will gradually change over time as the movement of households from home ownership into the PRS continues.

The principle reason for falling levels of home ownership in the SE is poor and deteriorating affordability. Significant parts of the region, particularly those areas closest to London are unaffordable even for those on median incomes in terms of monthly housing costs and the challenge of saving for a deposit is formidable in a more constrained lending market. The position of those on lower quartile incomes is increasingly more difficult as lower quartile house prices in the SE region continue to rise faster than in England as a whole.

It is not surprising that the most affordable areas for those on lower incomes are the “cheaper” areas where concentrations of those on lower incomes have already been noted. The most affordable areas include Portsmouth, Southampton, Medway, and Milton Keynes. A gradual congregation of lower income households in the cheaper areas is likely.

Many lower income mortgaged home owners will already be financially strained and as mortgage interest rates rise it is likely that a proportion of these will find home ownership unaffordable and will drift into the PRS, voluntarily or as a result of mortgage default.

Recommendation 4
An urgent expansion of shared ownership across the SE is needed, not only to boost supply, but also to take pressure off other housing tenures. The DCLG and the HCA should also encourage the investigation and development of alternative tenures, including intermediate tenures and other forms of low cost home ownership.

Growth and diversity: the private rented sector
The PRS has expanded to around 700,000 homes in the SE region. Overall, it offers lower entry costs than home ownership and greater flexibility to stay or leave one’s home. While the profile of a typical tenant household is that of a younger working household, it is clear from interviews with both private landlords and LAs that a greater proportion of benefit-dependent households and households with vulnerabilities of various kinds are finding a home in the PRS.

Affordability
Single room accommodation for those on median earnings is reasonably affordable across the region and households seeking two bedroom accommodation on one income equivalent to median earnings would find accommodation in most areas. However, for those on lower quartile incomes the position is more difficult as lower quartile rents are a higher proportion of lower quartile incomes across all bedroom sizes. Households earning lower quartile incomes would find themselves requiring Housing Benefit in many parts of the region, particularly when seeking two bedroom accommodation with one income and could be under pressure to move to cheaper areas.
Impact of welfare reform and the LHA on the PRS

While welfare benefit reform is less important to private landlords than to social landlords it is clear that welfare reform is having, and will continue to have, an impact on private landlord behaviour and on the lives of tenants in the PRS.

The evidence suggests that PRS landlords are becoming less willing to let to households who depend on Housing Benefit. If there is a significant shift by landlords away from these low income households, the consequences for those households in terms of the availability and choice of accommodation could be very serious given the growing importance of the PRS in housing these households. This matter requires urgent attention.

Meeting needs: standards and regulation

Both LAs and private landlords believed that most landlords were competent and committed to their tenants, although both were also aware that there are a small minority of rogue landlords. The picture that emerged from the PRS and LA interviews was one of a sector meeting reasonable standards for the majority of tenants, but struggling to provide the level of support that would be required by many of the poorest and most vulnerable households who might once have hoped to find a home in the social rented sector. It was also clear that for some landlords maintaining their commitment to these groups was a matter of balancing their personal commitment against viability considerations, exacerbated by high property prices and the benefit system.

All interviewed LAs operated a scheme for licensing HMOs as they are required to do. Some also operated additional or selective licensing schemes. Although all LAs reported themselves as satisfied with their schemes, they offered no detailed assessment of how they were effective in raising standards, beyond referring to the numbers of landlords within the different schemes. In contrast, private landlords expressed themselves as critical of licensing. While not all were opposed to licensing in principle, there was a belief that only law-abiding or compliant landlords were actually caught by licensing while the bad landlords simply avoided the schemes. There was some scepticism that LAs had created more than “tick-box” regimes and two landlords indicated that they would not invest in properties that fell within the scope of licensing.

There is a case for an investigation into the extent to which licensing has raised standards and whether individual LAs have adequate systems in place to assess whether their own schemes are effective in meeting stated objectives. It would also be valuable to study what degree of trade-off there may have been between raising standards and reducing the supply of certain types of rental property as landlords adjust their portfolios to avoid involvement with LA licensing schemes.

One particular group who appear to look for accommodation in the PRS in increasing numbers, are single people seeking a room. This appears to be in part because of the Government’s restriction of such households under 35 to a single room rate of Housing Benefit and partly due to the increase in student numbers. In this context it was noted that there appears to be a tension between some local authorities and private landlords over the application of Article 4A of the Town and Country Planning (General Permitted Development) Order 1995. In using Article 4A to place restrictions on those wishing to turn family homes into HMOs, LAs felt that they were protecting the character and amenity value of local areas. They were concerned about negative impacts from large numbers of HMOs including those housing students. However, private landlords felt that LAs were in fact restricting the provision of accommodation for which there was a need. Given that both the increase in student numbers and the increased numbers of younger people seeking single room accommodation are a consequence of Central Government policy there is a case for landlords and LAs to seek a common approach.

Institutional investment?

The chimera of institutional investment has hovered over the PRS at least since 2009. In spite of initiatives by Government, the prospect of large-scale investment still appears elusive outside of the student sector. Private landlords interviewed for this study were aware of corporate/institutional investment in the student sector but did not believe that rental returns were high enough to attract such investment across the sector as a whole, although they were aware of some limited investment in
market renting by HAs. Overall, the study has found little evidence in the SE region to support the view that there will be sufficient institutional investment in the PRS in the medium term to change its strong reliance on individual landlords using buy-to-let or other loan finance.

Additional security
A common plea from LAs was that tenants in the PRS should have greater security of tenure and that there should be a legal framework to moderate excessive rent increases and makes them more predictable for landlords and tenants. LA interviewees were aware that a balance needed to be struck over security of tenure that would offer more to tenants while not putting off potential investors. There was support for the concept of a three year tenancy. Private landlords were not against greater tenant security in principle. Landlords were keen to stress that tenants who stayed for longer periods were usually more profitable to the landlord. However, in practice landlords wanted the ability to end a tenancy that had broken down. Landlords also pointed out that mortgage lenders currently insist on assured shorthold tenancies being used as a condition for granting a loan. The biggest concern for landlords was the prospect of having to keep a tenant who was not paying their rent. On rent increases, landlords did not object to “built in” increases on the continental model but were worried about red tape. Overall, there seemed to be room for compromise on these issues.

Recommendation 5
The PRS is providing homes for an increasing number of very low income and vulnerable households. Private landlords do not, in a significant number of cases, have the resources to support such households. To date, little new funding has been made available to provide support for this group in the PRS, which has the potential to discourage landlords from housing these people in future. We therefore call for:

• A full revision of the support system for vulnerable residents, keeping in mind that larger landlords (both HA and PRS landlords) are better placed to scale-up support, leading to greater efficiencies. Government must investigate whether such households should be offered additional support via local authorities and to ascertain the cost-benefit ration of such intervention.

• A comprehensive review of housing and welfare policies that may result in benefit recipients having their choice of landlord unduly restricted in the future.

Recommendation 6
There are concerns amongst landlords over the implementation of HMO and other licensing schemes by some LAs. Increased dialogue between LAs, HAs and private landlords to explore the future of HMO licensing would be mutually beneficial to reconcile promotion of standards with the avoidance of red tape. In addition, there should be dialogue to resolve differences over the use of planning orders to restrict the conversion of family accommodation to provide smaller units.

Recommendation 7
Preliminary analysis suggests a willingness amongst private landlords to look at longer term tenancies and more predictable rent rises. However, it is likely that certain assurances will be necessary to avoid putting off future investment. We therefore call for dialogue between DCLG, LAs, national and regional landlord associations, and lenders to:

• Extend greater security of tenure for tenants, resolving concerns about terminating failing and failed tenancies.

• Investigate whether a framework for predictable annual rent increases could be introduced into the PRS as already happens in a number of European countries and in the affordable sector in England.
The affordable sector

Social rent and the Affordable Rent model

The rent levels of both traditional social rented housing and of AR properties are spatially distributed broadly so the higher rents are found in the areas where incomes, house prices and private rents are also higher, although this effect is more pronounced for AR, probably due to rents being tied more closely to market rents and hence subject to wider variation between the highest and lowest rents.

There does not appear to be an overall compression of AR levels in more expensive areas in response to the benefit cap, as there is in London, but it does appear that rents for larger properties are lower as a percentage of a market rent across the region, suggesting that these rents have been held down to ease affordability and to avoid the effects of the cap on benefit-dependent households. It appears that the inability to charge higher rents has been a significant factor in inhibiting the development of larger homes and this effect may be more pronounced in the future. As the level of the cap is not linked to inflation, its effects on development will become more pronounced over time.

Although the proportion of working households in traditional social and AR homes is rising year on year, traditional social renting still has a majority of benefit-dependent households. Income levels for working households in traditional social and AR homes are similar and are significantly lower than single full-time lower quartile incomes for the region. Levels of benefit dependency are high for both tenures but particularly for AR.

It appears that the shift towards placing a higher proportion of working households in social housing is largely a result of LAs changing their allocations policies during the past two years to give higher priority to working households. While these changes may meet local political imperatives, and support the Government’s aim of rewarding work, it raises a serious question as to where workless benefit-dependent households will live. Feedback from the PRS suggests that landlords may become more reluctant to take such households due to the problems of offering adequate support and because of the effects of welfare reform. If this proves to be the case the range of choices available to these benefit-dependent households will diminish progressively as more LAs change their allocation policies. This can only lead to more households becoming homeless or residing in temporary accommodation and higher rates of overcrowding. There may also be a negative impact on the opportunities for households to move in order to seek work or for other valid reasons, particularly as LAs now frequently give higher priority to local households in their allocation policies.

While traditional social renting remains affordable for most (although not all) lower income working households in the SE the picture of AR is rather different. One and two bedroom AR homes are broadly affordable for those on the equivalent of median full-time individual earnings although ratios of rents to income vary significantly. While rents for single person households on lower quartile earnings tend to be affordable also, there is a strong incentive for those who are mobile to move to cheaper areas. The situation for those households on the equivalent of a single lower quartile income seeking a two bedroom home is much more challenging with median AR levels in 27 LA areas above the 35% affordability threshold. Sadly it appears that for many working households “Affordable” Rent is not affordable without recourse to Housing Benefit. There are negative implications here for work incentives and for the national Housing Benefit bill and both these implications have been highlighted by previous commentators including the present author. Nevertheless, they remain worth restating since they go to the heart of the AR development policy, involving as it does a move from supply-side subsidy in the form of grant to demand subsidy in the form of Housing Benefit.

Welfare reform

The impacts of the under-occupation rules, benefit cap, and Universal Credit have been discussed extensively within and outside the affordable housing sector. The conclusions of this report will not therefore be new to many readers and the issues will therefore be dealt with concisely.

The under-occupation rules continue to pose a threat to HA income streams through higher arrears as well as hardship for many tenants.

Unlike for the majority of the English regions, the benefit cap does have a significant impact on a minority of AR households in the SE region.
However, perhaps the most important effect of the cap according to HA interviewees is the strong disincentive it creates to develop larger AR homes in the region. Although this impact has not been quantified in this report it appears likely to be significant, particularly for the 2015-18 AHP.

Universal Credit continues to cause concern amongst HAs as a potential threat to cash flow and as an additional cost, as tenants are supported in preparing for the change to direct payment. As with the cap, its most important effect may well be in making HAs less willing to extend themselves in terms of new development in what interviewees perceived as a more challenging operating environment.

Shared ownership: an intermediate option
There were 33,199 shared ownership homes in the SE region in 2012-13. This represents around 10% of the total affordable housing stock in the region. There were 2,155 sales of shared ownership properties in 2012-13. The average value of a shared ownership home is £170,000; this is higher than for any region outside London and reflects higher house prices in the SE. The large majority of shared owners are, unsurprisingly, working households. It appears that shared ownership is being purchased by households on below median incomes. The median head of household income is around £23,000 and a high proportion of shared ownership is financed on one income, suggesting that many households with an income equivalent to lower quartile full-time earnings are gaining access to shared ownership. Analysis of monthly costs confirms that shared ownership is widely affordable for households within the lower quartile of earnings in terms of monthly outgoings and that it is cheaper than buying an equivalent home in full. However, saving for a typical deposit would be a formidable obstacle for many. It may be that schemes could be developed to make deposits easier to acquire, although care would have to be taken to ensure that such demand-side intervention did not simply put upward pressure on prices. The biggest drawback attached to shared ownership as a valuable contributor to the affordable housing mix is that there is not enough of it.

Affordable development: at the crossroads
Following much speculation about whether enough appropriate bids would be forthcoming to deploy the available funding for the 2015-18 AHP, the list of successful bidders was released and subject to initial analysis. Nationally, it does appear that the programme is underbid, and the number of proposed new homes is down by over a third. In the SE region, a partial analysis and discussion with HAs suggests that the reduction may be significantly more severe with a substantial shift away from AR development towards shared ownership with some additional development for outright sale and market renting.

It would seem that for the SE region, the additional risks posed by development in an area of high land values and rents may have been partly responsible for a severe downturn in planned development and made AR in particular less attractive. The impact of the benefit cap (particularly in respect of larger homes) and fears about other aspects of welfare reform may also have played their part. HCA inflexibility in insisting on 80% market rent regardless of circumstances in relation to bids for 2015-18 may also have contributed to a reluctance to continue development on the same scale as before. It also appears likely that development may shift from poorer to more expensive areas, where higher land values can enhance the opportunity for cross-subsidy in a low-grant environment.

The implications of a reduced AHP in the SE region will be significant for those on lower incomes. While the impact may not be so severe for those able to gain access to shared ownership, the lowest income and workless households will be worst hit by the reduction in AR development.

**Recommendation 8**
The Secretary of State for Communities and Local Government should avoid reducing the benefit cap as trailed by the Chancellor at the 2014 Conservative Party conference, but should index the benefit cap for inflation. Failure to do so will result in development across the SE region becoming more constrained over time, particularly in relation to larger homes. There may also be a strong case for monitoring the effects of the cap in different regions, to determine whether future levels of the cap should vary according to regional factors such as rents and land values.
Recommendation 9
Although sympathetic to the political imperatives of prioritising working households, there is evidence to suggest that it is leaving vulnerable and benefit-dependent households at risk of deprivation and homelessness. In the cases where these households are accommodated in the PRS, there is every likelihood that the rent to be covered by Housing Benefit is greater – meaning a higher cost to the Exchequer overall. Allocation policies are most effective when housing need takes precedence, with other imperatives following thereafter. There is a strong case for DCLG to review its direction to LAs on this issue, reversing the unintended consequences of the policy.

Recommendation 10
As significant numbers of working households across the SE require Housing Benefit in order to sustain AR tenancies, there is a need for a review of the appropriate balance between capital and revenue subsidy to develop new homes. We support the CBI’s stance that there is a strong case for spending more on capital grant for new homes, resulting in lower rents for those households that need them, and reducing reliance on Housing Benefit.

Homelessness: compounding the crisis?
Homelessness can be viewed as the most serious symptom of a lack of affordable housing. Homelessness is on the rise in the SE region. LAs are increasingly using the PRS to discharge their homelessness obligations and this is another conduit through which vulnerable and very low income households are finding their way into the PRS. Interviews with private landlords suggests that they are aware of lacking the resources to provide necessary support for this group although examples of caring sensitive practice by committed landlords are not hard to find. Welfare reform is also making some private landlords less willing to house those who depend on benefits.

A further disturbing development is that of LAs “shipping out” those households in priority housing need to cheaper areas, sometimes long distances from family and community and not always to areas

Recommendation 11
DCLG must collect comprehensive data on the incidence of “shipping out” and should then move to place a binding obligation on local authorities to adequately support households who are moved to cheaper areas. The obligation must include:

- The creation of a standard that places the onus on the outbound LA to measure the impact of the move in relation to job prospects, access to transport, family and community.
- The obligation that LAs who dispatch households must inform receiving LAs of the move, giving those councils the authority to charge compensation for the provision of an appropriate level of support.

Definitions and methodology

This report is focused on analysing the housing circumstances of those households on low incomes in terms of tenure, location and a range of other factors. In addition, it seeks to identify trends in terms of the housing choices of those households in the medium term, defined here as roughly the next decade.

“Low incomes” for the purposes of the report has been taken to refer to those households on, or below, the median income for the South East region, that is, those standing at the mid-point in the income distribution, or below it. However, such a definition is not in practice a precise one.

There are two measures of “median incomes” that are used at various points in the report, although other data on incomes are also used where relevant. The first is the concept of the net “median” household equivalised income Before Housing Costs [BHC] as defined by the Department for Work and Pensions [DWP], notably in its work on households on below average incomes. This figure has been “equivalised” to take account of the different needs of households of different sizes and circumstances. It includes all sources of income, and amounts to £24,700 pa. (ONS, 2013b). This data has relevance because much of the national work on poverty and households by DWP and others on below average incomes use it as a reference point. To the extent that this report uses such analysis, then that definition is used.

Analysis in a report of this kind requires data on incomes that goes down to a local (sub-regional level) if it is to be compared to house prices and rents for different areas. In this context the Annual Survey of Hours and Earnings has been used (ASHE, 2014). This survey collates individual earnings within different localities and is available at local authority [LA] level (unlike the equivalised income data referred to above). It does have its limitations; it only includes earned incomes and excludes earnings of the self-employed and part-time workers. It also excludes pension income and benefits. It is in essence a snapshot of the earnings of full-time employed individuals. However, it is widely used for the analysis of affordability and offers the opportunity to make comparative assessments across different localities.

There are competing claims for various ways of calculating affordability based on arriving at a suitable level of residual income after housing costs, including a recently published report (Whitehead, et al., 2014) intended to aid HA rent setting. In the interests of avoiding methodological controversy and providing a transparent approach that can be widely applied across a region, a measure of affordability using a threshold percentage of gross earnings of 35% has been used here. This approach is ultimately better considered a relative rather than an absolute measure of affordability. Such a threshold approach is inevitably rough; households vary in size and a range of other...
household, local and national factors with an impact on both income and expenditure come into play in the context of measuring the absolute affordability of housing. The type of “threshold” approach employed for this report is widely used within the housing sector and can be applied across tenures and, in this case, across 67 different local authority areas without unduly distorting the overall balance of the report. The 35% threshold is more challenging than compared to some others used (such as 35% of net income), which effectively sets a lower proportion of income as the threshold for affordability.

The research for this report involved an initial analysis of general research and data on the South East as a region, including population, demographics, incomes, among others. This was followed by an analysis of existing research and data on lower income households and their housing choices. This involved examining research on related topics such as poverty, deprivation, and homelessness. Where possible the focus was on materials that relate their conclusions to the South East specifically, although this has not always been possible.

The core of this research has been analysis of data on the housing choices of below median income households within the South East, making comparative judgements against other regions of England as a whole where relevant and aiming to identify trends over time where possible. This has involved:

- Analysis and mapping of the spatial distribution of lower income households, those living in the social rented sector and those marked by deprivation. This involved analysis of the Annual Survey of Hours and Earnings, Census data (2001 and 2011), the Index of Multiple Deprivation (2007 and 2010), CORE (Continuous Recording) data on social housing and a range of other sources.

- Analysis of affordability, housing supply, construction and related factors (such as mortgage arrears and lending) across all tenures demonstrating trends over time, where possible. Data sources included, amongst others, Land Registry data (house prices), Valuation Office Agency statistics (private rents), CORE data and the SDR return (social renting and shared ownership).

- A key contribution to the analysis and to the formulation of conclusions was a series of semi-structured interviews carried out during June and July 2014. These included:

- 12 interviews with senior local authority housing representatives from different parts of the region. These were chosen to reflect the issues facing urban and rural authorities as well as those with a higher or lower proportion of low-
income households and different local housing markets.

- Six interviews with senior staff of housing associations [HAs] operating in the South East. These were chosen to reflect development activity in different parts of the region and the impact of different demographic, economic and market conditions on HAs as landlords and as providers of shared ownership.

- Six interviews with Private Rented Sector [PRS] landlords from various parts of the region reflecting the growing importance of the sector nationally and regionally and examining the different responses of landlords to local markets.

These interviews included discussion of wider policy and practice issues such as the impact of changes in the funding of affordable housing development, the setting of rents in the social rented sector, and the impact of welfare reform.

The research and analysis described above informed the conclusions and recommendations that form the final section of the report. The recommendations are directed towards different stakeholders within the private and affordable housing sectors and towards those with an influence on future policy such as Government and the Homes and Communities Agency [HCA]. Where possible, these recommendations were formulated to be practical and to support outcomes that could be measured, although inevitably some of the most significant involve qualitative judgements about objectives and priorities.
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