



**building
communities**

integration or
separation?



How affordable is affordable?

A Study into the Affordability
of Rents in Leeds

Commissioned by the Leeds Collaborative
Group of Housing Associations

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re'new

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1.0 Introduction and Purpose of the Study

- 1.1 There have always been differences in rent levels between housing associations and local authorities and within each sector. Council rents have been set historically and have often been influenced as much by political as financial considerations. Many local authorities decided to keep council rents low to retain their affordability and to minimise the risks of creating a benefits trap for tenants moving into full time employment. It is worth noting also that the rents for properties managed by the three Arms Length Management Organisations (ALMOs) are still set by Leeds City Council.
- 1.2 Housing association rents have traditionally been higher partly due to relative borrowing costs (especially since 1992 when housing associations were expected by Government to partly finance developments through borrowing of private finance), partly through defined rent setting policies of the Housing Corporation and partly through Leeds City Council historically choosing to restrict rent increases so as not to disadvantage tenants. There is a long term intention to achieve rent convergence between housing association and council rents by 2012, although DCLG is currently consulting on the prospect of extending that deadline.
- 1.3 There is a common perception that high housing association rents are a major factor hampering affordability. This view has been raised by discussions at the Leeds Tenants Federation Conference in February 2007, at the Leeds Initiative Narrowing the Gap Executive meeting with Councillors in April 2007, and at a briefing with Fabian Hamilton, MP in April 2007. The confusion over this matter is also continually reinforced through letters to the local press.
- 1.4 This situation has been brought into further relief by the establishment of the Affordable Housing Strategic Partnership Board charged with achieving development of substantially more affordable housing, initially through use or development of 77 acres of council owned land much of which is land already cleared, or to be cleared, of former council housing. The procurement of the first phase of sites included a proposal that new affordable housing built by successful RSL Development Partnerships could be managed by the three ALMOs. The ALMOs were seeking this to recoup their covering the upfront costs of demolishing existing council housing. Also opinions were expressed by ALMO Board members that this would be more advantageous for residents as housing association rents are 'unaffordable'.
- 1.5 However, there appears to be considerable confusion regarding comparative rents between housing associations and Arms Length Management Organisations (ALMOs), their relative affordability and little understanding of future likely trends in rent levels. The affordability of the various forms of rented housing also needs to be considered in the wider context of incomes and the costs of other housing options, particularly the increasing range of affordable home ownership options now available.
- 1.6 The Leeds Collaborative Group of housing associations has agreed that a better understanding of the comparative nature of rents and housing costs across sectors in Leeds, and affordability across tenures, would assist in addressing affordable housing needs most effectively, both now and in the future. This study aims to consider existing rent levels for council and housing association properties and compare their affordability to other forms of housing and to assess likely future trends in the relative affordability of rents.

2.0 Comparative rent data for Leeds for ALMOs, private sector rental, and housing associations

- 2.1 Table 1 below shows that the difference between Leeds City Council and housing association rents in Leeds is variable and is highest for larger forms of housing. The difference between Council and housing association rents has also clearly been narrowing for all properties, but substantially so for 3 bed properties or more. Overall there is now a difference of £10.58 per week between Council and housing association properties. This difference is likely to reduce further in line with the intentions of rent convergence. (See Section 5).
- 2.2 Table A in Annexe A contains a comparison between rent levels in Leeds for Council properties managed through the three Leeds ALMOs and those for housing associations showing smaller housing association rent increases for each year, sometimes substantially. It shows while housing association rents are still higher than council rents, the gap between them is closing. In 2001/02 housing association rents were 30% higher than council rents, by 2006/07 this had reduced to 21%.

Table 1 Net Housing Association and Council rents in Leeds 2001/02 and 2006/07

	2001/02			2006/07			Change in Difference 2002- 2007
	Leeds City Council	Housing Association	Difference £	Leeds City Council	Housing Association	Difference £	
Bedsits				£45.25	£41.94	-£3.31	
1 bed	£37.36	£43.84	£6.48	£46.55	£52.65	£6.10	- 5.9%
2 bed	£38.44	£51.85	£13.41	£50.39	£62.09	£11.70	- 12.8%
3 bed	£39.84	£60.72	£20.88	£53.17	£69.29	£16.12	- 22.8%
4 bed or more	£41.70	£63.38	£21.68	£57.69	£75.15	£17.46	-19.5%
All property	£38.74	£50.36	£11.62	£51.04	£61.62	£10.58	- 9.0%

Sources: Council Rents data: www.dataspringcf.org.uk

- 2.3 Table 2 below shows that average Leeds City Council rents for all properties increased from £38.74 per week in 2002 to £51.04 per week in 2007 an increase of 31.8% over the 5 years. Housing association rents however, increased from £50.36 per week to £61.62 per year, an increase of 22.3% over the 5 years. If housing association rents had risen at the same rate as Council rents, the difference would have ranged from between £7.50 per week to over £27 per week for a home of 4 beds or more.

Table 2 Differences in rent increases in Council and Housing Association rents

	Leeds City Council			Housing associations		
	2002	2007	% Increase 2002 - 2007	2002	2007	% Increase 2002 - 2007
Bedsits		£45.25			£41.94	
1 bed	£37.36	£46.55	24.5%	£43.84	£52.65	20.1%
2 bed	£38.44	£50.39	31.1%	£51.85	£62.09	19.7%
3 bed	£39.84	£53.17	33.5%	£60.72	£69.29	14.1%
4 bed or more	£41.70	£57.69	38.3%	£63.38	£75.15	18.6%
All property	£38.74	£51.04	31.8%	£50.36	£61.62	22.3%

Sources: Council Rents data: www.dataspringcf.org.uk

- 2.4 Tables 3a and 3b show that the average Council rent in Leeds is significantly lower than the national average and marginally lower than the regional average. This may have contributed to the perception of a significant gap between Council and housing association rents. In reality the gap is closing and is much smaller than in the past.

Table 3a Comparative Council Rents 2005/06

	Bedsit	1 Bed	2 Bed	3 Beds	4+ Beds	All
Leeds	£43.10	£44.70	£47.55	£50.61	£52.80	£47.70
Manchester	£39.56	£45.46	£51.99	£58.17	£63.71	£53.85
Liverpool	£40.78	£46.96	£53.77	£55.20	£62.72	£53.38
Sheffield	£40.91	£43.13	£47.52	£50.61	£58.33	£47.79
Barnsley	£36.67	£41.75	£45.84	£48.78	£52.14	£46.21
Yorkshire & Humberside	£39.32	£43.64	£48.04	£51.81	£55.12	£48.14
National	£45.56	£51.42	£57.74	£63.02	£75.79	£57.97

Sources: www.dataspringcf.org.uk

Table 3b Comparative Housing Association Rents 2006/07

	Bedsit	1 Bed	2 Bed	3 Beds	4+ Beds	All
Leeds	£41.94	£52.65	£62.09	£69.29	£75.15	£61.62
Manchester	£45.91	£52.68	£57.74	£62.79	£71.12	£59.34
Liverpool	£47.31	£51.58	£58.85	£61.40	£69.11	£59.28
Sheffield	£40.20	£49.73	£53.54	£58.32	£74.73	£54.86
Barnsley	£44.27	£56.08	£61.89	£67.44	£75.00	£63.08
Yorkshire & Humberside	£41.31	£47.68	£54.58	£58.89	£80.28	£54.81
National	£53.05	£58.36	£65.97	£71.16	£91.75	£66.66

Sources: www.dataspringcf.org.uk

- 2.5 Tables 3a and 3b show that comparisons with other parts of the country are variable, with size and location. They show that housing association rents are clearly higher than Council rents, but as Table 1 shows the gap between them is reducing. Also if rent levels in Leeds were at the same level as in Manchester and Liverpool, then the gap would be lower.

Table 4 Average private rents in Leeds (Excluding rents for student lets)

	Weekly rent	Monthly rent		Weekly rent	Monthly rent
Room	£91.18	£395.14	3 bed	£161.62	£608.24
Bedsit/Studio	£106.07	£459.57	4 bed+	£237.35	£1028.50
1 bed	£109.83	£473.64	All properties	£155.15	£672.25
2 bed	£150.52	£652.26			

Source: www.propertyfinder.com

- 2.6 Table 4 shows that private rents are substantially higher than both housing association and council rents, being more than double for many properties. Average rents are three times higher than council rents. However, the likelihood of advertised lettings being furnished should be taken into account.

- 2.7 Table 5 shows that private rents vary extensively. Rents are significantly cheaper in inner west, south and east of the city and rents particularly high in the City Centre and North of the city.

Table 5 Geographical Variations in rents (All properties)

	Weekly Rent	Monthly rent			
Inner West Leeds	£109.86	£476.04	Outer South Leeds	£149.45	£647.62
Inner East Leeds	£119.48	£510.62	City Centre	£158.76	£687.96
Inner South Leeds	£123.67	£535.90	North East Leeds	£167.06	£723.94
Outer West Leeds	£137.69	£596.65	North West Leeds	£212.45	£920.63
Outer East/South East Leeds	£140.96	£610.82			

Source: www.propertyfinder.com

- 2.8 Leeds was a Pathfinder for the Local Housing Allowance being piloted to replace housing benefit for private tenants. (See Annexe C) Under this system guideline rents are set for different household sizes. If the rent is below that level then full housing allowance is paid and the difference can be kept by the tenant. If the rent payment is more than the guideline rent then the tenant must find the remainder. It is in the north of the city where the Local Housing Allowance is least likely to cover the full rent. In 2002, Shelter found that around 70 per cent of housing benefit claimants across the private rented sector made some payment towards their rent because of the rent restriction rules, often out of their income support. Many receive less than their eligible rent because of income from employment, other income or non-dependant deductions.
- 2.9 Table 6 shows that Mortgage costs are currently extremely high. The Leeds Strategic Housing Market Assessment, 2007, found that the average house price for Leeds was £167,000 and the entry level house price for Leeds (an average of the prices for terraced properties and flats) stood at £130,000 and required a single income of £37,000 or a joint income of £45,000 to afford it. It should also be noted that homeowners also have maintenance and insurance costs to find in addition to mortgage payments.

Table 6 Weekly and monthly mortgage payments in Leeds

Mortgage	Mortgage Payment per month	Mortgage Payment per Week	Mortgage	Mortgage Payment per month	Mortgage Payment per Week
£60,000	£458	£105.69	£110,000	£840	£193.85
£70,000	£534	£123.23	£120,000	£917	£211.62
£80,000	£611	£141.00	£130,000	£993	£229.15
£90,000	£688	£158.77	£140,000	£1070	£246.92
£100,000	£764	£176.31	£150,000	£1146	£264.46

Source: : http://www.bbc.co.uk/homes/property/mortgagecalculator.shtml#calculate_your_repayments

3.0 Affordability of rents in relation to local incomes and low cost home ownership options

- 3.1 There is little agreement over definitions of affordability regarding rent levels. The proportion of disposable income that rent payment would or should take up has never been firmly agreed. In the home ownership market and to an extent the private rented sector affordability is determined largely by the location or quality of the housing sought. If people want to live in a certain location or in a certain type of property then they may choose to pay a relatively high proportion of their income to achieve that.
- 3.2 There is little common agreement on what constitutes an appropriate proportion of housing costs devoted to payment of housing costs. Research for the Joseph Rowntree Trust in 2006 ⁽¹⁾ shows that
- As a share of disposable income, housing costs are much higher for people on low incomes than for others: on average, they comprise 25% of net household income for the poorest fifth of the population compared with 15% for those on average incomes and 10% for the richest fifth.
 - Overall, housing costs as a proportion of income are slightly lower than a decade ago, however
 - Rents in both the social and private rented sectors have been rising in line with earnings and are therefore no lower as a proportion of income now than a decade ago. In both cases, rents as a proportion of income are higher in London and the South East – in the case of private sector rents, much higher – than elsewhere in the country.
 - Average mortgage costs are now a third of average earnings varying from 40% across the South of England to 25% in Scotland.
- 3.3 The National Housing Federation's definition of affordability is that rents are affordable if the majority of working tenants are not caught in the poverty trap, through dependency on housing benefit, or paying more than 25 percent of their net incomes in rent. This definition recognises that affordability of rents for households in low paid work is the goal, but often not achievable without housing benefit.
- 3.4 Research undertaken by York University in 2002 ⁽²⁾ found that a ratio of more than 30% to 35% of income spent on housing costs would indicate a problem, although this would not mean the household did not have enough income to pay the rent. Rather, it indicates that a disproportionately large amount of income is going towards rent, raising the risk of incurring debt in other areas of expenditure. The available research suggests therefore that rent levels that take between 25% and 33% of net income could be considered affordable.
- 3.5 Table 7 shows a breakdown of the proportion of disposable weekly household income ⁽³⁾ taken up by council and housing association rents. It shows that both council and housing association rent levels are affordable to those on housing benefit as all rent costs are covered. Rent levels are also affordable (using the no more than 25% of disposable income) to those on incomes between average and the bottom 25%.

(1) Joseph Rowntree Trust : Monitoring housing and neighbourhoods trends September 2006

(2) Affordability and Rent Restructuring in the RSL Sector: Paper for the HSA Conference, 'Housing Policies for the New UK', 3-4 April 2002, University of York

(3) Source Leeds Economy Handbook 2006

Table 7 Affordability of Council and housing association rents (Net Rents 2006/07)

	LA rent (4)	% of Net Joint income	% of Net Single income	HA rent (5)	% of Net Joint income	% of Net Single income	Difference between LA and HA Rent
Average income							
Bedsits	£45.25	8.9%	13.4%	£41.94	8.3%	12.4%	-£3.31
1 bed	£46.55	9.2%	13.8%	£52.65	9.9%	15.6%	£6.10
2 bed	£50.39	9.9%	14.9%	£62.09	11.7%	18.4%	£11.70
3 bed	£53.17	10.5%	15.7%	£69.29	13.1%	20.5%	£16.12
4 bed or more	£57.69	11.4%	17.1%	£75.15	13.6%	22.2%	£17.46
All property	£51.04	10.0%	15.1%	£61.62	11.6%	18.2%	£10.58
Bottom 25% income							
Bedsits	£45.25	14.0%	21.0%	£41.94	13.0%	19.5%	-£3.31
1 bed	£46.55	14.4%	21.7%	£52.65	16.3%	24.5%	£6.10
2 bed	£50.39	15.6%	23.4%	£62.09	19.2%	28.9%	£11.70
3 bed	£53.17	16.5%	24.7%	£69.29	21.5%	32.2%	£16.12
4 bed or more	£57.69	17.9%	26.8%	£75.15	23.3%	35.0%	£17.46
All property	£51.04	15.8%	23.7%	£61.62	19.1%	28.7%	£10.58
Bottom 10% income							
Bedsits	£45.25	27.9%	41.9%	£41.94	25.9%	38.8%	-£3.31
1 bed	£46.55	28.7%	43.1%	£52.65	32.5%	48.8%	£6.10
2 bed	£50.39	31.1%	46.7%	£62.09	38.3%	57.5%	£11.70
3 bed	£53.17	32.8%	49.2%	£69.29	42.8%	64.2%	£16.12
4 bed or more	£57.69	35.6%	53.4%	£75.15	46.4%	69.6%	£17.46
All property	£51.04	31.5%	47.3%	£61.62	38.0%	57.1%	£10.58

- 3.6 Table 7 also shows that there are more problems however in relation to households on bottom decile earnings (i.e. those on very low wages including minimum wage jobs) with such households in danger of overstretching to afford either council or housing association rents. Such households would need assistance through the Working Tax Credit (See Appendix D) or partial housing benefit or both.
- 3.7 This has implications in relation to work incentives and the placing of households in a benefit trap. The steepness of the Housing Benefit taper creates poverty and unemployment 'traps', with every pound a person on a low income earns over and above a set 'applicable amount' resulting in a 65p reduction in the amount of housing benefit they receive (and a further 20p decrease in their council tax benefit).
- 3.8 Table 8 below shows similar data for private rented housing. This shows that private rent levels are just about affordable for those on an average joint income, but also that most self-contained private lets would be unaffordable to those on one average income, although even for them larger housing would only be affordable through sharing or sub-letting. It also shows that private rents are largely unaffordable to those on bottom quartile or bottom decile joint incomes earnings and completely unaffordable to single income earners on low pay .

(4) Source: Leeds City Council 2007

(5) Source www.dataspringcf.org.uk

Table 8 Affordability of Private Rents in Leeds (December 2007)

	Private rent (6)	% of net joint income (Average)	% of net single income (Average)	% of net joint income (Bottom 25%)	% of net Single income (Bottom 25%)	% of net joint income (Bottom 10%)	% of net Single income (Bottom 10%)
Room	£91.18	17.9%	27.0%	28.2%	42.4%	56.3%	84.4%
Bedsits	£106.07	20.9%	31.4%	32.8%	49.3%	65.5%	98.2%
1 bed	£109.83	21.6%	32.5%	34.0%	51.1%	67.8%	101.7%
2 bed	£150.52	29.6%	44.5%	46.6%	70.0%	92.9%	139.4%
3 bed	£161.62	31.8%	47.8%	50.0%	75.2%	99.8%	149.6%
4 bed or more	£237.35	46.7%	70.2%	73.5%	110.4%	146.5%	219.8%
All property	£155.15	30.5%	45.9%	48.0%	72.2%	95.8%	143.7%

Source: www.propertyfinder.com

3.9 Table 9 shows the affordability of mortgages to different income groups and shows the difficulties of all those on below average incomes in being able to afford home ownership. It shows that if the 25%-33% of net income benchmark is used, then the mortgage payment for the average entry level house price across Leeds (£130,000) is beyond the reach of all those on average incomes or below without incurring the risk of severe financial overstretching. It also shows that for average earners a single income will not be sufficient to afford to afford full priced housing without assistance.

Table 9 Affordability of Mortgages across Leeds (December 2007)

Mortgage	Weekly Mortgage payment (7)	% of net joint income (Average)	% of net single income (Average)	% of net joint income (Bottom 25%)	% of net single income (Bottom 25%)	% of net joint income (Bottom 10%)	% of net single income (Bottom 10%)
£60,000	£105.69	20.8%	31.3%	32.7%	49.2%	65.2%	97.9%
£70,000	£123.23	24.3%	36.5%	38.2%	57.3%	76.1%	114.1%
£80,000	£141.00	27.8%	41.7%	43.7%	65.6%	87.0%	130.6%
£90,000	£158.77	31.3%	47.0%	49.2%	73.8%	98.0%	147.0%
£100,000	£176.31	34.7%	52.2%	54.6%	82.0%	108.8%	163.3%
£110,000	£193.85	38.2%	57.4%	60.0%	90.2%	119.7%	179.5%
£120,000	£211.62	41.7%	62.6%	65.5%	98.4%	130.6%	195.9%
£130,000	£229.15	45.1%	67.8%	70.9%	106.6%	141.5%	212.2%
£140,000	£246.92	48.6%	73.1%	76.4%	114.8%	152.4%	228.6%
£150,000	£264.46	52.1%	78.2%	81.9%	123.0%	163.2%	244.9%

3.10 Payment of relatively high levels of housing costs compromises ability to meet other financial or payment commitments. It also has implications for development of intermediate housing options which if rent/mortgage payments are to be within 25% of net income may render those options unaffordable, especially where prices are high, and especially for low income households.

(6) Source: www.propertyfinder.com

(7) Source: http://www.bbc.co.uk/homes/property/mortgagecalculator.shtml#calculate_your_repayments

4.0 Rent convergence timescales/targets for ALMOs and housing associations

- 4.1 The Government announced through their Housing Policy statement issued in 2002 their intention to achieve rent convergence between housing association and council rents by 2012. The aim of this was partly to remove the rent gap between the two tenures, partly to pave the way for further 'simplification' of the housing benefit system and partly to accompany a proposed move towards a common tenancy for social rented housing (however, this has not occurred except by way of the transfer of council housing to housing associations under LSVT).
- 4.2 Various proposals for rent restructuring were set out in the Green Paper including linking target rents to property values, or to running costs and property values, or to the existing housing finance system that is part of the Housing Revenue Account. Following wide consultation a modified option was put forward in the housing policy statement (DETR, 2000b). ⁽⁸⁾
- 4.3 Social rents in both sectors were to be based on the same principles and set according to a formula that links rents to property values, earnings levels and property size. Thus rents would relate to both market and demand through the house price element and to affordability through the inclusion of the incomes element. Convergence was to be promoted by allowing Council rents to increase by a slightly higher rate in real terms than RSL rents. From 20002/03 RSL rent rises were restricted to 0.5 percent above inflation.

4.4 Housing Association Rents

- 4.4.1 The Housing Corporation outline in their Circular 09/07 their policy on rents, rent differentials and service charges for housing associations. The regulatory requirements on rents state that housing associations should keep their annual rent increases to no more than the set guideline limit specified by the Corporation. This is subject to the requirement that an individual rent does not change by more than £2 a week, in addition to the guideline limit; i.e. RPI + 0.5% plus or minus £2, in any one year. The same formula is used to set housing association target rents.
- 4.4.2 However, the Three-Year Review of Rent Restructuring stated that local authorities should ignore the downward limit of RPI + 0.5% minus £2 per week on rent changes, in order to achieve restructuring on all properties for which rents need to fall by 2011/12. This relaxation of the downward limit has also been extended to housing associations which are encouraged to do the same, where their finances permit.

Table 10: Housing Corporation Guideline Rent increase limits ⁽⁹⁾

Year	Guideline limit	All items RPI increase at previous September	Guideline limit for rent increases	Maximum change to individual rent
1 April 2008 to 31 March 2009	RPI + 0.5%	+ 3.9%	4.4%	4.4% plus or minus £2
1 April 2007 to 31 March 2008	RPI + 0.5%	+ 3.6%	4.1%	4.1% plus or minus £2
1 April 2006 to 31 March 2007	RPI + 0.5%	+ 3.1%	3.2%	3.2% plus or minus £2
1 April 2005 to 31 March 2006	RPI + 0.5%	+ 2.7%	3.6%	3.6% plus or minus £2
1 April 2004 to 31 March 2005	RPI + 0.5%	+ 2.8%	3.3%	3.3% plus or minus £2

(8) DETR: Housing Policy Statement 2000

4.5 Local Authority Rents

- 4.5.1 Under the Government's rent restructuring system Local Authority rents are set on a formula depending on the value of the property, the number of bedrooms in the property and the level of average earnings for the area. Using this formula rents increase in line with inflation each year and the weekly rent cannot go up by more than the rate of inflation plus 0.5%, plus £2.

4.6 Consultation on Rent Convergence

- 4.6.1 In 2006, following the three-year review of rent restructuring the Government, concerned over the unaffordable annual rent increases that might arise from the implementation of the findings of the review, introduced a 5% limit on local authority housing annual rent increases, whilst guideline rents increased at the greater rate required to deliver rent restructuring by 2012.
- 4.6.2 The 5% limit on actual rent rises was backed up by a mechanism for reimbursing local authorities for the loss of rental income in-year that an increase of only 5% would lead to. This loss was driven by the increase in guideline rents coupled with the inability of local authorities to raise actual rents to the level assumed by the HRA subsidy regime if the local authority wished to comply with the Government's policy of a 5% limit. In practice this policy and the mechanism of the Rental Constraint Allowance (RCA) kept rises in actual rents to no more than 5% in 2005-06 and 2006-07 whilst guideline rents rose by a greater amount.
- 4.6.3 The RCA comes to an end in 2007-08 and the Government are now consulting on the way forward for 2008-09 and 2009-10 with the aim of agreeing an approach for setting local authority annual guideline rent increases for inclusion in the Housing Revenue Account (HRA) subsidy determination for 2008-09. Guideline rents are notional, rather than actual rents, but do influence the setting of local authority actual rents.
- 4.6.4 To achieve restructured rents by 2012 local authorities will have had to set their actual rents broadly in line with rent restructuring policy. Some local authorities like Leeds have actual rents below guideline levels and have not in general increased their rent in line with increases implied by guideline rents. As a result, CLG are minded to return to using the "caps and limits" formula that existed up to 2006-07 in the setting of guideline rents for 2008-09 and 2009-10 with annual increases in guideline rents based on a trajectory that would achieve convergence by 2012. CLG recognizes that there are some authorities that may be concerned that a return to the 2006-07 guideline rent-setting formula could lead to higher rent rises for tenants.
- 4.6.5 Accordingly, CLG are consulting on two options for determining guideline rents in the HRA subsidy regime for 2008-09 and 2009-10.
- 1) A return to rent restructuring with convergence in 2012.
 - 2) To modify this approach by extending the convergence deadline and hence lower annual guideline rent increases. However, extending the deadline would have a cost impact which Government would have to consider when making decisions on the optimal allocation of limited available resources.

These two options notwithstanding, the intention remains to achieve convergence by 2016.

(9) Housing Corporation Circular 09-07: Rents, rent differentials and service charges for housing associations: November 2007

5.0 Impact of comparative affordability across tenures on future demand for housing association lettings

5.1 Rent setting is still largely set by central Government for both local authority and housing association rents, although local authorities can choose to increase rents at a slower rate than the government's advice. A proposal is going to the next full meeting of Leeds City Council for a 5.8% increase for 2008/09 rather than the guideline 7.8% increase, although this should be compared to the comparable housing association rental increase guideline of 4.4%. So while this may slow convergence down slightly in Leeds, the convergence of council and housing association rents is still occurring. This decision however has also served to artificially maintain the gap between Council and housing association rents.

5.2 Table 11 shows the likely trajectory of rents in Leeds using the basis of rent increases since 2001/02

Table 11 Differences between Leeds City Council and housing association rents in Leeds 2007 - 2016

	2007/ 08	2008/ 09	2009/ 10	2010/ 11	2011/ 12	2012/ 13	2013/ 14	2014/ 15	2015/ 16	2016/ 17
Bedsit	-2.18									
1 bed	4.23	2.66	1.01	-0.75						
2 bed	10.95	10.08	9.11	8.05	6.88	5.59	4.19	2.65	0.97	-0.92
3 bed	14.73	13.12	11.34	9.38	7.24	4.90	2.35	-0.44		
4+ bed	14.75	13.03	11.14	9.08	6.82	4.36	1.68	-1.24		
All Properties	10.50	9.46	8.32	7.07	5.71	4.23	2.62	0.88	-1.01	

5.3 The table shows that convergence of rents may well not happen until after the 2012 deadline if the trend in rent increases that occurred over the last 5 years is projected forward. However, the differential between Council and housing association rents will have reduced to significantly lower levels by 2012. Currently, based on past levels of rent increases, it is estimated that

- rents for bed-sits and 1 bed properties will have converged by 2012 and differentials between Council and Housing Association rents across other property types will be marginal.
- rents for 3 bed properties and properties of 4 beds or more will not fully converge until 2015
- rents for 2 bed properties will not fully converge until 2016/17.

5.4 Convergence of rents is still the Government's aim but the trajectory of convergence will depend on interest rates, inflation and rules set by central Government.

6.0 Conclusions

This study shows that while there undoubtedly is a gap between housing association and council rents, that difference is closing and within the next 5 – 10 years will have disappeared altogether. The study also shows however, that significant issues with the affordability of rented housing and home ownership in Leeds are emerging along with questions of how households with below average incomes are to be housed in the future.

1. The key finding from this study is not so much to do with differences in rent levels, but is more to do with the affordability of both council and housing association rents to households in low paid work.

While Council rents and housing association rents are affordable to households on housing benefit, and are within the guideline rents set for the Local Housing Allowance, both Housing association AND Council rents are unaffordable to those on bottom 10% of earnings. This would suggest that there is a continuing risk of a 'benefit/unemployment trap' operating where taking up low paid work would render the household either unable to afford housing costs, or would pose the risk of incurring debt in other areas of spending in order to afford housing costs.

This in turn could have significant implications for the continuing economic growth of the city. Research for the Leeds City Region has shown that a large proportion of projected job growth in the area over the next 15 years will be low paid service, retail, leisure jobs and if unaffordable housing provides a barrier to people taking up those jobs, then this could stall economic growth, or the jobs could go elsewhere.

The ability of households on benefit to take up low paid jobs may depend on additional fiscal assistance, such as Working Tax Credit or partial housing benefit. Without financial support of this type any attempt to link access to social housing with having paid employment may not succeed

2. The study also shows that affordability issues are at play higher up the income scale. While Council and housing association rents are generally affordable to households with joint incomes between the bottom 25% of earnings and average earnings, households with only one earner on a bottom 25% income may struggle to afford rents for larger housing association properties.
3. The study shows that Council and housing association rents are significantly more affordable than private rents for self-contained housing which are now largely beyond those on below average earnings. It also shows that mortgage costs are becoming rapidly out of reach of those on below average joint earnings (and are already out of reach of households with a single below average income) without the risk of significant financial overstretching and risk of debt in other areas of spending or of incurring mortgage arrears or repossession if joint incomes were to undergo downward change.
4. The findings of the study, and the increasing problem of 'unaffordability' in both rented housing and home ownership, also have implications for the ability to meet the aim of 'narrowing the gap' between the affluent and deprived in Leeds as households become either 'trapped' in social rented housing, or are unable to access self contained private rented housing or unable to afford home ownership.

5. The study shows that housing association rents are clearly higher than Council rents but the gap between them is reducing. However, the study could not take account of the differences in quality and age between housing association properties and Council properties managed by the Leeds ALMOs.
6. The study also shows differences between rents in comparison to other comparable cities. If rent levels in Leeds were at the same level as in other comparable cities like Manchester and Liverpool, then the gap would be lower for most properties but this varies especially for larger properties. The historic decisions of Leeds City Council to restrict rent increases below levels recommended by central Government has served to keep Council rents within affordability limits but have also kept the gap with housing association rents wider than it would have been had recommended increases in council rents been applied.
7. The Government's intention is to achieve rent convergence between Council and housing association rents by 2012 although it is currently consulting on whether to extend this deadline. Analysis included in Annexe B suggests that if past rent increases were to continue on their trajectory so far, then while rent convergence would be achieved for bedsits and 1 bed properties by 2012, for 3 bed properties and over convergence would not be achieved until 2015, and for 2 bed properties not until 2016. However, by 2012 rent differentials between Council and Housing Association rents will be marginal. It is worth noting that if the 2012 deadline were to be achieved then developments coming to completion after 2012 would have the same target rents regardless of whether they were to be managed by housing associations or ALMOs.

Annexe A Comparison of Leeds City Council and Housing Association rents 2001/02 – 2006/07

Annexe A Table a

Average Rents	2001/02		2002/03				2003/04				2004/05			
	LA		LA		HA		LA		HA		LA		HA	
	Net rent	% inc	Net Rent	% inc	Net rent	% inc	Net rent	% inc	Net rent	% inc	Net rent	% inc	Net rent	% inc
Bedsits			£39.22		£35.78		£39.91	1.76	£38.08	6.43	£41.91	5.01	£39.75	4.39
1 bed	£37.36	£43.84	£38.54	3.16	£45.54	3.88	£39.51	2.52	£47.16	3.56	£42.41	7.34	£48.12	2.04
2 bed	£38.44	£51.85	£40.04	4.16	£53.80	3.76	£41.42	3.45	£55.30	2.79	£45.51	9.87	£56.87	2.84
3 bed	£39.84	£60.72	£41.69	4.64	£61.85	1.86	£43.34	3.96	£63.07	1.97	£47.81	10.31	£64.71	2.60
4 bed or more	£41.70	£63.38	£43.62	4.60	£64.42	1.64	£45.19	3.60	£63.52	-1.40	£49.88	10.38	£73.21	15.26
All property	£38.74	£50.36	£40.32	4.08	£52.02	3.30	£41.66	3.32	£53.85	3.52	£45.53	9.29	£56.51	4.94

Average Rents	2005/06		2006/07					
	LA		LA		HA			
	Net rent	% inc	Net rent	% inc	Net rent	% inc		
Bedsits	£43.10	2.84	£42.56	7.07	£45.25	5.0	£41.94	-1.5
1 bed	£44.70	5.40	£50.41	4.76	£46.55	4.1	£52.65	4.4
2 bed	£47.55	4.48	£59.28	4.24	£50.39	6.0	£62.09	4.7
3 bed	£50.61	5.86	£66.80	3.23	£53.17	5.1	£69.29	3.7
4 bed or more	£52.80	5.85	£69.11	-5.60	£57.69	9.3	£75.15	8.7
All property	£47.70	4.77	£59.15	4.67	£51.04	7.0	£61.62	4.2

Annexe A Table b

	2001/02			2002/03			2003/04			2004/05			2005/06		
	LCC	HA	Diff	LCC	HA	Diff	LCC	HA	Diff	LCC	HA	Diff	LCC	HA	Diff
Bedsites				£39.22	£35.78	-£3.44	£39.91	£38.08	-£1.83	£41.91	£39.75	-£2.16	£43.10	£42.56	-£0.54
1 bed	£37.36	£43.84	£6.48	£38.54	£45.54	£7.00	£39.51	£47.16	£7.65	£42.41	£48.12	£5.71	£44.70	£50.41	£5.71
2 bed	£38.44	£51.85	£13.41	£40.04	£53.80	£13.76	£41.42	£55.30	£13.88	£45.51	£56.87	£11.36	£47.55	£59.28	£11.73
3 bed	£39.84	£80.72	£21.08	£41.69	£61.85	£20.16	£43.34	£63.07	£19.73	£47.81	£64.71	£16.90	£50.61	£66.80	£16.19
4 bed or more	£41.70	£63.38	£21.68	£43.62	£64.42	£20.80	£45.19	£63.52	£18.33	£49.88	£73.21	£23.33	£52.80	£69.11	£16.31
All property	£38.74	£50.36	£11.62	£40.32	£52.02	£11.70	£41.66	£53.85	£12.19	£45.53	£56.51	£10.98	£47.70	£59.15	£11.45

	2006/07		Change in Difference 2001/2002-2006/07
	LCC	HA	
Bedsites	£45.25	£41.94	-£3.31
1 bed	£46.55	£52.65	£6.10
2 bed	£50.39	£62.09	£11.70
3 bed	£53.17	£69.29	£16.12
4 bed or more	£57.69	£75.15	£17.46
All property	£51.04	£61.62	£10.58
			-9.0%
			-5.9%
			-14.6%
			-23.5%
			-19.5%

Annexe B Projected Rent Convergence between Leeds City Council and Housing Association rents

	2007/08			2008/09			2009/10			2010/11			2011/12		
	LA	HA	DIFF	LA	HA	DIFF	LA	HA	DIFF	LA	HA	DIFF	LA	HA	DIFF
Bedsits	44.4	42.2	-2.18												
1 bed	46.76	51.0	4.23	48.9	51.58	2.66	51.2	52.17	1.01	53.52	52.77	-0.75			
2 bed	50.16	61.1	10.95	52.9	62.99	10.08	55.8	64.93	9.11	58.88	66.93	8.05	62.12	69.0	6.88
3 bed	53.74	68.5	14.73	57.1	70.18	13.12	60.6	71.94	11.34	64.35	73.73	9.38	68.33	75.6	7.24
4 bed or more	56.02	70.8	14.75	59.4	72.47	13.03	63.1	74.21	11.14	66.91	75.99	9.08	70.99	77.8	6.82
All property	50.26	60.8	10.50	53.0	62.41	9.46	55.8	64.11	8.32	58.78	65.85	7.07	61.93	67.6	5.71

	2012/13			2013/14			2014/15			2015/16			2016/17		
	LA	HA	DIFF	LA	HA	DIFF	LA	HA	DIFF	LA	HA	DIFF	LA	HA	DIFF
Bedsits															
1 bed															
2 bed	65.53	71.1	5.59	69.12	73.31	4.19	72.92	75.57	2.65	76.92	77.89	0.97	81.14	80.22	-0.92
3 bed	72.56	77.5	4.90	77.05	79.40	2.35	81.82	81.39	-0.44						
4 bed or more	75.32	79.7	4.36	79.92	81.59	1.68	84.79	83.55	-1.24						
All property	65.25	69.5	4.23	68.75	71.38	2.62	72.44	73.32	0.88	76.32	75.31	-1.01			

Annexe C Local Housing Allowance Guideline rents

The current weekly Local Housing Allowance rates for Leeds are:	
Shared accommodation	£55.00
2 rooms	£87.00
3 rooms	£102.00
4 rooms	£116.00
5 rooms	£127.00
6 Rooms	£141.00
7 Rooms	£142.50
8 rooms	£145.00
These rates are valid until 30th November 2007	

How much Local Housing Allowance you may get depends on:

- who lives with you
- how much money you have coming in
- what savings you have

The amount of rent you pay does not affect your allowance.

To work out how much you may get you need to know how many rooms you are allowed.

The number of people who live with you will be used to work out how many bedrooms and living rooms you are allowed.

Claimants are allowed one bedroom for:

- every adult couple
- any other adult aged 16 or over
- any two children of the same sex aged under 16
- any two children under age 10
- any other child.

Claimants are entitled to:

- one living room if one to three people live in the property
- two living rooms if four to six people live in the property
- three living rooms if seven or more people live in the property.

Annexe D: Working Tax Credit

Who it helps



Tom is 27 and works in a bakery. He works 32 hours a week and earns £9,500 a year. He is single, with no children. He recently applied for tax credits and now gets an extra £65 every four weeks.



Nelson is 32 and works for a building company. He earns £10,900 a year, working a 35 hour week. His wife Neeta works part time in a shop and earns £4,600 a year. They have no children. They receive £25 in Working Tax Credit every four weeks.

Yearly income	Single person aged 25+ working 30+ hours a week with no children	Couple at least one aged 25+ working 30+ hours a week with no children
£8,612	£1,180 (£22.69 per week)	£2,880 (£55.38 per week)
£10,000	£665 (£12.79 per week)	£2,370 (£45.58 per week)
£12,000	£0	£1,630 (£31.35 per week)
£14,000	£0	£890 (£17.11 per week)
£16,000	£0	£150 (£2.88 per week)

OUTLINE RESEARCH PROPOSAL

Project Title:	How Affordable is 'Affordable Housing' in Leeds?
Client:	Connect Housing Association
Prepared by:	David Horner and Huw Jones
Telephone: Fax:	0113 380 0864 0113 246 0820
Email:	david.horner@renew-leeds.co.uk huw.jones@renew-leeds.co.uk
Address:	Mill 1, Floor 3, Mabgate Mills Leeds LS9 7DZ
Prepared on:	24 August 2007

re'new

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1.0 Introduction

re'new has been approached by Jenny Brierley, Chief Executive of Connect Housing Association, on behalf of the seven Leeds-based housing associations which work together as the Collaborative Group, with a view to carrying out this project on their behalf. All seven members of the Collaborative Group are members of re'new.

2.0 Project Background and Focus

There is a common perception that high housing association rents are a major factor hampering affordability. This view has been reaffirmed by discussions at the Leeds Tenants Federation Conference in February 2007, at the Leeds Initiative Narrowing the Gap meeting with Councillors in April 2007, and at a recent briefing with Fabian Hamilton, MP.

However, there appears to be considerable confusion regarding comparative rents between housing associations and Arms' Length Management Organisations (ALMOs), and little understanding of future likely trends in rent levels.

The affordability of rented housing must have to be considered, of course, in the wider context of incomes and the costs of other housing options, particularly the increasing range of affordable home ownership options now available.

The Collaborative Group has agreed that a better understanding of the comparative rent position across sectors in Leeds, and affordability across tenures, would assist in addressing affordable housing needs most effectively, both now and in the future.

It is intended that the proposed Study will focus on:

- *Comparative rent data* for Leeds for ALMOs, private sector rental, and housing associations
- *Rent convergence* timescales/targets for ALMOs and housing associations
- *Affordability of rents* in relation to local incomes and low cost home ownership options
- *Impact of comparative affordability* across tenures on future demand for housing association lettings.

3.0 Methodology

The project will involve the following three stages:

STAGE 1: DATA ACQUISITION – accessing published sources and other readily-available data from Leeds City Council, Housing Corporation, housing associations, etc.

STAGE 2: ANALYSIS of the data collected, including comparative assessment

STAGE 3: INTERPRETATION – commenting on the meaning and implications of the data in the light of the wider policy and housing market context

The project costing assumes free-of-charge access to pre-existing data sets, and no allowance has been made for any charges for acquiring data; any such charges would be passed on to the client. The project is desk-based and makes no allowance for fieldwork or generation of any primary data.

4.0 Analysis and Reporting

On completion of the project, a full written report will be prepared which addresses the areas of focus and highlights patterns and conclusions arising from the data, together with any anomalies identified. This report will be in Word format, with the text supported as appropriate by graphical information, data tables and other illustrations. The report will include an Executive Summary of key findings together with a section on Recommendations.

A presentation of findings will also be made to the Client, if required, at a mutually convenient time and location.

5.0 Costs

re'new offers its members a discounted consultancy service charged at £275 per day (excluding VAT).

Stage 1 Data Acquisition	1.5 days		
Stage 2 Analysis	2.5 days		
Stage 3 Interpretation and Reporting	2.5 days		
TOTAL PROJECT COST	6.5 days @ £275		£1787

All Costs quoted are *exclusive* of VAT

Costs include: project management; travel; administrative support; client meetings; sourcing appropriate data sets free-of-charge; data analysis and interpretation; ten laser copies of the final report; and a verbal presentation of key findings.

Costs do not include: purchase of data sets; VAT.

Two members of the Collaborative Group (Connect and Leeds Federated Housing Associations) are each entitled to one day's free Consultancy as part of their 'premium' membership of re'new during 2007-08. With their agreement, these days could be counted against the above total project cost, which would be reduced to **£1237** (excluding VAT) [4.5 days @ £275].

6.0 Timescale

It is estimated that the Project will take some 4 - 6 weeks to complete, from date of commissioning, given other current research commitments. However, this assumes no undue delay in delivery of appropriate data sets following a sourcing request.

We would be pleased to discuss timescale requirements with the Client.

7.0 Copyright

Copyright for this study will rest with the Leeds Collaborative Group of Housing Associations.

8.0 Project Team – Professional Knowledge and Experience

This project will be delivered by the following experienced re'new staff (see Appendix for brief CVs:

Huw Jones (Strategy & Intelligence Director) – Lead Consultant

Janey Barraclough (Project Officer) will support the acquisition of data sets

David Horner (Project Director) will offer project management support

8.0 Contact Details

Please contact us if you have any queries.

Huw Jones (Strategy & Intelligence Director)

Janey Barraclough (Project Officer)

David Horner (Project Director, Strategic & Member Services and re'new in South Leeds)

re'new
Mill 1, Floor 3
Mabgate Mills
Leeds
LS9 7DZ

Phone: 0113 380 0864

Fax: 0113 246 0820

Email: david.horner@renew-leeds.co.uk
huw.jones@renew-leeds.co.uk
janey.barraclough@renew-leeds.co.uk

Website: www.renew-leeds.co.uk

APPENDIX

Study into the Affordability of Housing Association rents in Leeds

re'new March 2008

Huw Jones (Strategy & Intelligence Director) – Lead Consultant

Huw was born in 1958 in Wimbledon, London. On leaving school he had a number of jobs before going to Leeds University in 1982. Following graduation in 1985, he worked as a research assistant at the University, on research into single homelessness, before becoming a Housing Research Officer at Kirklees Council in 1987. Huw moved to Leeds City Council in 1990, where for 15 years he was responsible for housing strategy, policy analysis, research and housing market assessment at a number of managerial levels. During this time Leeds' approach to housing strategy and housing partnership working was recognised as one of the best in the country.

Huw is currently on secondment to *re'new*, a not-for-profit agency dedicated to linking the formulation and implementation of housing and regeneration strategy, where he runs the Leeds Housing Partnership and has lead responsibility for housing strategy formulation and housing market assessment. He led work to establish the West Yorkshire Housing Partnership in response to the Government's regional housing agenda and is currently working with the Leeds City Region Secretariat to design a City Region approach to housing provision.

Huw is passionate about housing issues and is committed to securing real improvements in the quality of housing provision and neighbourhoods across Leeds.

Janey Barraclough (Project Officer) will support the acquisition of data sets

Janey graduated from Liverpool University with a degree in Sociology and Social Policy in 2003. After months of traveling up the east coast of Africa, She then returned to Leeds to progress her career in regeneration and housing policy. Janey took a position as an administration officer within the Regeneration Resources Team at Leeds City Council where she assisted regeneration projects funded by the Single Regeneration Budget (SRB) and European Objective 2 funding. A key part of this role was to analyse and interpret project outputs to measure against project aims and objectives.

Janey moved to Leeds West Homes, a Leeds Arms Length Management Organisation (now West North West Homes Leeds) in 2005 as a Project Officer within the Regeneration Team. Her role here was to project manage a number of large scale regeneration schemes, including undertaking the clearance of properties in areas identified for demolition. Here she produced numerous option appraisals for approval by the Chief Officer for Environments and Neighbourhoods, Leeds City Council.

Janey moved to *re'new* last September to join the Strategic and Membership Services team as a Project Officer where she assists with the organisation and production of membership services and provides support to the Strategic and Intelligence Director and the Project Director. Janey is currently producing work for the Leeds Back-to-Back housing Strategy, detailing the social, economical and political implications of the future of back-to-back houses.

Janey is enthusiastic about sustainable regeneration and shall be carrying out a Masters in Local and Regional Regeneration at Leeds Metropolitan University this September.

David Horner (Project Director) will offer project management support

Study into the Affordability of Housing Association rents in Leeds

re'new March 2008

David is a graduate of Strathclyde, Glasgow, Oxford and Leeds Metropolitan universities, and a member of the Royal Town Planning Institute. Following a brief spell as a teaching assistant at Glasgow University, David joined Glasgow City Council. He worked on housing improvement schemes and the early work to identify solutions to dampness in multi-storey and other system-built Council properties. For 15 years he was an area coordinator in the city's innovative Area Management process, and in that capacity chaired the officer/member working groups which promoted successful regeneration work in Gorbals, Govanhill and Darnley. He was instrumental in establishing early economic development projects in Gorbals and Greater Pollok, and was the first chair of the Management Committee of the Horizons project in the latter area. David's various roles in Glasgow included policy, strategy and implementation activity.

David moved to re'new over four years ago, where he is Project Director for work in South Leeds and carries responsibility for Strategic and Member Services. He has worked closely with colleagues in the City Council, housing associations, ALMOs and other agencies to develop an integrated approach to long term regeneration strategy in both Beeston Hill & Holbeck, and in Middleton – consciously attempting to link up social, economic, physical, community and cultural aspects. He is currently also coordinating the interdisciplinary steering group which is researching back-to-back housing in the city, with a view to developing a Leeds Back-to-back Housing Strategy.

David has a strong commitment to sustainable regeneration and to partnership approaches which can deliver real – and long-lasting – benefits to local residents.