

Briefing

**Affordability of Private Rented Sector accommodation
for London Households in receipt of Housing Support**



This briefing summarises the current picture for London's private rented sector and what this means for securing affordable accommodation for households reliant on Universal Credit or Housing Benefit to meet their housing costs.

Unless otherwise stated, the figures contained in this briefing are sourced from research commissioned by Capital Letters and carried out by Savills through analysis of Rightmove listings.

Summary

London is in the midst of a severe housing affordability crisis at a time when the financial pressures on low-income Londoners have never been greater. This crisis is driven by wider changes to the Private Rented Sector (PRS) in London, including a sharp reduction in the supply of accommodation alongside rents climbing to higher than pre-pandemic levels, but for low-income households the impact has been compounded by limits on the level of Local Housing Allowance (LHA).

LHA sets the maximum amount of support a benefit claimant can receive through either Universal Credit or Housing Benefit to help pay their rent if they have a private landlord, and the level of these payments has been frozen since April 2020. Increases in rent across London in this period have resulted in a smaller and smaller pool of properties being affordable to households reliant on benefits to meet their housing costs, meaning they are only able to access a small fraction of the market and many are completely unable to secure affordable properties. This has highly limited London boroughs' ability to prevent and relieve homelessness.

Research commissioned by Capital Letters and carried out by Savills (based on analysis of Rightmove listings) has found that:

- London rents have **increased by an average of 15.8 per cent**¹ over the year to June 2022. In all London boroughs average rents are now higher than their pre-pandemic levels.
- Part of the reason for rents increasing during 2021 and early 2022 has been the significant **fall in supply**. The number of properties listed to rent across London in the first quarter of 2022 was 35 per cent lower than the pre-COVID quarterly average.
- This has had a double impact on the number of properties affordable at LHA rates. The fall in supply combined with increasing rents means that **both the overall size of the pot and the proportion of that pot which is affordable is decreasing**.
- In the one year to Q1 2022 **only 8.8 per cent** (18,072 out of 206,067) of all properties listed for rent were affordable on LHA. This is a reduction from 12.9 per cent in the year to Q1 2021.
- The picture is even more stark for households impacted by the overall Benefit Cap. For a capped single parent household with two children over four years-old **only 0.8% properties were affordable** in the two years to the first quarter of 2022.

Background

A series of changes made since 2011 to how LHA is calculated severely restricted the pool of properties affordable to London households reliant upon support to pay their rent. The first major change was the reduction in LHA from covering the bottom 50 per cent of the market to the cheapest 30 per cent (or the level of the LHA cap, whichever is lower). Following this, in April 2013 the link between LHA rates and actual rent increases was broken when they were updated by CPI, followed by a two year 1 per cent rise and then a four year freeze from April 2016. These six years of restrictions meant that in the year to Q1 2020 only 9.2 per cent of properties in London were affordable to those reliant on benefits.

The government then confirmed the end of the freeze and announced that from April 2020 LHA rates would be increased by 1.7 per cent, using the Consumer Price Index. However, as part of a series of emergency welfare measures introduced as a result of the COVID-19 pandemic, the government increased LHA rates to the 30th percentile from April 2020. This represented a significant boost for PRS affordability in London, reflected by the fact that the proportion of Universal Credit claimants who's rent was not covered by LHA decreased from 55 per cent in February 2020 to 38 per cent² in February 2021.

In the intervening two years since the uplift, LHA rates have remained frozen at the April 2020 levels which, combined with wider changes to the Private Rented Sector (PRS) in London, including a sharp reduction in the supply of accommodation alongside rents climbing to higher than pre-pandemic levels, has once again narrowed the supply of properties affordable to benefit claimants to a handful.

Impact on Homelessness

Restrictions in LHA rates impact on homelessness in two main ways: they place households who do not receive sufficient support to cover their rent at risk of homelessness; and they limit the ability of local authorities to prevent homelessness and secure affordable accommodation for currently homeless households.

London is facing a severe homelessness crisis. The number of homeless London households living in Temporary Accommodation (TA) is at near-record levels, with 59,200 London households living in TA in December 2021. London has the highest TA pressures in the country, accounting for two-thirds of England's total TA numbers (96,060 households). Londoners are therefore 10 times more likely to be living in TA than residents of anywhere else in England and analysis by Shelter has shown that homeless households in London have an average stay in TA five times longer than elsewhere in the country. In London, Shelter figures show that 56 per cent of households in TA are in work, demonstrating that the central problem is one of housing affordability, not vulnerability or support needs.

Given London's lack of availability of social and council housing, combined with record waiting lists, accommodation in the PRS is the only realistic route out of TA for the vast majority of homeless households. Yet this solution to homelessness is now being blocked by the lack of affordable PRS properties for thousands of families and individuals.

Currently 124,415 low-income London households reliant on housing support in the PRS do not receive enough support to meet their rental liability³. This accounts for 40 per cent of all benefit claimants living in the PRS in London. These households can attempt to bridge the gap through cutting essential spending or borrowing, but with inflation driving up prices of food and energy, such a shortfall is unsustainable and inevitably leads to rent arrears. This significantly increases the risk of homelessness for these individuals and families.

2. Stat-Xplore

3. Stat-Xplore

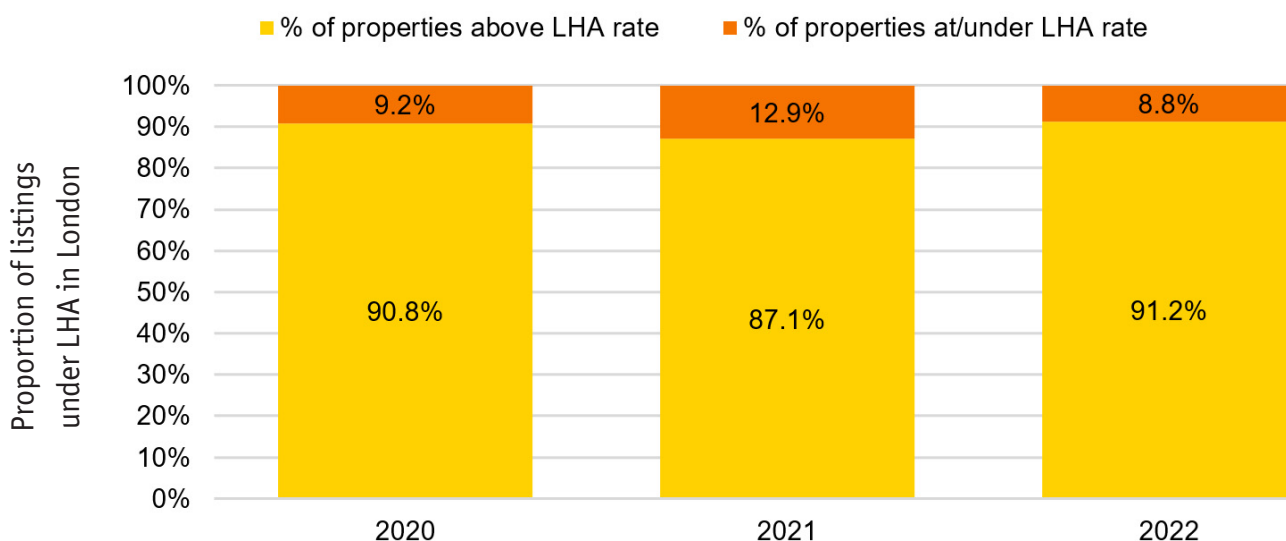
These existing homelessness pressures have only been compounded in recent months by a rapid increase in the cost of essential goods like energy, food, and fuel. Londoners are currently dealing with the consequences of the sharpest fall in living standards since the 1950s. It is becoming increasingly difficult for them to meet their basic living costs following a 54 per cent increase in energy costs from the start of April. One in 10 Londoners also reported experiencing food insecurity in April.

With prices predicted to rise further in the autumn, a far greater number of Londoners are now at risk of experiencing financial hardship than would otherwise have been the case. With London households resident in the PRS spending almost 40 per cent of their income on rent, compared to 23 per cent⁴ in the rest of England, any increase in financial pressure on low-income households will undermine their ability to pay their rent and place them at risk of homelessness.

Local Housing Allowance

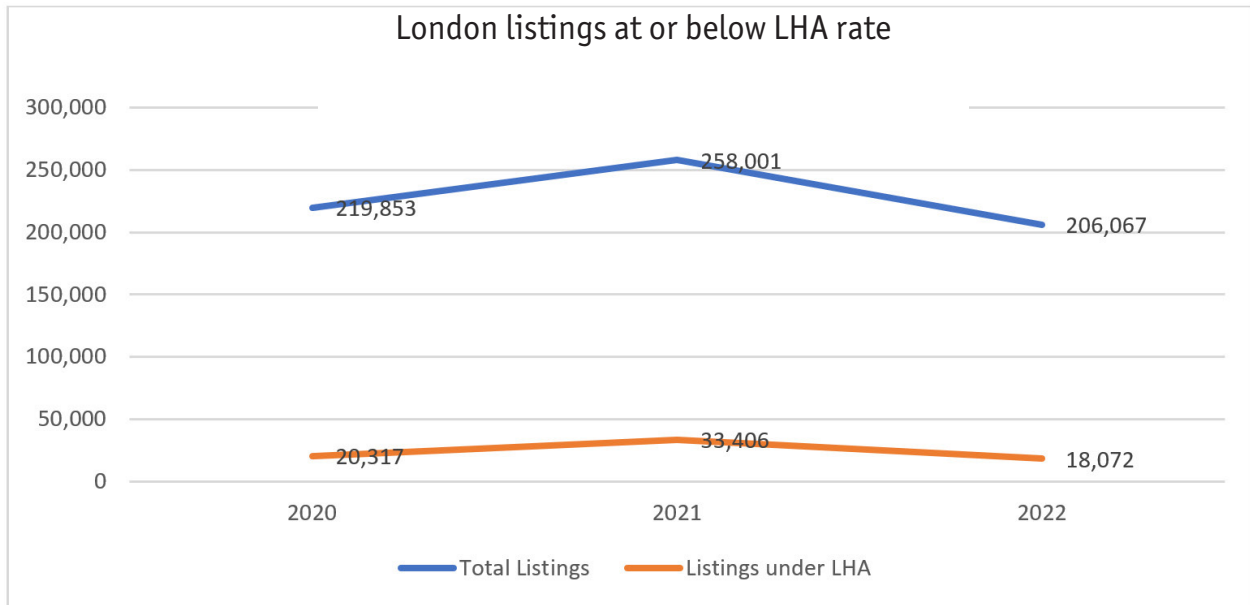
Following their emergency uplift to the 30th percentile in April 2020 LHA rates have remain frozen at these levels for the past two years. The rationale put forward by the government for keeping LHA rates at this level is that rents fell as a result of the pandemic, meaning the 30th percentile is supposedly lower than in April 2020 so if rates were to continue to be pegged to the 30th percentile they would actually decrease.

This policy is meant to ensure that at least the bottom 30 per cent of the PRS market is affordable to households reliant on housing support. However, London rents have increased by an average of 15.8 per cent over the year to June 2022 and in all London boroughs average rents are now higher than their pre-pandemic levels. This means that the real 30th percentile of London rents is now significantly greater than LHA rates, resulting in just 8.8 per cent of all properties listed for rent in the year to Q1 2022 being affordable on LHA rates. Of these properties only 1 per cent were affordable to households impacted by the benefit cap. This is far below the 30 per cent of all properties that are intended to be affordable on LHA.



Source: Rightmove analysis by Savills

Part of the reason for rents increasing during 2021 and early 2022 has been the significant fall in supply. The total number of listing in the year to Q1 2022 was 206,067, 21 per cent lower than the 258,001 listings in Q1 2021. This has had a double impact on the number of properties affordable at LHA rates. The fall in supply, combined with increasing rents, means that both the overall size of the pot and the proportion of that pot which is affordable is decreasing, leading to just 18,072 affordable properties in Q1 2022.



Source: Rightmove analysis by Savills

To put this into context, there were 56,460 households, including 75,850 children, living in TA in London in March 2022. With just under 300,000 people already on London social housing waiting lists, combined with restrictions in the supply of social housing, the PRS is the only realistic option for relieving homelessness for most of these households. On top of this, 23,990 households in London were owed a homelessness prevention duty in 2020/21. Yet with only 18,072 properties available at a level affordable to households in need of housing support it is simply impossible for London boroughs to prevent or relieve homelessness for all these households without a significant boost in the supply of affordable properties.

While affordability has been severely restricted across London, there is variation in the number of available properties among boroughs. Affordability was highest in Tower Hamlets, yet even here only 13.9 per cent, or 2,513 properties, were affordable. Despite the perception that affordability is an inner London problem seven of the 10 least affordable boroughs in London were in outer London, with Bexley, Croydon, Redbridge, Merton, Sutton, Barking & Dagenham, and Bromley being among the least affordable boroughs. These seven Outer London boroughs had just 1,413 affordable properties between them. A full breakdown of affordability by sub-region is included in Appendix 1.

Benefit Cap

Another aspect of the welfare system that impacts the affordability of the PRS is the Benefit Cap, which limits the total amount of benefit a household can receive to £23,000 a year for couples or lone parents and £15,410 for single adults.

The table on page 6 shows the maximum rent households can afford before they are hit by the benefit cap. Any households with higher rent will be impacted by the cap and will have to cover some of their rent out of the benefits allowance given for day to day living such as heating, clothing and food. Counterintuitively larger households, particularly those that need a 3 bed home, have less to spend on rents as their allowance for day-to-day living benefits are greater, yet they are limited by the same benefit cap.

Despite the impact of rent increases and wider inflation the level of the cap has remained frozen since 2016, when it was reduced from £26,000. This has meant that the number of properties affordable to benefit capped households has fallen in the last year because rents across London have grown by 15.8 per cent, while benefit caps have remained the same and there has been a

significant fall in supply. For example, the number of properties affordable to a single parent household with two children has fallen by 59 per cent from 3,918 to 2,320. This is exemplified in the table below.

The lack of accommodation affordable to capped households has a serious impact on securing accommodation for survivors of domestic abuse. Access to benefits can be vitally important for allowing survivors of Domestic Abuse to escape abusive relationships and build independent lives. Refuge accommodation is exempt from the Benefit Cap, but this exemption ends as soon as a survivor moves on from a refuge, making it extremely challenging to find affordable move-on accommodation for survivors affected by the cap. On top of this, there is a shortage of refuge spaces for victims of abuse with multiple children with only 5.6 per cent of refuge spaces in London accessible to women with three children, compared to 15.1 per cent nationally, meaning that this group is disadvantaged in accessing both refuge and wider PRS housing.

Household	Affordable Rent (PCM)	Bed Size	Affordable Properties 2 Years to Q1 2022	Affordable Properties 2 Years to Q1 2021
Single parent, 2 children over 4 and no children	£1,072	2	2,320 (0.8 per cent)	3,918 (4.0 per cent)
Single parent, 2 children over 4 and 1+ children under 4	£1,072	3	162 (0.1 per cent)	238 (0.3 per cent)
Single parent, 3 children over 4	£835	3	78 (0.1 per cent)	97 (0.1 per cent)
Single parent, 4 children over 4	£598	3	30 (0.0 per cent)	41 (0.0 per cent)
Couple, 2 children over 4	£887	2	361 (0.1 per cent)	371 (0.7 per cent)

Source: Rightmove analysis by Savills

Commentary

The effective freeze on LHA rates for the past two years has created serious difficulties for low-income Londoners in accessing housing. It has placed 124,415⁵ households at risk of homelessness as their benefit entitlements fall short of covering their rent, with many more trapped in TA as the restricted LHA rates make it impossible to find them secure and affordable PRS accommodation.

Fundamentally, the affordability gap and increased homelessness pressures created by insufficient LHA rates can only be addressed by bringing LHA rates back into line with current market rents to at least the 30th percentile. In addition, LHA should track market rents into the future with a mechanism introduced to ensure that rates continue to change in line with actual market conditions.

Increasing rates in this manner will bring at least the bottom third of the market back within the scope of those supported by LHA. This will place downward pressure on homelessness presentations as tenants are better able to sustain their tenancies, open a wider supply of homes to enable London boroughs to provide affordable accommodation for homeless households and better prevent homelessness in the first place.

There would also be a wider strategic gain from increasing LHA to bring a significant proportion of the private rented sector back into reach of those that are currently homeless or would otherwise face homelessness. This supports government objectives to reduce homelessness and would also reduce the wider costs to the public sector, including the skyrocketing cost of TA (which increased to £1 billion in 2020/21), that homelessness creates.

In the long-run, the key to addressing homelessness will be to build more homes, and specifically more affordable socially rented accommodation. In the short-term, increasing LHA rates is the most effective tool currently available to the government to prevent and reduce homelessness.

Appendix 1:

Properties affordable on LHA in 1 year to Q1 2022 by sub-region

ICS Boundaries - listings at or below LHA Year to Q1 2022		
2 Bed	No. Listings under LHA	% of listings under LHA
North Central London	2,345	9.7%
North East London	3,738	7.9%
North West London	1,970	10.4%
South East London	1,555	6.2%
South West London	1,549	8.4%
3 Bed	No. Listings under LHA	% of listings under LHA
North Central London	1,050	11.8%
North East London	1,421	7.2%
North West London	787	9.3%
South East London	700	7.4%
South West London	697	9.9%
4 Bed	No. Listings under LHA	% of listings under LHA
North Central London	405	12.6%
North East London	697	12.1%
North West London	378	12.2%
South East London	338	10.6%
South West London	442	13.5%

Source: Rightmove analysis by Savills

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