



BRIEFING PAPER

Number 07747, 19 April 2021

What is affordable housing?

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Summary

This briefing paper considers how affordable housing is defined in England and looks at key trends in the affordability of different tenures.

Why is affordable housing needed?

The need for subsidised housing provision has long been recognised. The cost of private sector housing that meets acceptable standards, compared with the level and distribution of incomes and assets, means that significant numbers of households lack the resources to make a demand for decent housing effective in the market. Without subsidised housing, these households can fail to obtain housing of a decent standard.

No agreed definition of affordable housing

The most commonly referred to definition of affordable housing is set out in Annex 2 to the [National Planning Policy Framework](#) (NPPF). This is the definition that local planning authorities apply when making provision within their areas to meet local demand/need for affordable housing. The most recent version of the NPPF was published in February 2019. The NPPF definition incorporates social rent, as well as a range of intermediate rent and for-sale products. [The Affordable Housing Commission \(2020\)](#) concluded that “many” of these products “are clearly unaffordable to those on mid to lower incomes.”

Planning for affordable housing

The NPPF states that where major development includes the provision of housing, at least 10% of the housing provided should be for affordable home ownership, subject to some exceptions. There is no minimum level of provision of affordable rented housing – this is for local planning authorities to determine. The [Planning White Paper](#) (2020) proposes substantial reforms to the planning system, some of which may have implications for the delivery of affordable housing.

A crisis of affordability and calls for more investment

Commentators are increasingly making the point that, in addition to a crisis in housing supply, England is in the grip of a crisis of affordability. In the foreword to the June 2017 IPPR report, [What more can be done to build the homes we need?](#), Sir Michael Lyons said: “We would stress that it is not just the number built but also the balance of tenures and affordability which need to be thought through for an effective housing strategy.”

Home ownership has been difficult to access in recent years, particularly for first-time buyers, while access to social housing is constrained by a lack of supply. The private rented sector has been the beneficiary and now houses more households than the social rented sector. Private sector rent levels in high pressure areas increased in response to demand. One Government response has been to restrict levels of assistance through Housing Benefit/the housing element of Universal Credit. Some London authorities argue that there is no affordable private rented accommodation available in their areas for households who are reliant on Housing Benefit.

Historically, homes for social rent (with rents set at around 50% of market rents) and affordable home ownership have been the main source of new affordable housing. The introduction in 2011 of social sector development with rents of up to 80% of market rents has, in the view of some commentators, undermined the ability of even the social sector to supply housing that is truly affordable.

Sector submissions to the 2016 Autumn Statement called for a reconfiguration of the Affordable Homes Programme (AHP) to allow providers more flexibility over the type of

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housing developed. There were calls to encourage development at social rent levels to reduce pressure on Housing Benefit expenditure and to increase housing options for people on a low income without having to rely on Housing Benefit. The [Autumn Statement](#) did announce a relaxation of restrictions on grant funding “to allow providers to deliver a mix of homes for affordable rent and low cost ownership, to meet the housing needs of people in different circumstances and at different stages of their lives.” Subsequently, the Housing White Paper (February 2017) set out “a comprehensive package of reform to increase housing supply and halt the decline in housing affordability.”

The National Housing Federation’s (NHF) [submission to the Autumn Budget 2017](#) called for the additional £1.4 billion of investment announced during the Autumn Statement 2016 to be made available for bidding “at the earliest opportunity” and for the “unallocated” £1.1bn from the Starter Homes programme to be applied to “sustained capital investment in genuinely affordable homes for rent.”

In October 2017, the Conservative Government [announced](#) an increase in funding for the Shared Ownership and Affordable Homes Programme of £2 billion, bringing total funding up to £9.1 billion. The announcement extended support for the development of social rented housing. Subsequent developments included the lifting of borrowing caps from local authority Housing Revenue Accounts with effect from 29 October 2018. This was expected to enable councils to increase house building by an additional 10,000 homes per year.

The [2019 Conservative Party Manifesto](#) contained a commitment to increase the number of homes being built and to “rebalance the housing market towards more home ownership.” The [Queen’s Speech](#) of 19 December 2019 contained reference to supporting the continued supply of social homes and to renewing the AHP. Subsequently, the March 2020 Budget announced £9.5 billion for an extension of the AHP:

The Budget announces an additional £9.5 billion for the Affordable Homes Programme. In total, the programme will allocate £12.2 billion of grant funding from 2021-22 to build affordable homes across England. This should bring in a further £38 billion in public and private investment. This new five-year programme will help more people into homeownership and help those most at risk of homelessness.

Funding is expected to support up to 180,000 new homes, subject to economic conditions. The programme’s funding will be split: 50% to fund homes at a discounted rent, and 50% for affordable home ownership products. The Government has confirmed that as a condition of receiving AHP funding, newly developed rented homes must have the [Right to Shared Ownership](#) attached.

[In February 2021 the Housing Minister confirmed](#) the new AHP “will deliver more than double the social rent than the current programme, with around 32,000 social rent homes due to be delivered.” Crisis and the NHF (2018) [called](#) for 90,000 units to be built in England in each year for fifteen years to meet new need and to address the backlog.

1. Defining affordable housing

There is no all-encompassing statutory definition of affordable housing in England. Indeed, there is a good deal of ambiguity in the way the term 'affordable' is used in relation to housing. Aside from covering housing provided with public subsidy, it is used in a general way to describe housing of any tenure that is judged to be affordable to a particular household or group by analysis of housing costs, income levels and other factors. Such is the lack of consensus over what affordability means in housing terms, it's been suggested that the concept should be abandoned on the basis that it's unhelpful when considering the difficulties faced by households in meeting their housing needs.¹

In 2002 the Chartered Institute of Housing (CIH) submitted evidence to the Transport, Local Government and the Regions Select Committee's Affordable Housing inquiry in which it argued for precise and appropriate definitions of affordable housing where there is a need to achieve and measure specific outcomes.² The Office of the Deputy Prime Minister (ODPM): Housing, Planning, Local Government and the Regions Select Committee conducted an inquiry into Affordability and the Supply of Housing over 2005-06 and chose to define affordable housing as:

...subsidised housing that meets the needs of those who cannot afford secure decent housing on the open market either to rent or buy.³

Historically, the term affordable housing tended to be interchangeable with references to social housing, i.e. housing developed with an element of government subsidy (grant) and let at sub-market rents by local authorities or housing associations. Social housing rents are generally around half of market rents.

1.1 A statutory definition of social housing

Sections 68-71 of the [Housing and Regeneration Act 2008](#) define social housing for the purposes of regulating social landlords as low-cost rental *and* low-cost homeownership accommodation. The 2008 Act refers to accommodation at rents below market rates and let to people whose needs are not adequately served by the commercial housing market. Under section 70(2) of the 2008 Act, low-cost home ownership is defined as incorporating shared ownership, equity percentage arrangements and shared ownership trusts. As with low-cost rented housing, these dwellings must be "made available to people whose needs are not adequately served by the commercial housing market"⁴ to qualify as social housing.

¹ Lydia Marshall, NatCen, [Defining and measuring housing affordability in the PRS using the minimum income standard](#), October 2016

² [HC 809-II 2001-02, July 2002, Memorandum by Chartered Institute of Housing](#)

³ [HC 703-1, Third Report of 2005-06, 20 June 2006, p5](#)

⁴ Section 70(3) of the 2008 Act.

1.2 Affordable rents

During the October 2010 Spending Review the Coalition Government announced an intention to introduce a new 'intermediate rent' tenure. Under this model, which is known as 'affordable rent,' housing associations offer tenancies at rents of up to 80% of market rent levels within the local area. The additional finance raised is available for reinvestment in the development of new social housing. Essentially, this model replaced capital grant supply subsidy for social housing with a revenue subsidy. Then-Housing Minister, Grant Shapps, provided some additional information in a [written statement](#) on 9 December 2010:

Affordable Rent is designed to:

- maximise the delivery of new social housing by making the best possible use of constrained public subsidy and the existing social housing stock; and
- provide an offer which is more diverse for the range of people accessing social housing, providing alternatives to traditional social rent.

Affordable Rent falls within the definition of social housing in section 68 of the Housing and Regeneration Act 2008 (and, in particular, the definition of low cost rental accommodation in section 69 of that Act). Affordable Rent properties will therefore be subject to regulation by the Tenant Services Authority - and its Homes and Communities Agency successor - where they are provided by a Registered Provider.⁵

In addition to building to let at affordable rents, housing associations can re-let social rented homes that fall vacant to new tenants at affordable rent levels. The 2021 UK Housing Review records that by April 2020 local authorities held 25,503 newly built or acquired units at affordable rents. Housing associations held 268,771 units.⁶ The Greater London Authority has prohibited conversions to affordable rents in London.⁷ From 2021 the Mayor of London has committed a focus on building at social rent levels.

In 2017, the former Housing Minister, Alok Sharma, conducted a wide-ranging consultation exercise with social housing tenants to inform the development of a forthcoming Social Housing Green Paper. A letter sent by the Minister to tenants, in which he summarised the issues raised, included, according to *Inside Housing* magazine, reference to tenants feeling that "affordable rents are not really affordable."⁸

In 2018 Peabody housing association, which merged with Family Mosaic in 2017, announced an intention to reduce the rent on homes let at affordable rents once they become void. The CEO, Brendan Sarsfield, told *Inside Housing*:

⁵ HC Deb 9 December 2010 cc31-4WS

⁶ Stephens M; Perry J; Williams P; Young G; Fitzpatrick S: 2021 UK Housing Review, Chartered Institute of Housing and University of Glasgow, p78

⁷ *Inside Housing*, "Khan confirms end to affordable rent conversions," 19 June 2016 [subscription required]

⁸ *Inside Housing*, "What Alok Sharma was really told by tenants," 26 January 2018 [subscription required]

Rents let at the 'affordable rent' level introduced by the government in 2010 typically cost between £65-£80 more per week compared to traditional social rents for an equivalently sized property in an equivalent area.

As well as potentially causing hardship, the increase obviously adds to the housing benefit bill, which has now ballooned to more than £25bn a year.

Higher rents are not just a burden for our residents, but also for the general population and the government.

At Family Mosaic I wasn't a supporter of the higher rents, and our 'affordable rents' were set at a target associated with social rent levels.

From 2010, like most of the sector, Peabody charged higher rents – typically at around 65% of the market rate.

This has created quite a serious anomaly.

While 75% of its rents remain at £150 a week or lower, newer residents – mostly younger residents – are paying more for homes of the same size in the same place.

We are now in the bizarre position of having long-term tenants in well-paid employment paying very low rents while newer, younger tenants who earn less could be paying about £80 more each week for a virtually identical property in the same area. It doesn't make sense.

So, starting now, here is what we intend to do. We are aiming over time to set affordable rents at the mayor's London Affordable Rent – ie more genuinely affordable rents.⁹

1.3 The London Affordable Rent (LAR)

The Greater London Authority (GLA) allocates funding from the Affordable Homes Programme in London. Homes funded under the 2016-21 programme were expected to be primarily composed of three affordable products:

- London Affordable Rent;
- London Living Rent;
- London Shared Ownership.

The GLA's bidding guidance for the 2016-21 programme provided advice on the setting of London Affordable Rents:

Government rules require that, nationally, Affordable Rent homes cannot be let at more than 80 per cent of market rents, inclusive of service charges. The Mayor does not consider 80 per cent of market rents to be genuinely affordable in most parts of London and he therefore expects most homes let for London Affordable Rent to be substantially below this level.

The starting point for London Affordable Rent should be the benchmarks for homes which are let in 2017/18 [...] These benchmarks reflect the formula rent cap figures for social rents uprated by CPI for September 2016 plus one per cent. These

⁹ Inside Housing, "Why we are freezing or cutting rents on thousands of homes", 2 May 2018 [subscription required]

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benchmarks will be updated each April by the increase in CPI (for the previous September) plus one per cent and updated benchmarks will be published by the GLA on an annual basis.

Other rent levels for London Affordable Rent will also be considered, where the provider is able to demonstrate to the GLA's satisfaction that the homes would be genuinely affordable.¹⁰

In December 2020 the London Tenants Federation said, based on Freedom of Information Request returns from 24 London boroughs, tenants in newly developed homes were facing higher rents and service charges than existing tenants:

...among the thirteen of these boroughs to have built new social rented homes over the past ten years, rents and service charges were between £12.66 and £42 per week higher for new tenants than existing tenants' rents. Rents & service charges in five boroughs which had delivered homes at the new London Affordable Rent level were £43.97 to £86.79 per week higher for new tenants than existing tenants' rents. The rent increase paid by tenants in new London Affordable Rent homes is clearly significantly higher than those in new social rent homes.¹¹

The [London Plan](#) (March 2021) marks a shift in emphasis towards more social rented development and away from the LAR:

The Mayor is committed to delivering genuinely affordable housing. Within the broad definition of affordable housing, the Mayor's preferred affordable housing tenures are:

- homes based on social rent levels, including Social Rent and London Affordable Rent
- London Living Rent
- London shared ownership¹²

New funding guidance for the 2021-26 programme refers to an agreement with the Government "that more than half the programme will be for Social Rent" – there is an aim to produce 82,000 affordable units across the outgoing 2016-21 and new 2021-26 AHPs.¹³

1.4 Defining affordable housing for planning purposes

Local planning authorities may require developers to include an element of affordable housing on a site as a condition of granting planning permission. These planning obligations, sometimes known as section 106 agreements or - affordable housing levies -, are legally enforceable obligations entered into under section 106 of the *Town and Country*

London Affordable Rent - weekly rent benchmarks

	2021-22 benchmark
Bedsit and 1-bedroom	£161.71
2 bedrooms	£171.20
3 bedrooms	£180.72
4 bedrooms	£190.23
5 bedrooms	£199.73
6 or more bedrooms	£209.24

Source: [Greater London Authority](#)

¹⁰ GLA, [Homes for Londoners – Funding Guidance](#), November 2106

¹¹ London Tenants Federation, [London Tenants Federation - London Mayor to spend affordable housing grant on social rented homes rather than London Affordable Rent](#), 22 December 2020

¹² GLA, [The London Plan](#), March 2021, para 4.6.3

¹³ GLA, [Affordable Homes Programme 2021-2026 - Funding Guidance \(london.gov.uk\)](#), p3

Planning Act 1990 (as amended) to mitigate the impacts of a development proposal.¹⁴

In 2019/20 over 27,000 affordable homes were delivered through this route, of which 3,800 were for social rent.¹⁵ The UK Housing Review's 2020 Autumn Briefing Paper notes that affordable housing contributions over 2018/19 were worth around £4.7 billion¹⁶ "more than double the value of that year's funding via the AHP".¹⁷

For these purposes, the definition of affordable housing is found in Annex 2 to the National Planning Policy Framework (NPPF, 2019). The definition incorporates social rented housing, housing let at affordable rents and low-cost home ownership products:

Affordable housing: housing for sale or rent, for those whose needs are not met by the market (including housing that provides a subsidised route to home ownership and/or is for essential local workers); and which complies with one or more of the following definitions:

a) Affordable housing for rent: meets all of the following conditions: (a) the rent is set in accordance with the Government's rent policy for Social Rent or Affordable Rent, or is at least 20% below local market rents (including service charges where applicable); (b) the landlord is a registered provider, except where it is included as part of a Build to Rent scheme (in which case the landlord need not be a registered provider); and (c) it includes provisions to remain at an affordable price for future eligible households, or for the subsidy to be recycled for alternative affordable housing provision. For Build to Rent schemes affordable housing for rent is expected to be the normal form of affordable housing provision (and, in this context, is known as Affordable Private Rent).

b) Starter homes: is as specified in Sections 2 and 3 of the Housing and Planning Act 2016 and any secondary legislation made under these sections. The definition of a starter home should reflect the meaning set out in statute and any such secondary legislation at the time of plan-preparation or decision-making. Where secondary legislation has the effect of limiting a household's eligibility to purchase a starter home to those with a particular maximum level of household income, those restrictions should be used.

c) Discounted market sales housing: is that sold at a discount of at least 20% below local market value. Eligibility is determined with regard to local incomes and local house prices. Provisions should be in place to ensure housing remains at a discount for future eligible households.

d) Other affordable routes to home ownership: is housing provided for sale that provides a route to ownership for those who could not achieve home ownership through the market. It includes shared ownership, relevant equity loans, other low cost

Starter homes were devised by the 2015 Conservative Government. To date none have been developed and they appear to have been overtaken by First Homes.

¹⁴ For more information see [Library Briefing Paper 07200, Planning Obligations](#)

¹⁵ Stephens M; Perry J; Williams P; Young G; Fitzpatrick S: 2021 UK Housing Review, Chartered Institute of Housing and University of Glasgow, p77

¹⁶ [UK Housing Review 2020 Autumn Briefing Paper - Chartered Institute of Housing \(cih.org\)](#), p14

¹⁷ Stephens M; Perry J; Williams P; Young G; Fitzpatrick S: 2021 UK Housing Review, Chartered Institute of Housing and University of Glasgow, p77

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homes for sale (at a price equivalent to at least 20% below local market value) and rent to buy (which includes a period of intermediate rent). Where public grant funding is provided, there should be provisions for the homes to remain at an affordable price for future eligible households, or for any receipts to be recycled for alternative affordable housing provision, or refunded to Government or the relevant authority specified in the funding agreement.¹⁸

During the consultation process on the draft NPPF (March 2018) the removal of explicit reference to social rented housing in the definition of affordable housing attracted criticism.¹⁹ The final version included reference to social rented housing.

A separate consultation paper on Planning and Affordable Housing for Build to Rent was published alongside the Housing White Paper in February 2017 which sought views on planning measures to support an increase in Build to Rent schemes across England, and which included proposals to change the NPPF to support and increase the number of new Build to Rent homes. [Planning and affordable housing for Build to Rent: summary of consultation responses](#) was published on 3 August 2017. With reference to the proposed changes to the definition of affordable housing, the following outcomes were recorded:

The consultation responses also indicated clear support for the introduction of an “affordable private rent” concept, and for this to be part of an affordable housing definition specifically tied to build to rent schemes.

Responses also indicated, however, a level of concern that there could be unintended consequences if affordable private rent is accepted as a form of affordable housing for non-build to rent schemes.

There was no consensus on the definition of build to rent and affordable private rent. No clear cut position emerged for either.

Similarly, there were varied results in respect of the parameters for operating affordable private rent (such as eligibility criteria, discount levels, and about how clawback could work).²⁰

In response to questions posed in the Housing White Paper, the Government noted “considerable support” (69%) for widening the definition of affordable housing with some caveats:

- An expanded definition would give flexibility in relation to the provision of affordable housing.
- Concerns were raised that the suggested definition would not address the needs of those with greatest housing need, and might reduce social and affordable rented housing.
- A number of respondents suggested that the definition needed to work in conjunction with viability assessments, to ensure it leads to sufficient delivery of affordable housing.

Responses to the [draft revised NPPF](#) expressed concern over the lack of explicit reference to social rented housing in the definition of affordable housing.

¹⁸ HM Government, [National Planning Policy Framework](#), Annex 2

¹⁹ [LGA Response to the MHCLG consultation on the draft revised NPPF](#), May 2018

²⁰ DCLG, [Planning and affordable housing for Build to Rent: summary of consultation responses](#), 3 August 2017, p14

- Others would like caveats within the definition: for example, a perpetuity clause to enable affordable homes to remain affordable indefinitely, and the linkage of affordable homes to local incomes, house prices and rents.²¹

The Communities and Local Government Select Committee conducted an inquiry into the Government's proposals on planning policy over 2015-16, publishing its report on 1 April 2016.²² The Committee expressed concern over a broadening of the definition of affordable housing:

Home builders will understandably seek to build the products with the highest return, and we are concerned that the Government's policy should not lead to fewer truly affordable homes to rent being built. There is a finite amount of money available from developers to deliver affordable housing, and the duty placed on councils is likely to mean that building Starter Homes could be prioritised over other types of affordable housing. Local authorities will be under pressure to satisfy their legal obligations, and this could make negotiations with developers extremely difficult and could undermine Local Plans. Starter Homes should not be built at the expense of other forms of tenure; **where the need exists, it is vital that homes for affordable rent are built to reflect local needs. The definition of affordable housing should better reflect individual and local circumstances.**²³

The Government's response, published in February 2017, reflected the changes announced in the Housing White Paper set out above.²⁴

The Smith Institute launched an independent Affordable Housing Commission in October 2018. The Commission's final report was published in March 2020: [Making Housing Affordable Again: Rebalancing the Nation's Housing System](#). The Commission received evidence that the NPPF definition of affordable housing "made it difficult for councils to attune affordability to local conditions" which in turn has led councils to adopt their own affordability definitions and measures. For example, the Combined West Midlands Authority said:

A 'one size fits all' approach of the NPPF definition of affordability does not reflect the multi-dimensional factors that influence the costs of housing in the West Midlands for local people. In order to address the inaccessibility of both genuinely affordable rental properties and the growing gap between income levels and house prices, a regional approach needs to reflect a whole range of factors influencing affordability and housing market demand.²⁵

²¹ Ministry of Housing Communities and Local Government (MHCLG), [Government response to the housing White Paper consultation: Fixing our broken housing market](#), 5 March 2018, Question 31

²² Communities and Local Government Select Committee, [Department for Communities and Local Government's consultation on national planning policy - Third Report of Session 2015-16](#), HC 703, 1 April 2016

²³ Ibid., pp17-18

²⁴ [Cm 9418](#), February 2017, paras 32-39.

²⁵ Affordable Housing Commission, [Making Housing Affordable Again: Rebalancing the Nation's Housing System: The final report of the Affordable Housing Commission](#), March 2020, pp65-66

1.5 Planning to provide affordable housing

The [revised NPPE](#) states:

Where a need for affordable housing is identified, planning policies should specify the type of affordable housing required, and expect it to be met on-site unless:

- a) off-site provision or an appropriate financial contribution in lieu can be robustly justified; and
- b) the agreed approach contributes to the objective of creating mixed and balanced communities.

Provision of affordable housing should not be sought for residential developments that are not major developments, other than in designated rural areas (where policies may set out a lower threshold of 5 units or fewer). To support the re-use of brownfield land, where vacant buildings are being reused or redeveloped, any affordable housing contribution due should be reduced by a proportionate amount.

Where major development involving the provision of housing is proposed, planning policies and decisions should expect at least 10% of the homes to be available for affordable home ownership, unless this would exceed the level of affordable housing required in the area, or significantly prejudice the ability to meet the identified affordable housing needs of specific groups. Exemptions to this 10% requirement should also be made where the site or proposed development:

- a) provides solely for Build to Rent homes;
- b) provides specialist accommodation for a group of people with specific needs (such as purpose-built accommodation for the elderly or students);
- c) is proposed to be developed by people who wish to build or commission their own homes; or
- d) is exclusively for affordable housing, an entry-level exception site or a rural exception site.²⁶

The requirement for 10% of homes to be available for affordable home ownership is controversial. For example, the LGA said:

We do not agree with a minimum national requirement as it remains our view that LPAs, through their local plans, should determine any site size threshold and proportion of affordable home ownership units that are required on sites based on their objectively assessed need and taking into account site viability. The 10% target also risks displacing provision of genuinely affordable homes, for example social/affordable rented homes. There is also a risk that the affordable home ownership units provided will not be affordable for many as it doesn't address the key challenge for new home buyers, which is raising the deposit. We are concerned that in some housing market areas, the affordable home ownership houses will remain unsold, and so will be reverted to market sale homes. It should not be for national policy to dictate local housing need in terms of tenure split.²⁷

²⁶ HM Government, [National Planning Policy Framework](#), paras 62-64

²⁷ [LGA Response to the MHCLG consultation on the draft revised NPPE](#), 10 May 2018

1.6 Alternative measures and definitions

Although the definitions of affordable housing outlined above refer to housing that meets the needs of those who cannot secure accommodation on the open market, there is no attempt to specify a maximum percentage of income/earnings that a household should spend on housing costs. Planning Policy Guidance Note 3: Housing (now repealed and replaced by the NPPF), said that authorities should define what they considered to be affordable in their areas in terms of the relationship between local income levels and house prices or rents for different types of households.²⁸ There is a view within the housing sector that a failure to set income related affordability targets results in definitions of affordability which are lacking in credibility.²⁹

The failure to link affordability with real income levels and prices within a locality results in definitions which 'lack credibility'.

This section outlines some common approaches to measuring affordability, and some past proposals for assessing and defining affordability in practise.

Measuring affordability using incomes and earnings

A simple approach to measuring affordability is to compare household incomes (or alternatively, wages) with the cost of housing.

Housing cost to income ratio

The housing cost to income ratio (HCIR) is the proportion of a household's disposable income spent on housing. This measure is widely used in studies of affordability.

For example, the HCIR has been used by the Resolution Foundation in its research on affordability.³⁰ In a 2016 report, it looked at the average proportion of household income spent on housing costs over time. The report acknowledged some of the limitations of this method, including the question of what counts as an 'acceptable' proportion of income:

[...] the notion of affordability depends on a **normative judgement about what proportion of income should be spent on housing**. What this level should be changes with both time and place. Studies of housing affordability in the US have moved from regarding 25 per cent as the threshold in the 1980s, for example, to up to 40 per cent today. The UK government has viewed a ratio of 30 per cent of gross income as unaffordable, while Eurostat treats 40 per cent of net income as the appropriate 'housing over-burden' level in its cross-national analysis.³¹

It also notes that the HCIR measure does not account for whether residual income for housing costs is enough to live on (see 'A residual income approach' below), or whether a household is making trade-offs to keep costs low (e.g. by choosing overcrowded housing).³²

More recently, the Affordable Housing Commission (2020) proposed a definition of housing affordability which builds on the housing cost to

²⁸ HL Deb 9 June 2005 cWA99

²⁹ Duncan Bowie, Senior Lecturer in Spatial Planning and Housing at the University of Westminster, speaking at the Policy Forum for London, 11 October 2016

³⁰ Resolution Foundation, [The housing headwind](#), June 2016; Resolution Foundation, [Home affront: housing across the generations](#), September 2017

³¹ Resolution Foundation, [The housing headwind](#), June 2016, p14

³² Ibid.

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income ratio by taking account of personal circumstances rather than market prices:

Our measures are based on an affordability threshold at the point when rents or purchase costs exceed a third of net equivalised household income (and take account of related affordability issues, such as housing quality, overcrowding, adequacy of housing benefit, household size and regional variations).³³

The Commission recommended the adoption by Government of the affordability definitions, measures and targets, outlined in its report “so they are embedded into national housing policies and plans (i.e. as both a normative threshold and practical guide to policy making).”³⁴

Section 2 of this briefing paper looks at some recent data on the proportion of household incomes spent on housing costs in different tenure groups.

Housing cost to earnings ratio

A disadvantage of the HCIR measure is that reliable income data is not available for small areas. A common approach for looking at affordability at the local level is to compare housing costs with *earnings* (i.e. the before-tax salary of employees). This data is available for small geographic areas. However, earnings data is an incomplete measure of income. It doesn't account for the fact that many households have multiple earners, or for the impact of other sources of income such as benefits.

Research by Savills, carried out on behalf of the National Housing Federation and the Joseph Rowntree Foundation, [Living Rents – a new development framework for affordable housing](#) (2015) proposed the development of rented homes which would be accessible to a household in employment with rents based on the bottom quarter of local earnings, starting at a level based on 28% of that figure. Theresa May's [Social Reform Cabinet Committee](#) was urged to consider an approach linking rents with local wage levels.³⁵

The NPPF includes a [standard method for calculating housing need](#) which incorporates a housing costs to earnings ratio. Local planning authorities are expected to use the standard method when assessing local housing need as part of the Local Plan process. The standard method takes a baseline measure of projected household growth and adjusts this upwards, based on the ratio between the median house price in the area and the median annual earnings of full-time employees working in the area. Further adjustments may apply depending on when the local authority last adopted a Local Plan, and whether the authority is one of those making up the 'top 20' largest urban areas in England.³⁶ The Library briefing [Planning for the Future: planning policy changes in](#)

³³ Affordable Housing Commission, [Making Housing Affordable Again: Rebalancing the Nation's Housing System: The final report of the Affordable Housing Commission](#), March 2020, p66

³⁴ Ibid., p72

³⁵ The Guardian, “May is urged to consider policy of ‘living rents’ linked to wage levels, 1 September 2016

³⁶ MHCLG, [Guidance: Housing and economic needs assessments](#), 16 December 2020

[2020 and future reforms \(CBP 8981\)](#) has more background on this method.

Sections 2.1 and 2.2 of this briefing paper use housing cost to earnings ratios to explore geographic trends. The limitations of the measure are also discussed in more detail.

A residual income approach

In the summer of 2016, Lydia Marshall of NatCen presented a paper at the European Network for Housing Research conference in which she used data from the Family Resources Survey 2013/14 to examine the state of housing affordability in the private rented sector. She proposed a residual income approach to defining and measuring housing affordability, based on a Minimum Income Standard (MIS).

This residual income approach defines housing as affordable if “a household is able to afford to meet their other basic or essential needs after paying for their housing.” The [Minimum Income Standard](#) details the income that different households are believed to need to reach a minimum socially acceptable standard of living in the UK.³⁷

The analysis presented to the conference showed:

...at least one in five households in the private rented sector has unaffordable housing – which means that they have high housing costs and have insufficient income left over to afford a minimum acceptable standard of living after paying their rent.³⁸

National Housing and Planning Advice Unit (NHPAU)

This Unit, established by the Labour Government and subsequently closed by the Coalition Government, developed three new affordability indicators to show the ability to access home ownership and the affordability of maintaining a mortgage or renting in the private sector. The Unit identified two basic issues associated with housing affordability:

Can you get on the housing ladder in the first place? The issue here is whether you can find the deposit required.

Can you afford the ongoing costs of owning or renting – or are the mortgage payments or rent going to eat up too much of your income?³⁹

The NHPAU thought that the ‘standard’ housing affordability indicator – the ratio of lower quartile house prices to lower quartile earnings – did not address these questions and developed the following three indicators:

- **The deposit measure:** deposit required as a proportion of take home household income.

³⁷ Work on the MIS programme is conducted by the University of Loughborough with funding from the Joseph Rowntree Foundation.

³⁸ Lydia Marshall, NatCen, [Defining and measuring housing affordability in the PRS using the minimum income standard](#), October 2016

³⁹ NHPAU, [Housing Affordability – a fuller picture](#), 2010

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- **Mortgage costs:** mortgage costs as a proportion of take home household income.
- **Rents:** rent as a proportion of take home household income.

The NHPAU applied these measures and published its findings in [Housing Affordability – a fuller picture](#) in 2010.

The Labour Party's proposed definition (April 2018)

The Labour Party's Green Paper, [Housing for the Many](#) (April 2018) set out an intention to amend the definition of affordable housing:

By an 'affordable home' we mean a house or flat built with some public backing at a price that means those who live in it have enough money left after housing costs for the other things they need. However, the term 'affordable' has been so abused and misused by Conservative Ministers in recent years that we must establish a new Labour definition of 'affordable', linked to people's incomes not to market prices. One common yardstick for the maximum rent or mortgage payment that meets this test is a third of after-tax household income.⁴⁰

Labour's affordability standard would have incorporated three elements:

Social rented homes. As now, homes for social rent will typically be well below market rent levels and set using an established formula based on local incomes, property values and the size of the property. On an average new let, a social rented home is often around half the rent level of the market equivalent. Homes for social rent will form the core of Labour's affordable housing programme.

Living rent homes. Living rent homes which will have rents set at no more than a third of average local household incomes. These homes will be aimed at low-to-middle income working families, key workers and younger people who want a better alternative to renting from a private landlord, or who want help saving for a deposit for a home.

In Manchester, a property let at a living rent could be around £130 cheaper each month than a private flat, allowing a couple to save £4,700 extra towards a home to buy over three years. In Crawley, a living rent home could be £179 cheaper than the prevailing market rent allowing a household to save almost £6,500 extra towards a house to buy.

Low-cost ownership homes. FirstBuy homes will be a new type of home to buy, discounted so the mortgage payments are no more than a third of average local household incomes. The discount will be locked into the home so that future generations of first-time buyers benefit too. These homes will be aimed at working families on ordinary incomes, key workers and younger people. Shared-ownership and rent to buy homes will be other low-cost options included in this category.

A FirstBuy home in Warwick could be sold to first-time buyers at a 17% discount to the going market rate, allowing a first-time buyer almost £5,000 off a deposit as well as lower mortgage

⁴⁰ The Labour Party, [Housing for the Many](#), April 2018

repayments. In Exeter, a FirstBuy home could mean a 26% discount and £7,000 off the money needed for deposit.⁴¹

2. Affordability by tenure type

One way of measuring affordability is to look at how much of households' income, on average, is spent on housing costs (see section 1.6 of this briefing for more on this approach). Data from the English Housing Survey (EHS) tells us how much of their income households that rent or are buying with a mortgage spend on their housing costs. The approach taken by the EHS includes housing benefits in its measure of income. It also looks at income from *all* members of the household, regardless of whether they are contributing to housing costs. It only looks at mortgage payments and rent as housing costs – which means it excludes other housing-related costs such as service charges.

As the chart on the right shows, in 2019/20 privately-renting households spent more of their income on housing on average compared with other groups. On average, private renters spent around 32% of their income on rent, compared with 27% for social tenants and 18% on mortgage costs for mortgagors.

The rest of this section looks at other measures of affordability for each tenure group.

2.1 Home ownership

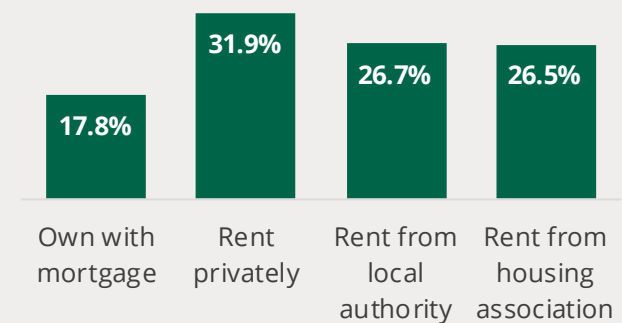
House price to earnings ratio

A common measure of house price affordability compares individual earnings with house prices. The Office for National Statistics (ONS) tracks affordability in England over time by comparing median house prices with median earnings. As the chart overleaf shows, the ratio has increased since 2002; median house prices are 7.8 times higher than median earnings. This is slightly lower than its highest point of 8.1 in 2018.

There are some limitations to the earnings measure used in this ratio. It is an average of the before-tax salary of a full-time employee living in England. This means that part-time and self-employed workers are not included. The measure doesn't include the effect of other income sources (e.g. benefits) or deductions (e.g. tax and National Insurance). The measure is for individuals, but many households have multiple

Private renters spend more of their income on housing costs

Average mortgage/rent as a proportion of household income, by tenure. England, 2019/20

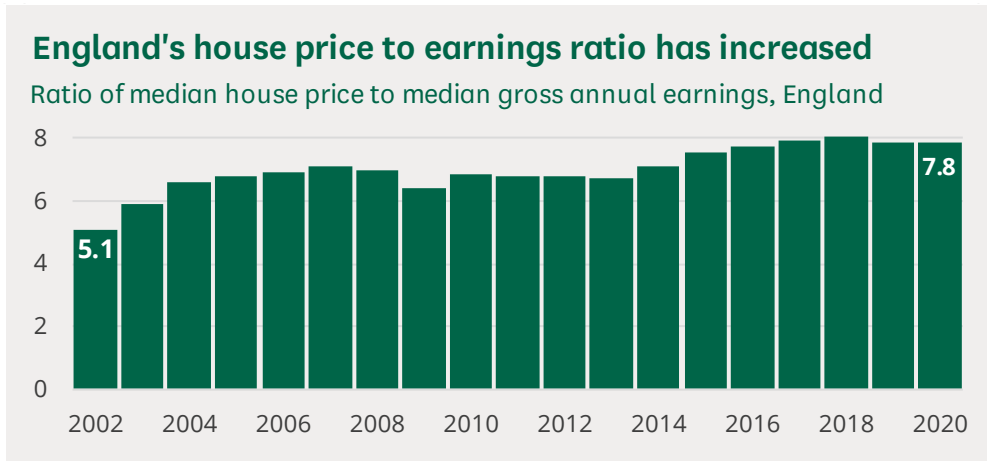


Source: MHCLG, [English Housing Survey 2019/20: headline report](#), Annex Table 1.12

⁴¹ Ibid.

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earnings which affects the accommodation they can afford. The ratio is best understood as an indicator of how house prices have grown relative to wages, rather than a descriptor of real households' experience with housing costs.



Notes: Earnings are based on the before-tax annual salary of a full-time employee living in England. The median is the point at which half of earnings are higher and half are lower.

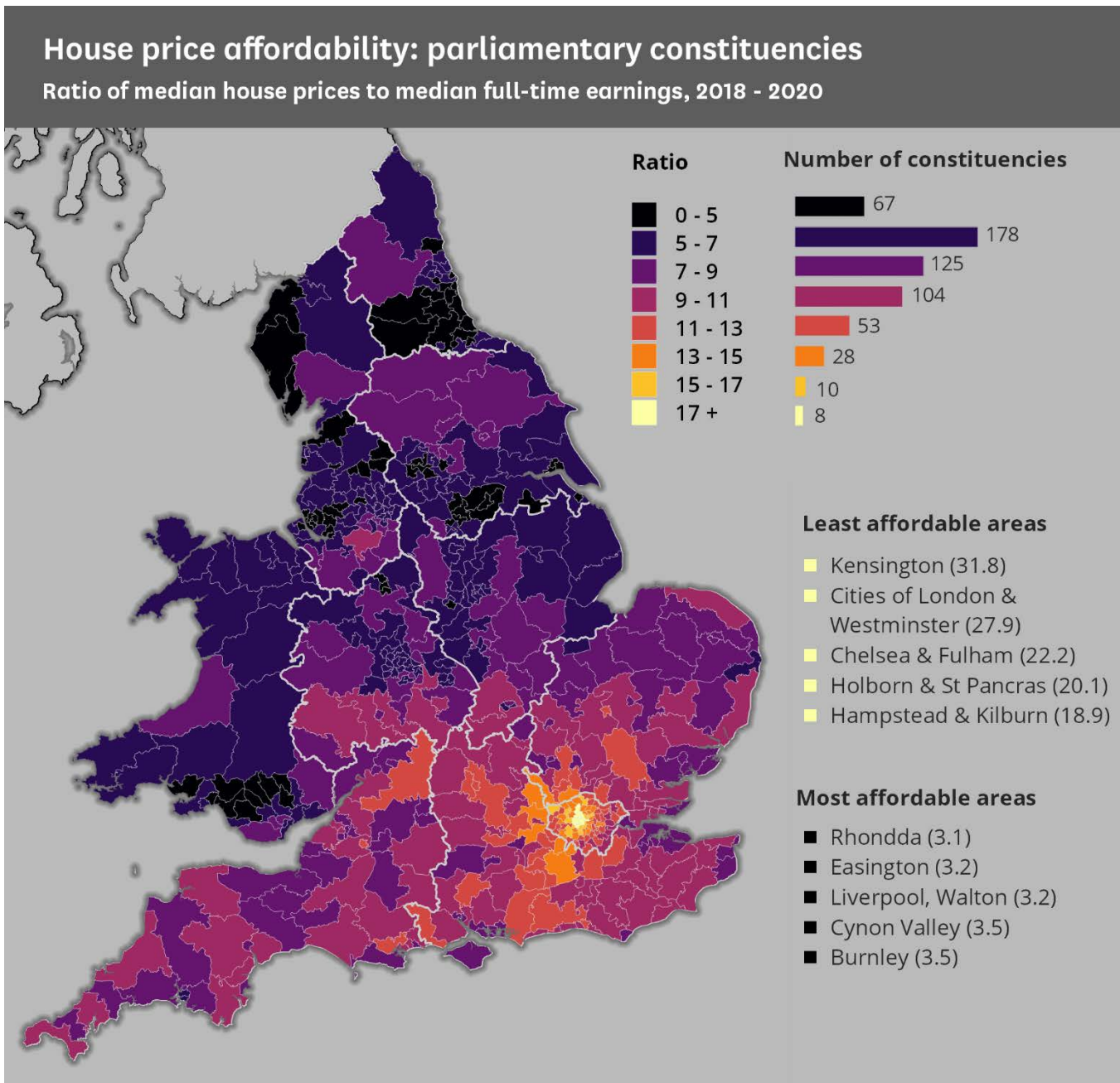
Source: ONS, [Housing affordability in England and Wales: 2020, House price to residence-based earnings ratio dataset](#).

The map overleaf shows how the housing costs to earnings ratio varies across parliamentary constituencies in England and Wales using a slightly different methodology. Earnings data is based on a small sample of workers living in each constituency, which means that the estimates are not as reliable as the national-level figures. A three-year average of earnings between 2018 and 2020 is used to improve the reliability of the measure, and for comparability is also applied to house prices. The earnings figures are weekly earnings multiplied up to create an annual estimate, because this data is more complete than annual salary data.

Using the three-year average measure, the ratio for England and Wales was 7.8. The least affordable constituency by this measure was Kensington, where median house prices were 31.8 times median earnings. All 20 constituencies with the highest affordability ratios were in London. The lowest affordability ratios were in Rhondda (3.1), Easington (3.2) and Liverpool, Walton (3.2).

House price affordability data for your constituency

The Commons Library publishes an interactive dashboard, [Constituency data: house prices](#) which shows trends in house prices for constituencies in England and Wales as well as house price to earnings ratios. To access it, click on the link or visit commonslibrary.parliament.uk



Notes: Ratios are calculated from a three-year average of median earnings and median house prices between 2017/18 and 2019/20. Earnings figures are annualised weekly earnings of a full-time employee living in the constituency. The median is the point at which half of earnings are higher and half are lower.

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Sources: Annual Survey of Hours and Earnings (ASHE), via [ONS Nomis](#); ONS, [House Price Statistics for Small Areas](#), Dataset 24

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The house price to earnings ratio is now included in the NPPF as part of the 'standard method' for determining housing need within a local planning authority (see section 1.6). The methodology for calculating the house price to earnings ratio prescribed by the standard method is slightly different from the method used in this briefing paper. The key difference is that the standard method uses average earnings for people *working* in the area, rather than people *resident* in the area.^{42, 43}

The affordability of home ownership is often discussed in the context of first-time buyers. The decline in home ownership in England has been more pronounced in some younger age groups. In 2003/04, 59% of households led by someone aged 25-34 were homeowners. This fell to 41% in 2019/20. Similarly, the proportion of households led by a 35-44 year-old fell from 74% to 56%.

The fall in house prices after the 2007 financial crisis had only a limited effect on affordability for first-time buyers. Lenders have tightened their criteria for mortgage approvals and require buyers to have substantial deposits. [The Affordable Housing Commission \(2020\)](#) identified affordability of deposits as a key barrier for first-time buyers, with recourse to the "bank of mum and dad" becoming a prominent feature of home ownership:

Alongside lower availability of high-LTV mortgages, high house prices have constrained the ability of households to raise a deposit. In fact, the inability to save for a deposit is cited by the public as the biggest barrier to buying. This chimes with research by the banks and building societies, which have shown that it would take over five years to save for a deposit in lower-demand areas, rising to double digit figures in the South.

The data demonstrates the high levels of savings required to buy. Even though FTBs [First Time Buyers] benefit from tax breaks (on stamp duty and government-backed schemes on newbuild, such as Help to Buy), the loan-to-value requirements of lenders make home ownership unaffordable for many FTBs on average incomes.

The problem of raising the deposit is much worse in London, where the mean FTB deposit is around £147,000 (2019), equivalent to 180% of income; more than double what it was before the financial crisis and nine times higher than in the mid-1990s. The average deposit in all English regions, other than the three Northern regions, is above the average full-time salary for the region.

The median FTB deposit is lower, with English Housing Survey data suggesting that in 2016 the median FTB over the previous three years had bought with a deposit of £25,000 versus a mean deposit of £42,000. Nevertheless, median deposits still represent a considerable amount to save.

As a consequence, recourse to the "bank of mum and dad" has become a prominent feature of home ownership (or general

⁴² MHCLG, [Guidance: Housing and economic needs assessments](#), 16 December 2020

⁴³ Other differences are that the standard method uses single-year data rather than a three year average, and uses an annual earnings figure rather than annualised weekly earnings. This briefing paper uses annualised weekly earnings because there are some gaps in the annual earnings data at constituency level; the annualised weekly earnings data also includes more workers in its sample.

reliance on family support), raising issues around entrenched wealth inequalities...⁴⁴

Affordability of shared ownership

Shared ownership is a product that lets buyers purchase a share of a property (traditionally between 25% to 75%) and pay rent on the remaining share. It is intended as an intermediate option for households that would not otherwise be able to afford home ownership. The supply of new shared ownership homes has increased in recent years, with shared ownership making up an increasing proportion of new homes for affordable home ownership (see section 3.1).

The Government is introducing a new national model of shared ownership under which the minimum share purchased is reduced to 10%; staircasing in 1% increments is enabled for 15 years; and responsibility for repair/maintenance costs is placed on the landlord for a 10-year period. This model applies to new shared ownership homes delivered through the [Affordable Homes Programme \(AHP\) 2021-26](#) from 1 April 2021.⁴⁵

Shared ownership has been identified by some sources as one of the more affordable housing options available. For example, a 2013 Resolution Foundation report⁴⁶ found that shared ownership was more affordable than private rent or full ownership for many households, assuming that the household spends 35% of its income on housing costs. For example, a couple with one child and £19,000 per year in income could afford shared ownership in 78% of local authorities, compared with 38% of local authorities if privately renting and 27% if owning with a mortgage.

However, other reports suggest that shared ownership has become less affordable. A 2015 report by Viridian Housing, a housing association, analysed data from the DCLG.⁴⁷ They found that the average income of a shared ownership buyer had increased from around £26,000 in 2003 to around £35,500 in 2014. Buyers were also less likely to have social housing as their previous tenure – 13% were in this group in 2003 compared with 5% in 2014.

In 2019/20, the average market value of a home purchased through shared ownership schemes was £245,000, up from £160,000 in 2010/11. The average initial equity stake purchased was £100,000 (up from £63,000 in 2010/22) with an average cash deposit of £10,500 (up slightly from £9,700 in 2010/11).⁴⁸

⁴⁴ Affordable Housing Commission, [Making Housing Affordable Again: Rebalancing the Nation's Housing System](#), 23 March 2020, pp186-187

⁴⁵ For more information see the Library briefing paper: [Shared ownership \(England\): the fourth tenure?](#)

⁴⁶ Resolution Foundation, [One foot on the ladder: How shared ownership can bring owning a home into reach](#), November 2013

⁴⁷ Viridian Housing, [A fair share? Understanding residents' experiences of shared ownership](#), September 2015

⁴⁸ MHCLG, [Live Table 697](#), 23 February 2021. Figures are median averages and relate to Private Registered Provider sales only.

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The London Assembly Labour Group's [response](#) to the Mayor's 2017 draft London Housing Strategy expressed doubts over the success of the model in London:

- Those living in Shared Ownership accommodation are the least satisfied of those living in any tenure;
- The evidence for Shared Ownership owners being able to afford the 'staircase' options available to progress to full ownership is scant and a full assessment needs to be made;
- Shared Ownership as a model does not work for most of Zones 1 & 2 where the average cost of a shared ownership property would require a salary of £90,000 a year;
- The costs of service charges on top of rent and mortgage are in some cases making Shared Ownership the most expensive tenure.

We would like to see this Strategy commit to a full and rigorous assessment of the Shared Ownership model and its operation in London.⁴⁹

2.2 Renting and affordability

The private rented sector

The decline in the affordability of home ownership together with pressure on the social rented sector has prompted a growth in the private rented sector. Around 19% of English households were private renters in 2019-20 (4.4 million households) – a slight decrease on the year before but an increase in the long term. Around 10% of households rented privately in 2000.⁵⁰

Private rental prices have grown in recent years, although the rate of growth has slowed recently. According to the Office for National Statistics' (ONS) [Index of Private Housing Rental Prices](#), in England rental prices grew by 1.3% in the year to February 2021, and by 10.4% between February 2016 and February 2021.⁵¹

Income to rent ratios

The rise in rents has been close to the rise in individual earnings at the national level. For example, both rents and earnings in Great Britain grew by around 17% between 2011 and 2019. Rents have outpaced earnings in some regions. In London, rents grew by 24% between 2011 and 2020 compared with an 18% growth in earnings. In the South East, rents grew by 21% while earnings grew by 14%.^{52, 53}

The map below shows median private rents as a proportion of median earnings for local authorities in England. The median rent in a given area is affected by the mix of sizes of properties available, so rents for

⁴⁹ [London Assembly Labour Group's response to the Mayor's draft London Housing Strategy](#), 2017, p9

⁵⁰ MHCLG, [English Housing Survey 2019 to 2020: headline report](#), Annex Table 1.1. 17 December 2020

⁵¹ ONS, [Index of Private Housing Rental Prices, UK: February 2021](#), 24 March 2021

⁵² Ibid. Change is between index values for April 2011 and April 2020.

⁵³ Annual Survey of Hours and Earnings (ASHE), via Nomisweb.co.uk. Change is for weekly earnings of full-time employed people between April 2011 and April 2020.

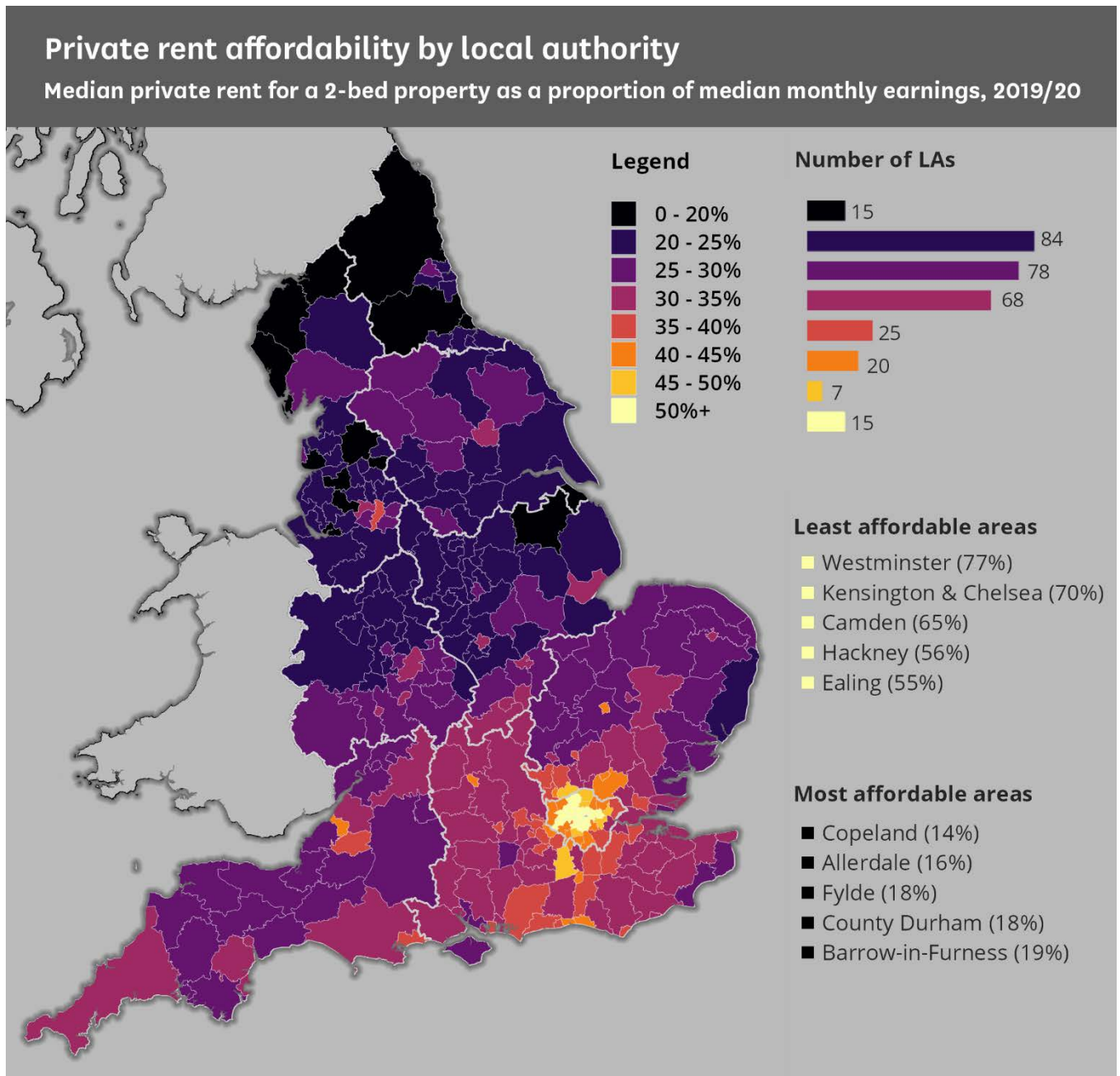
two-bed properties are used as a way of making figures for different areas more comparable.

In England, the median rent for a two-bed property was £695 in the year to September 2020, while median monthly earnings were around £2,560 (based on scaled-up median weekly earnings). Median rents represent around 27% of median monthly earnings.

Most local authorities in England also had median rents for two-bed homes that were 20-30% of median monthly earnings. However, the proportion can be higher, particularly in London, the South East and parts of the South West. The 20 areas with the highest proportions were in London. The highest was in Westminster, where median rents were 77% of median monthly earnings.

There were 15 areas with rents at less than 20% of median earnings, all of which were in the North and Midlands. The local authority with the lowest proportion was Copeland (14%).

As discussed in section 2.1 above, there are some limitations to this approach. The measure applies to employees only and doesn't take additional income sources or deductions into account. It measures individual salary rather than accounting for the combined income of households. The small sample size means that areas should be compared with caution – some of the variation will be due solely to fluctuation in the sample.



Notes: Monthly earnings are scaled-up weekly earnings of full-time employees living in the local authority. The median is the point at which half of earnings are higher and half are lower. Median rents are based on a survey sample which does not include Housing Benefit recipients. This analysis compares earnings figures for the year to March 2020 with rents figures for the year to September 2020, due to local authority boundary changes in this period.

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Sources: Annual Survey of Hours and Earnings (ASHE), via [ONS Nomis](#); ONS, [Private rental market summary statistics in England: October 2019 to September 2020](#)

Affordability in the social rented sector

This section looks at affordability of the social rented sector, comparing social and affordable rents with the median income of social rented sector tenants. When measuring affordability in the social rented sector, it is more useful to look at total household incomes rather than earnings alone to account for the effect of benefits.

The table below compares the median income of social rented sector tenants with mean social and affordable rents in each region.

Affordable rents represent a higher proportion of incomes than social rents, especially in London and the South.

This analysis doesn't account for any income differences that might exist for tenants on affordable compared to social rents.

Affordability of social and affordable rents

Mean social and affordable weekly rents for 2-bed homes (2018/19) compared with median weekly incomes for social housing tenants (2016-19)

Region	Median income	Social rent		Affordable rent	
		Mean rent	As % of income	Mean rent	As % of income
North East	£376	£75	20%	£93	25%
North West	£371	£79	21%	£100	27%
Yorks. & the Humber	£364	£76	21%	£96	26%
East Midlands	£375	£80	21%	£102	27%
West Midlands	£359	£82	23%	£105	29%
East of England	£390	£93	24%	£132	34%
London	£382	£109	28%	£193	50%
South East	£408	£100	25%	£150	37%
South West	£384	£86	22%	£118	31%

Notes: Median incomes are for households living in local-authority or housing-association homes, regardless of their rent type. They are based on a three-year average for 2016/17 to 2018/19 expressed in 2018/19 prices. Figures are based on three years of data to improve their reliability. They are however still subject to some survey sampling uncertainty.

Income figures are based on equivalised incomes - incomes adjusted for household size and composition (to a benchmark of a couple without children).

Incomes are disposable measured after taxes and benefits but before housing costs.

Analysis is based on rounded data – this may mean that the results are a little different to any equivalent figures published by the Government.

Mean rents are a weighted average accounting for both local authority and housing association homes. Housing association 'social rent' homes are all General Needs rents apart from those let at affordable or intermediate rents, or subject to High Income Social Tenant arrangements.

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Sources:

Income: Department for Work and Pensions. (2019). Households Below Average Income, 1994/95-2018/19. [data collection]. UK Data Service. SN: 5828, <http://doi.org/10.5255/UKDA-SN-5828-10>

Local authority rents: MHCLG, [Local authority housing statistics data returns for 2018 to 2019](#), Sections A and H

Housing association rents: Regulator of Social Housing, [Statistical Data Return 2018 to 2019](#), data release

3. The supply of affordable housing

3.1 An overview

As previously explained, the definition of affordable housing for planning purposes includes homes for social rent, affordable rent, certain other sub-market rents and affordable home ownership (including shared ownership). Section 1.4 of this briefing explains the definition in more detail.

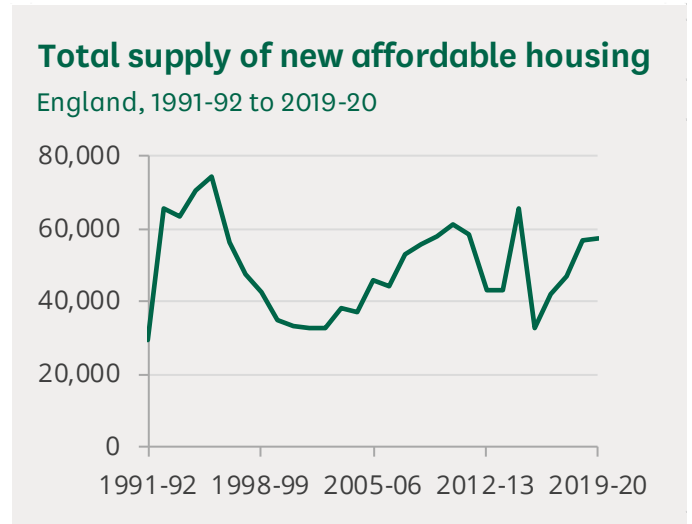
The chart on the right shows trends in the number of new-builds and acquisitions of homes in these categories since 1991-92.

New supply of affordable homes peaked in 1995-96 at around 74,500 homes before declining to a low of around 32,900 in 2002-03. New supply spiked in 2014-15 at almost 66,000 homes as the 2011-15

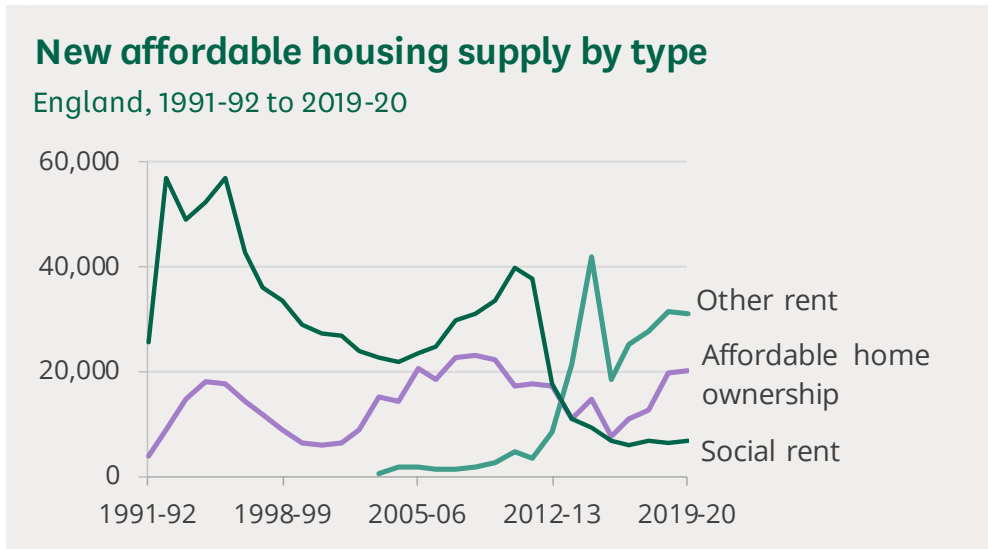
Affordable Homes Programme ended, before falling to 32,600 the following year. Delivery has increased year-on-year since then, with around 57,600 homes delivered in 2019-20.

The chart overleaf shows trends in the number of new affordable homes of each type provided. Definitions of the different types are as follows:

- Social rents are sub-market rents set through the national rent regime in England. Social rented property may be owned by local authorities or housing associations.
- Affordable rents can be set at up to 80% of the local market rent. Again, the properties may be owned by local authorities or housing associations.
- Intermediate rent is above social rent, but below market levels. It does not include properties let by local authorities or housing associations at affordable rents. London Affordable Rent (see section 1.3) is counted in the same category for this chart.
- Affordable home ownership includes homes for sale at a cost below market levels provided to eligible households whose needs are not met by the market. There must be provision for the housing to remain at an affordable price for future eligible households or for the subsidy to be recycled for alternative affordable housing provision. Shared ownership homes are counted as affordable home ownership in the chart.



Source: MHCLG, [Live Table 1000](#), 8 December 2020

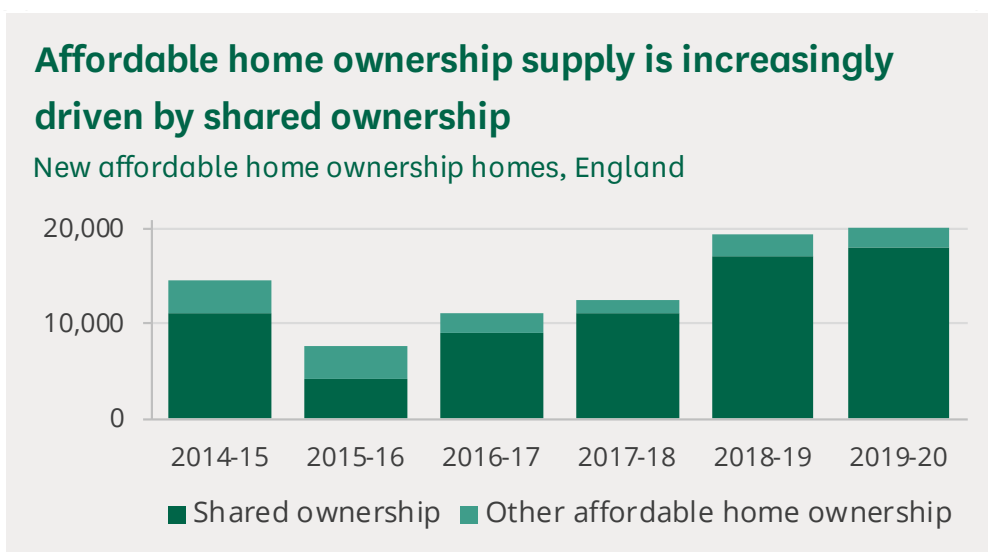


Source: MHCLG, [Live Table 1000](#), 8 December 2020

Notes: 'Affordable home ownership' includes shared ownership. 'Intermediate and other rent' includes both London Living Rent and London Affordable Rent.

Homes for Affordable Rent were the most common type of affordable housing supplied in 2019-20, making up 47% of the total. Affordable home ownership (including shared ownership) made up 35%, while homes for social rent made up 11% and other forms of rent made up 6%.

Shared ownership homes were more common than other forms of affordable home ownership. Shared ownership made up 31% of overall affordable housing supply, while other affordable home ownership made up 4%. As the chart (right) shows, shared ownership supply has been growing faster than other forms of affordable home ownership supply in recent years.



Source: MHCLG, [Live Table 1000](#), 8 December 2020

Local data on affordable housing supply

The Commons Library publishes an interactive dashboard, [Local authority data: housing supply](#) which includes data on affordable housing supply. The dashboard also shows total social housing stock and total new supply of housing. Find it at the link or at [commonslibrary.parliament.uk](#).

3.2 The demise of social rented housing?

Historically, homes for social rent and affordable home ownership have been the main source of new affordable homes. However, the number of homes let at affordable rents (which can be up to 80% of market rents) initially increased rapidly after their introduction in 2011-12. Delivery of Affordable Rent homes peaked in 2014-15, when they made up 62% of total new supply. The number of new Affordable Rent homes declined sharply in 2015-16, but has since increased year-on-year.

The introduction of affordable rents coincided with a decline in the supply of new homes for social rent (see chart).

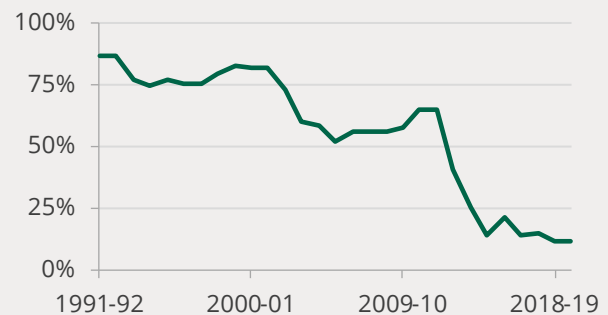
Around 6,600 new homes for social rent were supplied in 2019-20, making up 11% of all new affordable housing supply. By contrast, in 2011-12 there were around 37,700 new social housing units supplied (65% of all new affordable housing), and the early 1990s social rent made up over 75% of new affordable housing supply.

The stock of housing for social rent fell by around 4% between 2012/13 and 2018/19.⁵⁴ Social rented housing has been under pressure due to several factors, including:

- Higher levels of Right to Buy sales following the introduction of increased discounts in 2012. There is no requirement to replace these homes on a like-for-like basis, e.g. to replace a home let on a social rent with another let on a social rent. Statistics show that the commitment to replace the sold properties within a three-year period is not being met.⁵⁵
- The switch of new-build output under the Affordable Homes Programme towards affordable rent lettings.

Social rent is declining as a proportion of new supply

Percentage of new affordable homes that are for social rent, England, 1991-92 to 2019-20



Source: MHCLG, [Live Table 1000](#)

⁵⁴ House of Commons Library, [A new era of social rented housing in England? \(CBP 8963\)](#), 13 July 2020. See p.29 of the briefing for more on how this figure was calculated.

⁵⁵ For more information see Library briefing paper: [A voluntary Right to Buy for housing association tenants in England](#)

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- The conversion of social rented homes to affordable rents when re-let. Between 2012 and 2018, a total of 111,570 units were converted to Affordable Rent from other social housing types.⁵⁶ As previously noted, the rate of conversions has subsequently fallen.⁵⁷
- There were over 4,600 demolitions of stock owned by social housing providers in 2019-20.⁵⁸
- The requirement on local authorities and housing associations to reduce rents by 1% every year from April 2016 up to 2020⁵⁹ impacted on their investment capacity.

In the 2021 UK Housing Review John Perry, policy advisor with the Chartered Institute of Housing (CIH), notes:

Over the eight years April 2012-20, the net loss of social rented stock across the sector for various reasons reached 200,000 units, despite the building of 70,000 new social rented homes over the same period. CIH has been issuing regular warnings about the decline in the social rented stock., which has now fallen by five per cent since 2012 when AR lettings began.⁶⁰

There is widespread agreement in the housing sector that an increase in the supply of social rented housing is required to tackle the crisis in housing affordability. Crisis and the NHF (2018) called for 90,000 units to be built in England in each year for fifteen years to meet new need and to address the backlog.⁶¹

Further background and statistics on the status of social housing is available in the Library briefing paper [A new era of social rented housing in England? \(CBP 8963\)](#).

3.3 The Planning White Paper 2020: implications for affordable housing

The Planning White Paper, [Planning for the Future](#) (August 2020) contains several proposals with implications for the delivery of affordable housing.

Reforming planning obligations/section 106 contributions

As noted in section 1.4, in 2019/20 over 27,000 affordable homes were delivered through developer contributions. [Planning for the Future](#) proposes to further reform section 106 contributions and the Community Infrastructure Levy (CIL) to create an Infrastructure Levy as “a nationally-set value-based flat rate charge”. This might involve a single rate or variable rates. There is an aim for the new levy “to raise

⁵⁶ Regulator of Social Housing, Statistical data return 2017 to 2018, 23 October 2018, p18

⁵⁷ Stephens M; Perry J; Williams P; Young G: 2019 UK Housing Review, Chartered Institute of Housing and Heriot Watt University, table 1.1.2 p22

⁵⁸ MHCLG, [Live Table 684](#), 23 February 2021

⁵⁹ The relevant provisions are contained in the *Welfare Reform and Work Act 2016*.

⁶⁰ Stephens M; Perry J; Williams P; Young G; Fitzpatrick S: 2021 UK Housing Review, Chartered Institute of Housing and Glasgow University, 78

⁶¹ Bramley G, [Housing supply requirements across Great Britain: for low-income households and homeless people](#), November 2018, Crisis & NHF, p6

more revenue than under the current system of developer contributions, and deliver at least as much – if not more – on-site affordable housing as at present.”⁶²

There are concerns that the creation of a single levy will put affordable housing in competition with other infrastructure projects. The Chartered Institute of Housing, Royal Town Planning Institute, and Town and Country Planning Association said that more evidence, modelling and policy development is needed to establish that the new levy will not result in reduced delivery of affordable housing.⁶³

The White Paper acknowledges risks in the changed approach. For example, there is reference to allowing planning authorities to ‘flip’ a proportion of affordable units back to market units for developers to sell in the event of a market fall.⁶⁴ The 2021 UK Housing Review notes that this could result in a reduction in affordable housing supply in response to unanticipated changes in site or market conditions, Philip O’Brien comments:

Under an arrangement in which affordable housing provision is already closely tied to private housebuilding, such a change in policy would introduce further instability.⁶⁵

First Homes and developer contributions

In February 2020, the Government launched a [consultation](#) on a new First Homes initiative which aims to deliver discounted homes for local first-time buyers. The intention is for First Homes to be sold with a minimum discount of 30% off the market price and for this to be retained in perpetuity.⁶⁶ A [summary of responses and the Government’s response](#) was published in August 2020.⁶⁷ The Government then consulted on [Changes to the current planning system](#) (August 2020) with the outcome in relation to First Homes published on 1 April 2021.⁶⁸

This paper set out how the Government intends First Homes to be delivered:

- We committed to introducing through planning policy a requirement that a minimum of 25% of homes delivered through developer contributions should be First Homes.
- We committed to amend the entry-level exception site policy to become a new First Homes exception site policy, allowing a small proportion of market homes and/or other forms of affordable housing to support viability.
- We committed to introduce a mandatory exemption from the Community Infrastructure Levy for First Homes.

⁶² MHCLG, [White paper: Planning for the Future](#), August 2020, p18

⁶³ Inside Housing, “What the sector thinks of the Planning White Paper: six key takeaways”, 6 November 2020 [subscription required]

⁶⁴ MHCLG, [White paper: Planning for the Future](#), August 2020, p66

⁶⁵ Stephens M; Perry J; Williams P; Young G; Fitzpatrick S: 2021 UK Housing Review, Chartered Institute of Housing and University of Glasgow, p34

⁶⁶ For more information see: [A guide to First Homes](#)

⁶⁷ MHCLG, [First Homes Design and Delivery: Summary of responses to the consultation and the Government’s response](#), 6 August 2020

⁶⁸ MHCLG, [Government response to the First Homes proposals in "Changes to the current planning system"](#), 1 April 2021

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Regulations to achieve this have already passed through the House of Commons and this mandatory exemption became law on 16 November 2020.⁶⁹

The necessary changes to national planning policy will be made “through the laying of a Written Ministerial Statement in Parliament, which will happen in due course, and with an implementation date to be set out on publication.”⁷⁰

The April 2021 paper referred to concerns raised during the consultation process on potential to ‘squeeze out’ other types of affordable housing:

The most frequent general points raised under option iii) related to concern about the impact of a requirement for 25% of affordable homes to be First Homes. There was concern that this will reduce the number of affordable homes produced, particularly for social rent which was cited as high need by several local authorities. A number of responses questioned how affordable First Homes would be in their local area. Several pointed to viability impacts of changing the tenure mix.

Other issues which were raised by some respondents included concerns around the impact on registered providers’ financial positions – it was suggested that a significant fall in shared ownership provision could reduce cross-subsidisation for affordable homes to rent.⁷¹

The Government said it was “sympathetic” to these concerns. After securing the 25% First Homes requirement from developer contributions “they [local planning authorities] should prioritise securing their policy requirements on social rent”.⁷²

Raising the small sites threshold (not taken forward)

The August 2020 consultation paper proposed a temporary lifting of the small sites threshold below which developers do not need to contribute to affordable housing. This would have meant no requirement to deliver affordable housing on sites of up to 40 or 50 units. The Government does not intend to take this forward:

We have carefully considered the consultation feedback and the situation in the housing market. On balance, we do not consider this measure to be necessary at this stage, particularly in light of the broader way in which the sector has responded to the challenges of the pandemic and the other measures we have available to support SMEs.⁷³

⁶⁹ Ibid.

⁷⁰ Ibid.

⁷¹ Ibid.

⁷² Ibid.

⁷³ Ibid.

4. The role of Housing Benefit

Housing Benefit/the housing element of Universal Credit (UC) is a personal subsidy which enables non-working households and those on a low income to pay for rented accommodation. When the *Housing Act 1988* deregulated⁷⁴ private sector rents for new tenancies created after 15 January 1989, a likely outcome was identified as an increase in expenditure on Housing Benefit. The then Minister for Housing, Sir George Young, responded to these concerns saying that Housing Benefit would “take the strain”:

Sir George Young: I do not accept the premise on which the hon. Gentleman based his question. Housing benefit will underpin market rents-- we have made that absolutely clear. If people cannot afford to pay that market rent, housing benefit will take the strain.⁷⁵

There have been several changes to Housing Benefit entitlement since 2010 which mean that it is more likely that a claimant’s Housing Benefit/housing cost element of UC entitlement may not cover the full amount of the rent due. This has implications for low income households’ ability to access and retain rented housing.

The key changes include:

- Since April 2011, Local Housing Allowance (LHA) rates (Housing Benefit for claimants living in the private rented sector) have been calculated with reference to the 30th percentile of market rents within a Broad Rental Market Area. Prior to this, LHA rates were based on median rent levels. National LHA caps were introduced at the same time.
- The uprating of LHA rates has been subject to various restrictions since 2012. LHA rates were frozen for four years from April 2016 to April 2020 with some exceptions for the most expensive areas. In March 2020, in response to the coronavirus pandemic, the Government announced that LHA rates “will cover at least 30% of market rents”.⁷⁶ This was described as reversing the four-year freeze. Spending Review 2020 (November 2020) announced that in 2021/22 LHA rates would be frozen in cash terms.⁷⁷
- The Shared Accommodation Rate, which limited entitlement Benefit for single people aged under 25 to the LHA rate for a room in a shared house or flat, was extended to the under-35s from January 2012. Some exceptions apply.
- Since April 2013 under-occupying households of working-age in social rented housing have experienced a reduction in their Housing Benefit/housing cost element of UC entitlement.
- From September 2013, total household benefit entitlement was capped at £500 per week for a family and £350 for a single

⁷⁴ Removed rent controls.

⁷⁵ HC Deb 30 January 1991 cc939-40

⁷⁶ [HM Treasury Press Release](#), 20 March 2020

⁷⁷ [CP 330, November 2020](#), p13. For an analysis of the implications of this measure see Shelter, [First indication of Local Housing Allowance rates out last week](#), 18 December 2020

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person (exemptions apply in some cases). Households with benefit entitlement above these levels experienced a reduction in their Housing Benefit entitlement. The caps were reduced from 7 November 2016 to £20,000 per year outside of London and £23,000 within London for a family (a lower cap applies to single people).

- From April 2017, those out of work aged-18-to-21 making new UC claims, with some exceptions, were no longer automatically entitled to the housing element. On 29 March 2018, the Government issued a [Written Statement](#) announcing that regulations would be amended “so that all 18-21 year olds will be entitled to claim support for housing costs in UC.” This change came into force at the end of December 2018.

Commentators argued that freezing LHA rates between 2016 and 2020 made access to private rented housing, particularly in London, increasingly unaffordable for people on a low income. For example, research published by the Chartered Institute of Housing (CIH) in August 2018 found:

...more than 90 per cent of Local Housing Allowance (LHA – housing benefit for private renters) rates across Great Britain now fail to cover the cheapest rents, as they were originally designed to do.

LHA rates were frozen for four years in 2016 and CIH is warning that they have fallen so far behind even the cheapest rents that private renting has become unaffordable for most low income tenants – putting them at risk of homelessness as they are forced to choose between basic living expenses and paying the shortfall. The organisation is calling on the government to review the policy and to end the freeze immediately.⁷⁸

The increase in LHA rates in 2020 was widely welcomed, with some caveats. For example, Shelter and others pointed out that covering only the 30th percentile of market rents still left a majority of those potentially facing a drop in income due to the pandemic with a shortfall in assistance.⁷⁹ Shelter has analysed the implications of freezing LHA rates in cash terms over 2021/22.⁸⁰ The National Residential Landlord Association (NRLA) has expressed “serious concerns” about the freeze:

We were seriously concerned by the decision in the Spending Review to freeze the Local Housing Allowance rate in cash terms from next year. We agree with the Institute for Fiscal Studies which has warned that the measure means that: “some high rent areas get less support than some in low rent ones”.⁸¹

A Library briefing paper, [Housing Benefit measures announced since 2010](#), contains a detailed assessment of Housing Benefit measures and some modelling of the impact of these changes on claimants, particularly the freezing of LHA rates.

⁷⁸ CIH, [Missing the Target?](#) August 2018

⁷⁹ Shelter, [New LHA rates: what do they mean?](#) 26 March 2020

⁸⁰ Shelter, [First indication of Local Housing Allowance rates out last week](#), 18 December 2020

⁸¹ NRLA, [Government needs to get a grip of Covid rent crisis](#), 14 February 2021 – see link to NRLA research in the press release.

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