

The Affordable Rent Model in London: Delivery, Viability, Potential

Andrew Heywood
June 2013

This report examines the use and viability of the Affordable Rent Model as a means of building new affordable housing in London. Drawing on empirical data, interviews and case studies, it investigates delivery to date, and considers emerging approaches to a programme which faces considerable challenges in London's current housing and benefit context. The report culminates in a set of recommendations designed to inform future affordable housing programmes in the Capital.

This report was produced
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The report was funded by the Oak Foundation's Housing and Homelessness Programme. The Oak Foundation is a group of philanthropic organisations which, since its establishment in 1983, has given more than 2,700 grants to not-for-profit organisations around the world. Oak Foundation commits its resources to addressing issues of global, social and environmental concern, particularly those that have a major impact on the lives of the disadvantaged.

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Published: June 2013
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Contents



Tables and figures.....	4
Abbreviations and glossary.....	6
Foreword.....	8
Executive summary.....	9
Introduction.....	16
ARM: the picture so far.....	18
ARM in London: trends and issues.....	28
Conclusions and recommendations: towards a post-2015 strategy.....	63
Bibliography.....	72
Appendices.....	74



Tables and figures

Tables

Table 1	Funding for the 2011-15 Affordable Homes Programmes	19	
Table 2	List of contracted Affordable Homes Programme organisations	29	
Table 3	Current profile of GLA-funded affordable housing delivery to March 2015.....	29	
Table 4	First let and conversion estimates, to 2012-13Q3	30	
Table 5	Distribution of first lets and conversions, by London borough.....	32	
Table 6	Number of days property was vacant before letting.....	34	
Table 7	Number of times property was previously offered prior to letting	34	
Table 8	Economic status of head of household, 2012-13Q3	37	
Table 9	Economic status of head of household, 2011-12	37	
Table 10	Average age of head of household, London and England ARM and HA SR tenants.....	38	
Table 11	Gender of head of household, London and England ARM and HA SR tenants	38	
Table 12	GLA estimates of ARM rents as percentage of market rents, for completions to 31 March 2013.....	41	
Table 13	Comparison of median social rents, ARM rents, and market rents, by London borough	43	
Table 14	Median ARM rents and market rents by number of bedrooms, London	45	
Table 15	Median ARM rents (conversions) compared to median social rents, by London borough	45	
Table 16	Weekly median ARM rents vs weekly median market rents, by postcode for Barking and..... Dagenham	46	
Table 17	Weekly median ARM rents vs weekly median market rents, by postcode for Hillingdon	46	
Table 18	Weekly median ARM rents vs weekly median market rents, by postcode for Kensington and	46	Chelsea
Table 19	Weekly median ARM rents vs weekly median market rents, by postcode for Bromley.....	47	
Table 20	Weekly median ARM rents vs weekly median market rents, by postcode for Lewisham	47	
Table 21	Weekly median ARM rents vs weekly median market rents, by postcode for Merton	47	
Table 22	Weekly median ARM rents vs weekly median equivalised household incomes.....	48	
Table 23	Weekly median ARM rents vs weekly median equivalised incomes, by number of bedrooms	49	
Table 24	Weekly median ARM rents vs weekly median household income, by postcode for Barking and	49	Dagenham
Table 25	Weekly median ARM rents vs weekly median household income, by postcode for Hillingdon.....	50	
Table 26	Weekly median ARM rents vs weekly median household income, by postcode for Kensington	50	Chelsea
Table 27	Weekly median ARM rents vs weekly median household income, by postcode for Bromley.....	50	
Table 28	Weekly median ARM rents vs weekly median household income, by postcode for Lewisham	51	



Table 29	Weekly median ARM rents vs weekly median household income, by postcode for Merton	51
Table 30	Average house prices 2007-2013 England and Wales vs London	54
Table 31	Current profile of GLA-funded affordable housing delivery to March 2015.....	57
Table 32	ARM starts and completions 2011-12 and 2012-13Q3.....	58

Figures

Figure 1	Total ARM homes (first lets and conversions), to 2012-13Q3, by London borough	31
Figure 2	Map of distribution of total ARM provision (first lets and conversions), by London borough	32
Figure 3	Percentage of different bedroom numbers let in London: ARM first lets, ARM conversions, and social rent	33
Figure 4	Tenancy type, London ARM and HA SR lettings, 2012-13Q3.....	34
Figure 5	Average weekly income, ARM and SR tenants, 2012-13Q3	36
Figure 6	Percentage head of households working full-time and part-time, by first lets and conversions	37
Figure 7	Overall eligibility for housing benefit, London ARM and HA SR tenants.....	38
Figure 8	Eligibility for housing benefit, full and part-time workers, London ARM and SR tenants	38
Figure 9	Source of lettings, London ARM and HA SR.....	39
Figure 10	Map of ARM rent as percentage of market rent, by London borough.....	44



Abbreviations and glossary

AHP	Affordable Homes Programme - <i>Government Initiative which aims to increase the supply of new affordable homes in England. To run from 2011-2015.</i>	LCHO	Low-cost Home Ownership – <i>A government programme delivered by the HCA, currently under the brand “HomeBuy” to enable access to affordable home ownership via part ownership.</i>
ARM	Affordable Rent Model - <i>affordable rented homes available to tenants at up to a maximum of 80% of MR. Classified and allocated as “social housing”.</i>	LDF	Local Development Framework - <i>A local development framework is the spatial planning strategy introduced in England and Wales by the Planning and Compulsory Purchase Act 2004</i>
CBL	Choice Based Lettings - <i>a system for allocating social housing where applicants are given a choice of properties to be considered for</i>	LEP	In this case, Local Education Partnership - <i>a joint venture company of LA, Partnerships for Schools and a private sector partner] to deliver “Building Schools for the Future” funding (scheme now suspended) for improvements to school buildings</i>
CCHPR	Cambridge Centre for Housing and Planning Research	LHA	Local Housing Allowance – <i>a mechanism that LAs use to calculate entitlement to Housing Benefit for tenants living in private rented accommodation. This is based on location and size of household.</i>
CORE	Continuous Recording of Lettings and Sales – <i>Comprehensive record of social rented and LCHO activity by HAs and LAs in England. Published by TNS Global for DCLG</i>	MR(s)	Market Rent(s)
CSR	Comprehensive Spending Review - <i>the process by which HM Treasury allocates public expenditure.</i>	MTFS	Medium Term Financial Strategy
DCLG	Department for Communities and Local Government	OfSTED	Office for Standards in Education, Children’s Services and Skills
DWP	Department for Work and Pensions	NAHP	National Affordable Housing Programme – <i>The HCA and investment partners plan to deliver 155,000 new homes annually in England 2008-2011; a proportion of these to be made available for LCHO and social rent. Succeeded in 2011 by AHP.</i>
FoL	Future of London – <i>an independent, not-for-profit policy network focused on the challenges facing urban regeneration, housing and economic development practitioners</i>	PRPs	Private Registered Providers – <i>private (not for profit and for profit) providers of social housing who appear on the HCA’s Statutory Register of Providers of Social Housing</i>
GLA	Greater London Authority	PwC	Pricewaterhouse Coopers
HA(s)	Housing Association(s)	RCGF	Re-cycled Capital Grant Fund - <i>An internal fund within the accounts of a RP used to recycle social housing grant previously paid to it</i>
HCA	Homes and Communities Agency - <i>The government's housing and regeneration investment agency</i>	REMA	Revised Early Minor Alterations to the London Plan (2012) published by the GLA
HRA	Housing Revenue Account	RLHS	Revised Local Housing Strategy – <i>the Mayor’s revision [2011] of his Local Housing Strategy</i>
IMS	Internal Management Systems	RPs	Registered Providers – <i>LA providers of social housing who appear on the HCA’s Statutory Register of Providers of Social Housing</i>
L&Q	London and Quadrant Housing Association		
LAs	Local Authorities		
LB	London borough		
LBBD	London Borough of Barking and Dagenham		



- RPI the Retail Price Index
- s.106 Section 106 (Agreements) – *A system of planning agreements negotiated between LAs, developers and other partners to deliver community benefit*
- SDR Statistical Data Return – *Published by the HCA. The data comes from an annual survey completed by all PRPs in England and includes data on size and type of home, location and rents over the year. Additional data for providers with 1,000 homes or more include lettings during the year and Right to Buy sales and acquisitions.*
- SPD Supplementary Planning Documents - *provide guidance on local planning matters. Simpler to prepare than development plan documents, with no requirement to be listed in a LA local development scheme, and can be brought forward as circumstances change. SPD is subject a consultation process. NB - DCLG are currently reviewing all their planning guidance.*
- TSA Tenant Services Authority – *former regulator of HAs and LAs. Abolished 2012. Powers now reside with HCA.*
- TVHA Thames Valley Housing Association
- VOA Valuation Office Agency - *An executive agency of HM Revenue and Customs that values properties for Council Tax and for non-domestic rates in England and Wales on behalf of DCLG and the Welsh Assembly*



Foreword

London's housing situation is a paradox. On the one hand we see soaring property values and significant new building, fuelled by the capital's strong economy; on the other, increasing problems of affordability and access to housing for those on low, and increasingly even decent incomes. How to provide more affordable housing - especially in times of public sector austerity - has become perhaps London's biggest challenge.

The Government's approach to this since 2010 has been a new Affordable Rent housing model, offering housing associations and local authorities more flexibility in how they set rents (at up to 80% of market rents), how they leverage their assets and how they set their tenancy terms. This radical shake up is designed to keep new build rates up as public spending cuts bite, with a major shift of subsidy from traditional capital grants to revenue subsidy, whilst also (perhaps paradoxically) seeking to restrain the rising costs of housing benefit.

This report investigates the impacts of these radical changes to affordable housing in London. Although it's still early days for the ARM (the current programme runs to 2015) the data discerns some clear trends in the appetite for new supply, rent levels, allocations, larger homes and, crucially, the interaction with the equally radical changes to the welfare regime for many of the occupiers of affordable homes.

As one might expect, Affordable Rent presents many challenges for London, with its high development and housing costs, and this report makes a set of cogent

recommendations for future policy that take account of the capital's very particular circumstances. In doing so, it reveals how difficult some of the choices for the future are likely to be. Can AR really deliver the numbers we need? Is it viable for larger family homes? And perhaps most fundamentally, who is new affordable rented housing for?

Andrew Heywood and Jennifer Johnson have done a valiant job in collating, analysing and making sense of a vast array of data from the GLA, DCLG, boroughs and registered partners. I would like to thank them, together with our director Lisa Taylor, and the project steering group for producing this timely and helpful report which should provide some useful signposts towards future housing policy.

I have no doubt that London government at every level, together with DCLG and providers of affordable housing will read this 'mid term' report with both interest and intention as we work together to find a genuinely sustainable model for providing the new affordable homes that London so obviously needs.



David Lunts
Executive Director, Housing and Land
Greater London Authority
Chair, Future of London

This report on the Affordable Rent Model in London is precisely the kind of work Future of London exists to deliver: rigorous research from a top contributor, the trust required to elicit frank opinions and hard-to-obtain data, and a strong network of engaged practitioners interested in contributing to and learning from the results.

We believe this report is timely and useful, and we hope it helps guide best practice on affordable housing for the Capital region going forward. This is the product of a diverse team of dedicated people. We'd like to thank researcher and author Andrew Heywood for a detailed and thought-provoking piece of work; the sector leaders who found time to participate in our ARM Steering Group; the housing association and local authority leaders who agreed to be interviewed; the public- and private-sector organisations who provided case studies; everyone who participated in our three research seminars; and the GLA, housing providers and CLG for providing current data on ARM delivery. I'd also like to thank the report readers - Daniel Arnold, Mark Baigent, David Lunts, Nigel Minto and Jo Wilson - and Future

of London Programme and Research Lead Jennifer Johnson, whose tireless efforts on coordination, research, editing and design made this report come to life.

We couldn't have undertaken this project without the support of the Oak Foundation. We applaud their ethos and foresight in commissioning this study, and particularly appreciate the involvement and encouragement of Programme Associate Nicola Bristow.

I hope you learn as much from this research as we have, and that the recommendations in the report are seriously considered by central government, the GLA, and the boroughs and housing providers tasked with delivering affordable housing in London.



Lisa Taylor
Interim Director
Future of London





Executive summary

Scope of the report

This report is based on research into the implementation of the Affordable Rent Model [ARM] in London as part of the Affordable Housing Programme [AHP] 2011-15. The report covers national and London policy development in relation to ARM. Specifically it addresses the following issues:

- Policy background to the introduction of ARM.
- Who is building ARM in London and where? What are the significant characteristics of ARM homes?
- How affordable is ARM in London, particularly in the context of welfare reform?
- How does ARM affect the financial performance of HAs, their risk management and their future development plans?
- Will the London development targets set for ARM be achieved by 2015?
- What future should ARM play in affordable housing development after 2015?

The research includes:

- A review of existing literature; both policy background and stakeholder perspectives.
- Structured interviews with key stakeholders: local authorities [LAs], developing housing associations [HAs] and the GLA.
- An analysis of a wide range of available data sources covering affordable providers and ARM.
- Case studies compiled by and with stakeholders.

ARM: policy and process

The Government announced ARM in the Comprehensive Spending Review of October 2010. The key policy aims were:

- To continue to produce affordable housing with lower grant expenditure in the context of fiscal austerity.
- A move towards “intermediate contracts that are more flexible at rent levels between current and market rents” (HM Treasury, 2010).
- Flexible tenancies and flexibility of rents. (HM Treasury, 2010)
- “Relatively limited impact” on the housing benefit bill ascribable to ARM (Wilson, 2011).

The main characteristics of ARM soon emerged:

- ARM homes would be let at rents of up to 80% of a local market rent for a similar property.

- Landlords would be able to offer the homes on flexible tenancies.
- Grant levels would be reduced significantly over those available under the NAHP, and;
- Landlords would be able to re-let [convert] existing social rented homes at the new “affordable” higher rents to provide an additional revenue subsidy.

The national target

Nationally the Government set an initial target for its AHP at 150,000 new homes. This was later raised to 170,000. The Government quickly identified ARM as a form of social housing where LA allocations would predominate. This ruled out ARM as an intermediate tenure. (HCA, 2011).

The London policy response

The Mayor’s London policy responses are embodied mainly in the *London Plan* [LP] and the *Revised London Housing Strategy* [RLHS] (GLA, 2011). Overall London requires a minimum of 32,210 new homes each year according to the RLHS. The ARM target of 16,000 homes fits within the London AHP of 22,000 homes for the period 2011-15. This would be part of a larger GLA funded programme of 55,000 new homes by 2015.

Key commitments by the Mayor are:

- “The Mayor is concerned that there should be no segregation of London’s population by housing tenure.” (GLA, 2011)
- 36% of new homes built under the AHP should be “family-sized” [three bedrooms or more].
- ARM rents should be as close to 80% of a market rent [MR] as possible; later revisions to the London Plan ensure that LAs cannot obstruct this target for strategic reasons such as ensuring affordability. (GLA, 2012)

Delivery to date

Affordable Housing Programme contracts and numbers

58 HAs and LAs have contracted to implement the 2011-15 AHP programme in London. The target for AHP is 22,268 homes by 2015, which implies a target of 16,478 ARM homes.

- At Q3 to 2012-13 there were c. 3,104 ARM homes in London including 543 new-build and 2,571 conversions [CORE].
- The programme is heavily “back loaded” with 6,686

starts by 31 March 2013. Numbers vary widely between the London boroughs but both new build and conversions tend to be focussed on Outer London and the cheaper eastern boroughs.

- So far 34% of new-build and 7% of conversions of ARM provision are family-sized [three-bedrooms plus]
- Around 50% of ARM are let on five year Assured Shorthold Tenancies [AST] but almost 40% are let on assured (permanent) tenancies. Feedback from RPs suggests that this is due to tenant and landlord concerns about lack of security of tenure.
- ARM properties in London are offered more times prior to letting and they take very slightly longer to let than social rented properties.

Who does ARM house?

HCA's statement that ARM is a form of social housing is borne out in the tenant profile and the process of allocation (HCA, 2011). RPs often expressed disappointment that ARM was not an intermediate tenure to house working households and that LA nominations policies had not changed in response to ARM. (In fact certain LA policies have changed but the effect of this is not yet clear.)

- The average weekly income of ARM tenants was £240 (new-build) and £205 (conversions) for 2012-13. This compares with £247 for tenants in traditional social renting.
- 19% of ARM tenants worked full-time in 2012-13, with 13% working part-time. Percentages are similar for new-build and conversions. This compares with 21% and 13% respectively for traditional social tenants.
- 87% of ARM tenants were eligible for housing benefit compared to 83% for traditional social tenants. ARM tenants working full or part-time were more likely to be eligible for housing benefit than social tenants in the same position; a consequence of the much higher rents charged on ARM homes.
- Importantly, 73% of ARM tenants had found their property as a result of an LA referral, compared to 74% of social tenants. The percentage of ARM tenants selected via choice-based lettings, the common housing register and the common allocations policy was also similar.

Affordability and welfare reform

ARM was widely seen to present serious affordability problems in London, but for all developing RPs, the Government's welfare reform proposals were seen as creating further difficulties.

For the purposes of this study the key Government welfare reforms are:

- Penalties for under-occupying properties [the bedroom tax] applying to those of working age. Introduced in April 2013
- An overall cap on maximum benefits to be paid to any household. Currently being phased in.

- Direct payment of universal credit to tenants. To be phased in from October 2013

The overall cap in benefits was seen as particularly problematic. RPs felt that they could not charge the 80% of market rent levels achievable in other parts of the country, with more extreme problems in respect of larger properties.

- "Larger re-lets have to be mainly at target rents¹. One and two beds let no problem at 60%-70%." (HA interviewee)
- The cap along with wider affordability problems was seen as a major reason why ARM development tends to be focused on Outer London and less expensive boroughs.
- The bedroom tax was generally not seen as an ARM specific issue. However, the relatively high rents of one- and two-bedroom ARM homes could mean that some tenants downsizing from traditional social renting could find themselves worse off. Interviewees believed that the bedroom tax could contribute to an increase in rent arrears which would increase risks and undermine the financial capacity of RPs.
- Most HA and LA respondents thought that direct payment was likely to erode financial capacity and increase business risk. Some interviewees believed that the higher rents under ARM would increase the risk of arrears once direct payment was introduced.

Analysis of ARM rents and MRs confirms that RP feedback is correct in that affordability and welfare benefit issues determine both the distribution of ARM towards Outer London and that the low proportion of larger properties being converted is a consequence of the inability to charge viable rent levels.

- Median ARM rents compared to MRs show wide variations between boroughs. Overall for Inner London ARM rents are 53% of a market rent, for Outer London 65% and for London as a whole, 59%.
- ARM rent levels vary significantly in relation to market rents by bedroom numbers, with one-bedroom flats at 61% of a market rent, two-bedroom at 57% and three-bedroom at 51%.
- Comparison of ARM conversion rents with social rents in the same area demonstrates the extent to which social rents have been subsidised in the high-cost areas of London. There are much wider variations between boroughs in respect of ARM rents, which also vary widely between similar-sized properties in the same borough. These variations have the potential to make tenant mobility across London more difficult and to erode incentives to move to obtain new or higher-paid work.
- There are instances where ARM rents exceed the LHA level for similar properties in the same area. In general, RPs appear to have used the LHA as a cap, which puts a further downward pressure on ARM rents and which can ultimately erode financial capacity, increase RP risks and potentially reduce the levels of future affordable development.

1. Rents set for social housing under the national rent setting process.



Rents and incomes

In comparing median ARM rents with incomes, median household incomes have been used, broken down by London borough. A benchmark of 35% of household income was used to assess whether a rent was affordable. This is a rough and ready measure but is commonly used.

- Across boroughs ARM rents varied between 20% and 42% of the local median household income. In three boroughs rents were at, or above, 35% of the local median income.
- 16% of London households earn £15,000 a year or less. For these households, very large areas of London would be unaffordable in terms of ARM unless they are receiving benefit, whether working or not.
- The percentage of the local median household income taken by ARM rents increases very little by number of bedrooms. [Source: CORE 2012-13Q3/ Paycheck 2009]
- ARM rents and incomes suggest that those with incomes below and above the median (c. £20,000-£40,000 pa.) could in many cases be successfully housed in ARM properties without recourse to housing benefit. This marks out ARM as potentially an intermediate tenure serving working households who would require limited benefit assistance and who would not in be affected by the benefit cap. This would avoid many of the distorting effects of affordability constraints and welfare reform in London.

Risks and challenges for providers

RP identified several key risks and challenges associated with developing under ARM:

- The benefit cap makes it impossible to build larger properties on a viable basis and puts a general downward pressure on rent levels.
- The bedroom tax and direct payment of universal credit are significant risks to the rental income stream and impact on financial capacity and viability.
- It is difficult to achieve sufficient numbers of conversions at an adequate uplift in rent.
- ARM is harder to let and welfare reform and affordability again play their part.
- Lower grant rates lead to a greater reliance on cross-subsidy and mean an enhanced risk.
- ARM can erode financial capacity which would impact future development capacity.
- Greater reliance on low-cost homeownership, open market sales and market renting as sources of subsidy significantly increases risks.
- The HCA's discussion paper *Protecting social housing assets in a more diverse sector* (HCA, 2013) recognises the enhanced risks of increased diversification.

- There is uncertainty whether measures to safeguard core social housing assets in a riskier operating environment will lead to some diminution of development in the future

The HA view post-2015

The majority of HAs questioned said that they would participate if the ARM programme continued post-2015, mainly to preserve development expertise and capacity. There was also the belief that it was important to maintain favour with the GLA as the grant-giving body, should more public finance be made available for development in the future. A number were unsure of participation post-2015, because of the risks. HAs believed that if they did participate in a further ARM programme post-2015 a smaller number of units would be produced. This was notwithstanding the substantial reserves built up by some HAs. Unless significant measures are taken to mitigate the risks of developing under ARM, the prospects for future programmes are that numbers of units developed will decline.

ARM: the score so far

The GLA: will targets be met?

At the time of writing the 2011-15 programme is at its halfway stage. While definitive conclusions are not possible, a brief assessment can be made about what the outcomes will look like in 2015:

- The GLA is likely to meet its overall 55,000 affordable target, although much will depend on the level of starts achieved in the next few months.
- Within the AHP there is a possibility that the risks attendant on ARM development (see above) may create a situation where ARM development falls short of expectations.
- It will be interesting to see the extent to which any shortfall within the AHP is made up by development within other tenures, such as shared ownership.
- ARM risks ultimately falling significantly short of the Mayor's target of 36% family-sized homes.
- The distribution of development across London raises questions about the degree to which excessive concentration and even "segregation" by tenure could become a risk.

ARM: the Government scorecard

Although the AHP programme is only at its halfway stage, there may be merit in looking at the Government's key stated objectives for ARM nationally and comparing them to London's experience.

Four Government aims for ARM were identified in section 2 of this summary:

- To continue to produce affordable housing with lower grant expenditure in the context of fiscal austerity. 150,000 homes built under AHP by 2015.

Conclusions & recommendations: towards a post-2015 strategy

There is some likelihood that ARM will be extended for a further programme (possibly for one year only) after 2015. What lessons can be learnt from the programme so far?

Who is ARM for?

ARM was designated as “social housing” by the Government and current tenant profiles are consistent with that designation. There has been discussion that some LAs may use recently acquired discretion to alter their nomination/priority policies in order to allow more “aspirational” working households to become tenants. The data so far shows no evidence that this has begun to happen. However, there are some boroughs that have acted to change their policies, or are intending to do so. It is still too early to judge what impact these changes have had on the personal profiles of new ARM tenants.

RPs have made it clear that the present low-income, benefit-dependent profile of ARM tenants creates risks for the programme in terms of achieving sufficient rental uplift, particularly in the context of welfare reform and the welfare cap.

The issue of attracting working families into ARM homes raises a dilemma for government focussed on the housing benefit bill. If ARM homes at 59% of a market rent are taken up by working instead of workless households, then the latter will be housed in greater numbers in the private rented sector at 100% market rents to be paid by housing benefit. The reluctance of HM Treasury to countenance the use of grant-funded homes to house those who are not benefit-dependent can be accounted for in this way.

Further, any re-assessment by LAs of their nomination/priority policies should take into account the incidence of increased homelessness. If ARM homes are to be increasingly allocated to working households it is important that provision for homeless households is maintained.

The confusion and unintended consequences created by the interaction of welfare reform and affordable housing development are not uniquely London problems. The issue of the benefit cap is significantly more important for London, because of a residential property market which drives high and rising land values, rents and house prices. There is a case for reviewing whether problems might be mitigated by setting the benefit cap at a higher level in the capital.

Adjusting the cap would allow a higher proportion of family-sized homes to be built in London and this would attract larger households into ARM properties. If no re-evaluation of allocation criteria to attract working families were considered, then these larger homes would be tenanted in large measure by benefit dependent households. It is important that adjustment to the cap is

- Government has continued to build “affordable” homes in significant numbers and the national target for AHP has been increased to 170,000. However, AHP in London is significantly smaller than the preceding NAHP. There are questions as to whether even this volume of output can be maintained in subsequent programmes.
- A move towards “Intermediate contracts that are more flexible at rent levels between current and market rents” (HM Treasury, 2010). There is an implication here that ARM was conceived as an intermediate tenure, i.e. not simply for those who would traditionally have access to social housing.
 - The Government defined ARM as social housing and in London at least, the profile of ARM tenants closely matches that of traditional social tenants in all key respects. In London this has caused problems due to the effects of the welfare benefit reforms and has distorted development both geographically and in terms of rent levels for family-sized homes.
- Flexible tenancies and flexibility of rents. (HM Treasury, 2010)
 - ARM in London has allowed landlords to introduce five year ASTs in around 50% of cases. Nevertheless, many landlords still use the standard assured tenancy for ARM lettings, largely because they, or their tenants, resist the erosion of security of tenure that “flexibility” implies. Rent levels under ARM in London vary much more widely than rents for traditional social housing. This variation is within a framework of ensuring that rents are maximised in relation to MRs. There is only limited evidence that flexibility over rent setting has been used for strategic purposes such as ensuring affordability, although there are exceptions. The inability of LAs to determine or cap the rents set by other RPs in their areas has contributed to this in London.
- “Relatively limited impact” on the housing benefit bill ascribable to ARM. The impact assessment on ARM was qualified in this respect. (Wilson, 2011)
 - The impact of ARM on the housing benefit bill in London will be very significant. A largely benefit-dependent clientele is being placed in ARM homes at rents over 40% higher than the rents of traditional social housing. It is beyond the scope of this report to quantify the impact on housing benefit expenditure but Government should enquire as to whether the reduction in grant for ARM homes will be balanced, or exceeded, over time by what is likely to be a substantial increase in housing benefit payments.

The picture for Government is a mixed one. There have been achievements through the introduction of ARM but many of them are partial and there is a residue of unanswered questions, notably about the scale of ARM development and the impact on housing benefit expenditure.



considered in tandem with consideration of the option to re-designate ARM to facilitate tenanting by working households.

Recommendation 1 - Currently ARM is designated as “social housing” rather than as an intermediate tenure. However, research shows that ARM is more viable housing working households. Government should therefore re-assess its current designation of ARM as “social housing” and decide whether some increase in the housing benefit bill can be justified in the interests of promoting new affordable housing supply via ARM.

Recommendation 2 - The newly introduced cap on welfare benefits which forms part of the programme of welfare reforms will bear particularly heavily on London and is already distorting the ARM programme in terms of rent levels and could ultimately prejudice the ability to build a proper balance of family-sized properties. The cap also increases the business risks for Registered Providers and thus risks reducing outputs. The government, in conjunction with the GLA, should consider whether there is a case for raising the level of the cap in London in order to promote the strategic housing aims for the capital.

Recommendation 3 - Notwithstanding the need to reconsider the level of the benefit cap in London, the GLA should monitor closely the progress of ARM development to ensure that its own requirement for 36% of new homes to be “family-sized” is being met and should examine what steps might be necessary to ensure that the 36% target is fulfilled.

Recommendation 4 - The GLA should confer with local authorities as a matter of urgency to determine their likely future policies in regard to tenant referrals and priorities in relation to ARM properties. The GLA should consider whether further encouragement to amend these policies to favour working households is desirable. Any conclusions should take account of the need to maintain provision for homeless families.

The geographical distribution of ARM properties

ARM new-development and conversions tend to be focussed in the outer boroughs, and to the East rather than the West. However, as the London Plan has stated:

“The Mayor is concerned that there should be no segregation of London’s population by housing tenure. London’s legacy of mono-tenure estates has in some cases contributed to concentrations of deprivation and worklessness. Coupled with some housing trends and management practices, these have been exacerbated by the tendency for new social housing to be built in the areas where it is already concentrated. Conversely, market homes have tended to be developed in areas with very little social housing.” (GLA, 2011)

Recommendation 5 - The GLA should monitor the concentration and distribution of ARM development in the context of existing social rented provision to ensure

that the Mayor’s concern “that there should be no segregation of London’s population by housing tenure” does not risk being excessively compromised over time with negative implications for the development of sustainable and vibrant communities.

Variations in rent levels

Significant variations in rents on similar properties occur within individual boroughs and across London. The variations in rent for ARM properties are far more exaggerated across the London boroughs than rents for traditional social rent properties. Wide variations between boroughs can hamper tenant mobility and create inequality of demand for affordable housing across the capital. Variations within individual boroughs may cause frustration and annoyance amongst residents and are likely to foster administrative complexity.

The GLA should ascertain whether it is possible for individual LAs and/or the GLA to co-ordinate some “smoothing” of rents for similar properties within their borders without seriously compromising RP business plans, and recognising the current limited powers of LAs to set rent levels of Private Registered Providers [PRP]. The wide variations in rents between boroughs will be more difficult to tackle under ARM. Nevertheless, it may be that the GLA can examine options to mitigate these problems, for instance through offering differential grant rates, although this unlikely to be an approach free of difficulties.

Recommendation 6 - THE GLA should work with local authorities and with PRPs to examine ways in which rent structures for similar properties within individual boroughs can be made more coherent, and to look for possible interventions to mitigate the very wide variations in ARM rents between boroughs.

Rents and incomes

It has been suggested that ARM rents might be linked to household incomes rather than to median rents in order to better achieve affordability and maximise the rental stream.

RPs consider income related factors such as the benefit cap in setting rents relative to market rents. The process is an indirect one and if ARM were to be used to house working households in the future then a means to target a particular income band more directly would be advantageous.

The idea that rents be directly linked to affordability is an attractive one. However, linking rents to individual household incomes is problematic. A compromise position might be to link ARM rents to incomes in a particular borough. This would make ARM genuinely affordable for a particular group and targeted and promoted as such. Different sized properties could be set at different percentile points in relation to median incomes. This would provide an opportunity to set rents in relation to different sized households. It would also mitigate the disparity of rents within boroughs that this research has shown to be a current characteristic of ARM.

Recommendation 7 - The GLA should analyse the implications for the ARM programme of linking ARM rents for different sizes/types of ARM properties to a particular percentile point in relation to median incomes in different boroughs, with the aim of setting rents that are affordable for different sized households.

What about tenants?

There appears to be a shortage of research into the attitudes and experience of tenants as consumers of ARM, at least in the public domain.

ARM creates a range of new issues for tenants as consumers which include:

- Tenant mobility given the wide disparity in rents within, and, across boroughs.
- Moving from benefit dependency to employment in the context of ARM rent levels.
- The impact of the fixed term ASTs used in the majority (but not all) of ARM lettings.
- Questions about relative value for money and the adequacy of service levels in a new higher rent environment.

Recommendation 8 - The GLA should work with local authorities to commission qualitative and quantitative research into the views and attitudes of ARM tenants and prospective tenants about ARM as a programme and, importantly, about tenant experience as consumers of ARM. Such research should be London-wide but should aim to explore a range of social, economic and geographical variables insofar as they may have an impact on the tenant experience.

Post-2015 prospects for ARM

Should the Government implement a programme of ARM post-2015, it is unlikely that the same level of output in terms of new homes will be attained as that contracted for under the 2011-15 programme, unless certain key issues are resolved.

Historically, grant subsidy has diminished in relative importance while subsidy from housing benefit and other sources has become relatively more important. The move to ARM can be seen as a further move away from grant subsidy and an only partially acknowledged move to demand-side revenue subsidy in the form of higher rents, largely to be met by housing benefit.

It may be seen as unfortunate that government has altered the balance between capital and revenue subsidy for affordable housing at the same time as it has introduced radical reform to the benefit system with the aim of reducing the housing benefit bill.

The impact of welfare reform in London has been to distort strategic aims in favour of ensuring the financial viability of RPs and reducing risk. The most serious potential impact is the effect on the output of homes under ARM, particularly under any future programme. There is some doubt as to whether all RPs will deliver their full contracted ARM outputs in the present

programme. Looking beyond 2015, analysis of the risks associated with ARM and feedback from RPs as to their future intentions, suggests that any future programme would have to be scaled back in terms of volume even if effects were mitigated by the use of accumulated HA reserves.

Clearly, this would have serious implications for the supply of affordable housing in London and for overall new supply since London represents around 13% of the national AHP programme.

The Government should seek to resolve the tensions between capital and revenue subsidy and between its housing and welfare policies. Government should also make its intentions about the scope and funding of future programmes explicit so that uncertainty amongst RPs does not lead to needless caution in terms of future development plans.

Recommendation 9 - The Government should seek to resolve the current tensions between its affordable housing policy and welfare reform policies; these tensions have undermined the move from capital towards revenue subsidy implicit in ARM, and threaten future programme levels in London.

Recommendation 10 - Government and the GLA should be realistic in setting out goals for any forthcoming ARM programme and ensure that there is certainty over the longer-term future of such programmes.

Towards a broader strategy

A strong commitment to meeting the need for affordable housing across London has been apparent amongst HAs, LAs and other stakeholders. Yet there has also been a strong sense that there are limitations on what Government is prepared to countenance, particularly over issues such as grant. ARM as currently constituted is flawed in a London context in important respects:

- It creates a distorted social rented programme in terms of geography and rents for different house types.
- It creates very wide disparity in what are de facto social rents, limiting tenant mobility and potentially damaging “back to work” incentives.
- It is not consistent with the government’s welfare reform programme and is likely to increase the housing benefit bill overall in spite of welfare reform.
- Even if it produces the planned numbers in this programme, it is likely that subsequent programmes of ARM would produce progressively smaller numbers.
- The current AHP leaves a gap in provision for lower income working households, especially those with families that ARM, as currently constituted, cannot fill.

The outline model that follows aims to address the above issues to varying degrees.



ARM and a new model

It was a strong view held by interviewed RPs that ARM would work better if it were targeted at working households. In their view workless/benefit dependent households would best be housed in grant-funded social rented housing built as part of an overall affordable programme. In the view of these providers, offering ARM to working households would:

- Reduce tenant dependency on housing benefit in respect of ARM and remove the issue of the benefit cap.
- Allow rents to be higher in some cases (particularly for larger properties) and better matched to local needs and incomes.
- Reduce the risks faced by developing RPs by ensuring that the part of the programme aimed at housing benefit dependent households would be more adequately grant funded than ARM is at present. This would also reduce the benefit bill for these households.

A new model for London might therefore comprise the following four elements:

A tier of grant-funded new-build social rented housing

This would fulfil the function that traditional and ARM social housing currently does in London; house benefit-dependent, workless and very-low-income households. This would provide a stream of new-build social rented housing to take up the pressure of LA referrals and to replace homes lost through ARM conversions.

The need for grant to build “traditional” social rented housing would cut across the reductions in grant introduced in 2010 and might be seen as a political problem by the Government. However, the additional grant would enable rents to be set at standard target-rent levels for traditional social housing. This would reduce the amount of housing benefit required to service rents compared to housing the same households in ARM properties. It is arguable that over a period of years the overall level of subsidy from the combination of grant and housing benefit would be lower. The lower rents would also lessen the likelihood that larger households would be caught by the benefit cap, which in consequence might not need to be raised in London as suggested earlier (Recommendation 2). There would also be stronger “back-to-work incentives” because of lower rent levels and fewer constrictions on mobility due to reduced rent disparity. Government could present such change as a response to London’s particular situation and as a fine-tuning of its national welfare reform and strategic housing policies.

ARM directed principally at working households

Although HM Treasury may have reservations about housing non-benefit-dependent households in grant-funded housing, the Scottish Government has offered grants for Mid Market Rented housing [MMR] to housing association subsidiaries since 2009, “...when MMR is

included as part of new developments for social rent” (Scottish Government, 2010).

ARM targeted at working households, at rents at similar levels to those at present, would be affordable for many households below, or above, median income levels i.e. in the £20,000-40,000 p.a. These households would be substantially less dependent on benefit than current ARM households and would thus reduce the benefit bill significantly. There would be strategic advantages in using such a saving to reduce the rate of conversions required for cross-subsidy purposes but such a decision would require detailed calculations of consequences in terms of housing benefit outcomes and numbers of social rented housing versus housing need amongst particular groups.

This shift to ARM as a tenure for working households would not negate the need to address Recommendations 5, 6, 7 and 8 on geographical distribution of properties, rent disparities, linking rents to household incomes and tenant feedback.

Market renting

An expansion in MR would be coherent in serving working households with incomes above those of working ARM households. Market Rent as an option for London HAs is clearly taking off and attracting institutional investment. Initiatives by London and Quadrant, Thames Valley Housing Association and most recently Aviva and A2Dominion are three examples.

Shared equity/shared ownership/open market sale

Shared ownership/equity can be seen as an option for those households with incomes insufficient to access full home ownership in London but able to gain a foothold. The existence of a model that includes ARM for working households, plus a market renting option, allows for the introduction of a range of “rent to buy” initiatives to ease the transition from renting to owning.

Open market sale is seen by some providers as a means to gain a cross-subsidy for affordable housing. This is a legitimate pursuit. Open market sales can also be linked to shared ownership/equity programmes; this will influence the type of property built and the target group for outright sale.

While the proposal above, which is applicable to London, is not a fully worked-out blueprint, it is a sketch that merits further analysis and assessment.

Recommendation 11 - The GLA should work with the HCA and DCLG to assess the merits of re-targeting ARM towards working households within a model of development across four tenures, including grant-funded social renting, market renting, building for shared ownership/equity, plus open market sale.



Introduction

“The fierce and almost frantic pursuit of the housing target filled my mind...to the exclusion of everything not directly related to the achievement of our purpose.”

- *Harold Macmillan*

Harold Macmillan’s reflection on his period as Minister for Housing and Local Government reminds us that housing has always been a political issue and that to set goals in housing is to play for high stakes. For Macmillan, the risks and the commitment paid off; between 1951 and 1955 he was responsible for building 872,000 council houses in England and Wales, and set the scene for an expansion in private house-building as well (Holmans, 2005).

The future for the Affordable Rent Model [ARM] is by no means so assured, but the stakes are certainly as high. House-building is at historically low levels, with a total of 118,190 homes completed in 2011-12, with only 29,080 of those contributed by the affordable sector. Meanwhile, home ownership levels in England (and in London) are falling due in part to a long-term deterioration in affordability, now exacerbated by the fallout from the banking crisis. The private rented sector has now overtaken social renting as the second largest tenure in England. This is partly due to the failure of successive governments to enable the affordable housing sector to sustain the levels of new development that Macmillan would have taken for granted.

The Affordable Housing Programme [AHP], of which ARM is one facet, is a political response to a crisis. ARM nationally is a key component in an attempt to achieve a serious affordable housing programme over the period 2011-15, with lower public expenditure in the form of grant and against a backdrop of continuing economic turbulence and a prevailing political consensus about the need for fiscal austerity. In London, which is the focus of this report, the Greater London Authority [GLA] as the strategic housing authority must grapple with the implications of central government policy as well as tackling challenges that, while not solely the preserve of London, manifest themselves in specific and sometimes extreme forms in the capital.

The twin themes of affordability and housing supply that are crucial to understanding London’s housing market are also central to this report. London, like the rest of England, has a track record of chronic under-supply of new homes across all tenures. In addition, London has become unaffordable for many of those who live and work in it. With its role as an international capital, and with a level of overseas investment in housing larger than the entire government financial commitment to England’s Affordable Housing Programme for 2011-15, London

has become a by-word for rising house prices and high rents.

ARM for the development of social rented housing can be characterised as both a continuation of a model for affordable development that has evolved over two decades or more, and at the same time as a departure from that model, or at least an acceleration of trends in its implementation nationally and locally.

ARM has followed the combination of supply-side grant and cross-subsidy that has been a feature of affordable development during the previous two governments, but with two important differences. Firstly, the rate of grant has dropped to between 10% and 20%; a historically low level. However, as a quid pro quo, developers can charge higher rent on an ARM property, up to a level of 80% of the market rental value of that property. In addition, landlords can further subsidise new development by converting a proportion of existing social rent properties to ARM and charging higher rents. Across England this represents a substantial uplift in rent from “traditional” social rents.

It was originally intended that housing benefit would continue to meet the rent of tenants in full, where they were eligible, in spite of higher rents. However, from April 2013 the capacity of housing benefit to meet social rents “in full” will be increasingly qualified. The Government has introduced, or will introduce, welfare reforms that limit the public commitment to meeting social rents from housing benefit when the tenant is eligible, or which change the way in which benefit is paid. Reforms include the so-called “bedroom tax”¹ and a cap on the overall level of benefit households can receive.

The introduction of welfare reform clearly has implications for tenants. However, it also potentially affects housing associations [HAs] in terms of their rental income and their development capacity. Over time, the qualification of the commitment to “let housing benefit take the strain” (in the words of former Housing Minister William Waldegrave) could also alter the relationship between investors in affordable housing and landlords.

The interaction between ARM and welfare reform is a central feature of this report but its scope is significantly wider. Against a background of chronic under-supply of new homes across all tenures, ARM was announced in late 2010 by a newly-elected government committed to fiscal austerity. Its twin aims were to maintain the supply of new affordable housing while reducing substantially

1. Although Government representatives have rightly pointed out that the new penalties for under-occupation are not technically a tax, the term “Bedroom Tax” has become so widely recognised by commentators and analysts that it will be employed here on occasion for convenience of recognition by readers.



the level of government spending on the AHP. In essence this report looks at the degree to which these two aims are being achieved in London in the context of the Mayor's revised housing strategy.

This report will address a series of key questions about ARM in London against the backdrop of the increased powers now possessed by the GLA:

- What is the national policy background to the introduction of ARM and how does this mesh with housing strategy and targets in London?
- Which landlords are building ARM in London, how much are they building and where is that activity focussed?
- What are the significant characteristics of ARM homes in terms of rents, types of tenancy, size etc. and how do these correspond with existing targets and patterns of need?
- How affordable is ARM in London, particularly in the context of welfare reform and when compared to traditional social renting? What are the implications for those seeking a home or seeking work?
- What implications does the introduction of ARM have for the financial performance of HAs, for their risk management and for their future development capacity?
- Does it appear likely that the development targets set for ARM by the Mayor/GLA will be achieved by the end of the AHP programme in 2015?
- What future should ARM play in affordable housing development after 2015 and what might a credible future development strategy for London's affordable housing look like?

In order to answer these questions the research underpinning this report involves a number of approaches. These include:

- A review of existing literature that covers the policy background and developing stakeholder perspectives on ARM from its announcement to the present.
- A series of structured interviews with key stakeholders, including local authorities, developing HAs and the GLA.
- An analysis of a wide range of available data

sources covering affordable providers and ARM, including the Homes and Communities Agency [HCA] Statistical Data Return [SDR], the CORE lettings data administered on behalf of the Department of Communities and Local Government [DCLG], data on the London AHP supplied by the GLA, and additional data supplied by HAs, local authorities and other bodies.

- Development of a series of case studies put together with the assistance of key stakeholders and designed to illustrate the varied practice and important implications of ARM.

This is a report that offers longer-term solutions as well as a focussed critical perspective and which presents alternatives to current practice rather than simple praise or condemnation. Insofar as it is successful in these respects, thanks should go to the Future of London ARM Steering Group, composed of senior representatives drawn from key stakeholder organisations. In spite of their busy schedules, steering group members have attended a series of meetings to discuss the developing research in detail. In addition, they have responded unstintingly to a series of queries and requests for information. If anyone deserves credit, they do. In addition, thanks to the case study contributors. Their diverse approaches and perspectives provide thought-provoking reading. Thanks are also due to Jo Wilson, Lisa Taylor and Jennifer Johnson at Future of London [FoL] who have efficiently co-ordinated a multi-faceted research effort over several months.

Last but certainly not least, the Oak Foundation deserves recognition for their farsightedness in choosing to financially support this project at the right time.



ARM: the picture so far

A review of existing literature and research

This review is necessarily selective. The literature on ARM is already extensive, having been accumulating since ARM was announced in October 2010. In addition, the impact of ARM is inextricably bound up with welfare reforms introduced under the Welfare Reform Act 2012 and being phased in from April 2013. These reforms include the direct payment of housing benefit to social tenants, cuts in housing benefit for those social tenants deemed to be “under-occupying” their homes and an overall cap of £26,000 pa. on welfare benefits to be paid under the new Universal Credit. The controversy ignited by the Government’s welfare reform proposals has produced a flood of articles, analysis and reports since 2010.

Much of the literature on ARM is national in scope and makes scant, if any, specific reference to London. This material cannot all be ignored, notably in relation to the policy rationale for ARM and the formal procedures for contracting etc. Where possible this review has focussed on literature that offers specific analysis or comment on the implementation and impact of ARM in London.

In relation to Welfare Reform, the approach here has been to maintain a clear view on what is relevant to this study and to avoid lengthy excursions into the general discussions on the policy, implementation and impact of Welfare Reform nationally. Instead, the focus is on material that examines the impact of welfare reform on the introduction of ARM in London in terms of its likely effect on ARM development, on landlords and on tenants. These implications are still becoming apparent as this report is finalised; the recent news that the Department for Work and Pensions [DWP] pilots on direct payment of Universal Credit have been extended to the end of 2013 to take into account the impacts of the bedroom tax illustrates the fluidity of the position well (Lloyd, 16 May 2013).

ARM: policy and process

From the General Election in May 2010, the Coalition Government lost no time in making clear the perceived need for austerity in the public finances. The election was not such a policy watershed as some have implied. The previous Labour Government had established an ambitious £8.4 billion National Affordable Homes Programme [NAHP] to run from 2008 to 2011 (Wilson, 2011). However, Labour had itself fought the election on a commitment to austerity measures in the light of financial market concern at the level of public borrowing.

It was clear that the 2010 Comprehensive Spending Review [CSR] would almost certainly precipitate some restraint on the level of grant to be offered as a capital subsidy for the development of social rented housing. Much speculation in the affordable housing sector had preceded the announcement of ARM in the HM Treasury Spending Review document of October 2010.

“Social landlords will be able to offer a growing proportion of new social tenants new intermediate rental contracts that are more flexible, at rent levels between current market and social rents. The terms of existing tenancies and their rent levels remain unchanged. Taken together with continuing, but more modest, capital investment in social housing, this will allow the Government to deliver up to 150,000 new affordable homes over the Spending Review period.” (HM Treasury, 2010)

Further details appeared in the consultation document *Local decisions - a fairer future for social housing* in November 2010 (DCLG, 2010):

“Affordable rent will offer shorter term tenancies at a rent higher than social rent, to be set at a maximum of 80% of local Market Rents [MR].”

“The higher rents will generate additional revenue and debt servicing capacity for registered providers.”

By late 2010 the key elements of ARM had been made available to the affordable homes sector:

- ARM homes would be let at rents of up to 80% of a local MR for a similar property.
- Landlords would be able to offer the homes on flexible tenancies.
- Grant levels would be reduced significantly over those available under the NAHP, and;
- Landlords would be able to re-let existing social rented homes at the new “affordable” higher rents to provide an additional revenue subsidy.

In effect, ARM represented a further move from a capital subsidy on the supply-side [grant] towards a revenue based demand-side subsidy in the form of higher rents. This shift was backed by housing benefit. Critics were not slow to spot that for those not on benefit, the change involved poorer households in social housing paying more to support the development programme than had been the case hitherto. In February 2011, the Chartered Institute of Housing issued a statement that “the principle of charging poorer households higher rents to fund new development [is] flawed” (Lloyd, 16 February 2011).



The discussions surrounding the interaction of ARM with housing benefit began early on. Concerns were raised about the overall impact of 80% MRs on the housing benefit bill (given that over 60% of social rents are met by housing benefit) by the House of Commons Local Government Select Committee in December 2010. The then Housing Minister, Grant Shapps discounted such concerns:

“Interestingly, the answer is that it will have relatively little impact on housing benefit, because quite often you are taking people who are in the private rented sector, who are receiving benefit at 100% of the rent level, and putting them into a less expensive house. So the difference is marginal on all the modelling.” (Wilson, 2011)

The Government’s own impact assessment was more qualified, while still believing that ARM was on balance the preferred option on value-for-money grounds:

“There is a trade-off between capital and revenue expenditure...Option 3 [ARM] delivers the greatest net economic benefits, maximises the delivery of new social housing, provides the most diverse range of products for those accessing social housing and would deliver the largest reduction in housing need. On that basis, despite higher estimated costs to government in the long term, it is the preferred option.” (DCLG, 2011)

This assessment has been widely challenged, notably in the report of the Public Accounts Committee in October 2012 following their inquiry into ARM. The Committee’s own assessment was that the housing benefit bill would rise by c. £1.4 billion over 30 years and that further work to understand the interaction of ARM with wider welfare reforms was required (Public Accounts Committee, 2012). Nevertheless, the Committee was not opposed to ARM as a short-to-medium term option against a background of spending cuts. The impact of welfare reform on ARM tenants and on the affordability of ARM rents will be examined below.

Following analysis of initial policy statements by Government, four key policy aims can be articulated in respect of ARM:

- There was the intention to continue to produce affordable housing with lower grant expenditure in the context of the Government’s commitment to fiscal austerity. The initial national target was for 150,000 homes to be built under the AHP by 2015.
- ARM was launched as representing a move towards “Intermediate contracts that are more flexible at rent levels between current and market rents” (HM Treasury, 2010). This could be taken to imply that ARM was originally conceived as an intermediate tenure, i.e. not simply a tenure for those who would traditionally have gained access to social housing.
- The Government appeared to aim for flexible tenancies and flexibility of rents. (HM Treasury, 2010)
- Government clearly intended that there would be “relatively limited impact” on the housing benefit bill ascribable to the introduction of ARM, although the impact assessment on ARM was qualified in this respect. (Wilson, 2011)

These aims are to be considered following the main analysis of the report to make a brief assessment of the degree to which they have been achieved in London at this halfway stage of the AHP 2011-15.

The Government was anxious to engage practically with the affordable sector over ARM and in February 2011 the HCA published the *2011-15 Affordable Homes Programme Framework* (HCA, 2011). Essentially a practical document aimed at potential bidders for contracts, the Framework nevertheless confirmed the funding for the 2011-15 AHP (see **Table 1**, below).

The Framework also confirms an overall national target for the AHP of 150,000 homes (including 67,000 still to be delivered under the previous NAHP) of which ARM and affordable home ownership would contribute 56,000. These figures were subsequently increased to 170,000 and 80,000 in response to successful bids for the programme.

The Framework confirmed that contrary to some expectations of this “intermediate” tenure, ARM homes would be “allocated in the same way as social housing is at present”. The LA nominations system would thus apply to ARM. “Affordable rent is a form of social housing.”

Table 1: Funding for the 2011-15 Affordable Homes Programme

	2011-12	2012-13	2013-14	2014-15	Total
	£bn	£bn	£bn	£bn	£bn
NAHP 2008-11 commitments	1.59	0.43	0.23	0.03	2.28
Affordable Rent and Affordable Home Ownership	0.05	0.36	0.57	0.82	1.80
Mortgage Rescue	0.09	0.08	0.05	0	0.22
Empty Homes	-	0.03	0.03	0.04	0.10
Homelessness Change Programme	-	0.01	0.01	0.01	0.03
Traveller Pitch Funding	0.01	0.01	0.02	0.02	0.06
Affordable Homes Programme	1.74	0.92	0.91	0.92	4.49

Source: HCA Framework 2011

Unlike the NAHP and previous programmes the Framework confirms that registered providers [RPs] would sign up for a part of the programme rather than for a series of specific schemes and that therefore, “the current system of detailed scheme-by- scheme appraisal will end.” Thus, formally at least, the HCA, and in London the GLA, would find their power to intervene over the implementation of individual schemes within a contract significantly curtailed. As the Framework puts it:

“We are looking for providers to set out their proposals for a four-year programme covering how they will manage their existing assets and capacity...”

The Framework states that ARM development and letting are regulated activities and that tenancies must be for a minimum of two years. On rents, the Framework makes it clear that RPs should be prepared to charge as near to 80% MRs as possible, in order to maximise delivery numbers and make the best use of grant. The 80% should include service charges (unlike traditional social rented housing where target rents exclude service charges). ARM rents are not subject to the rent restructuring regime and must be rebased against market rent before the commencement of each new tenancy. However, annual rent increases for sitting tenants should not exceed the Retail Price Index [RPI] plus 0.5%. Therefore, there is a direct link with local MR levels and a corresponding market risk for landlords that does not apply to homes rented under formula rents.

A further complicating factor in terms of rent-setting, is the existence of the Local Housing Allowance [LHA] used to determine the maximum allowable rent for housing benefit purposes to be paid in different “broad rental market areas”. Since October 2011 the LHA has been set at the 30th percentile of MRs. The Framework states: “The TSA [Tenant Services Authority] is not proposing to restrict the maximum rent...based on the local housing allowance. However landlords will wish to consider the local market context when setting rents, including the local housing allowance...” This advice would seem to be motivated by a desire to reduce the housing benefit bill but also to avoid a potentially embarrassing situation where “affordable” rents are actually higher than corresponding “market” rents. Thus, the LHA could be treated as the effective upper limit on ARM rents in some areas. As will be seen later, this has significance for some parts of London.

In addition to discussing rents on new properties, the Framework emphasises the importance of conversions [conversion of existing social rent properties to ARM at correspondingly higher rents when properties are re-let] as an essential component of the subsidy necessary to achieve ARM development in sufficient numbers.

The Framework is clear that London would receive funding estimated to be sufficient to achieve 27% of delivery outputs under the AHP; the same percentage as under the NAHP. The Framework also makes reference to the intended devolution of HCA powers in London to the GLA, which ultimately took place in April 2012.

By the time the Government’s national housing strategy

Laying the Foundations: a Housing Strategy for England was published in November 2011, the Minister was able to point to an affordable rent and home ownership programme of 80,000 units over four years, with Government funding of £1.8 billion. The paper exuded confidence for the future:

“The key principles of the ARM - flexibility, innovation and efficient use of existing assets- will remain the cornerstone of Affordable Housing provisions in the future...” “We are also considering how we can build upon the positive response to the Affordable Homes Programme to drive the delivery of affordable housing to 2015 and beyond in a constrained fiscal environment...”

The above statements and positive references to the enhanced role for private finance under the programme make it clear that the Government sees ARM as at least a stepping stone towards a permanent model. However, it is also clear that ARM itself may not necessarily be the model after 2015, and this underlying uncertainty remains an important factor in the thinking and behaviour of RPs in planning their own future development programmes (see below). As late as 18th January 2013 the Housing Minister, Mark Prisk, was reported by the Guardian as saying that a decision on the post-2015 future of ARM could be expected within months: “I’m looking to months - and not too many of them - to resolve the issue, but we have to do it in the context of a spending round, which is always a fascinating and occasionally byzantine process” (Kelly, 2013). Those RPs seeking clarity may have to wait a little longer.

It is interesting that *Laying the Foundations* also indicates that “affordable rents in London are, on average, 65% of local MRs and 95% of Affordable Rent properties in London will be made available at rents lower than 80% of market level.” One must suspect that this is an attempt to reassure those already voicing concerns about the affordability of ARM in London (see below).

By December 2012 the HCA had accepted 117 offers from RPs and allocated funding worth £1.13 billion to develop a national total of 53,341 Affordable Rent homes and 13,133 homes for affordable home ownership (HCA, 2013).

London policy response

Although the 2011-15 AHP was put in place in London by the HCA, the GLA was gearing up its housing policy for the capital in anticipation of the transfer of HCA powers from April 2012.

The *London Plan* states: “The Mayor is clear that London desperately needs more homes in order to promote opportunity and real choice for Londoners, with a range of tenures that meets their diverse and changing needs and at prices they can afford.” In the light of a projected growth in the number of households by 2031 of 0.9 million the Plan proposes a development target of a “minimum” of 32,210 new homes per year. This figure which is reproduced almost exactly in the Revised



London Housing Strategy (see below) is to be revised by 2015/16. Within this figure a “strategic target” of 13,200 affordable homes each year is added, although the Plan also offers the caution that “Affordable housing funds over the full term of the Plan is not known”. The above target is thus based on a forward projection of previous funding levels from “recent years”.

The *London Plan* makes a strong commitment to space standards and states that:

“The provision of affordable family housing is addressed as a strategic priority in LDF [Local Development Framework] policies.” “There is a particular need for social rented family homes.”

The *Plan* also states that

“The Mayor is concerned that there should be no segregation of London’s population by housing tenure.”

The introduction of ARM and other changes, including the new devolved housing powers for the Mayor, necessitated a revision of the *London Housing Strategy 2010*. The *Revised London Housing Strategy* [RLHS] was published for consultation in December 2011. Although it is not yet a finalised document, it is the most up-to-date version of the London-wide housing strategy (Mayor of London, 2011). The RLHS proposes an overall development target of 32,250 pa. taken from the London Plan and within that a target to provide 55,000 affordable homes over five years. The RLHS further states that:

“The pipeline of homes with planning permission is large enough to meet the Mayor’s new London Plan target of 32,250 homes a year for the next five years.”

Within the affordable component, the Mayor envisages a 60% social rented to 40% intermediate tenure split as stated in the Plan, but ARM homes are now incorporated within the 60%, although it could be argued that these more properly fall into the intermediate category in terms of rent levels. This raises questions about the extent to which ARM will meet the existing pattern of housing need. These will be returned to later. Overall, the RLHS envisages an investment of £537.6 million in Affordable Rent over the period 2011-15, with an additional supply of 16,614 new ARM homes to be provided under c. 60 contracts, of which 40 were in place at the publication of RLHS.²

The RLHS is clear that ARM is the key element in delivery of affordable rented homes in London and that delivery must be maximised, with rent levels set to ensure this:

“...setting any rent target below the 80% of MR by which it is defined would not be maximising delivery.”

The commitment to family-sized home in the Plan is explicitly incorporated into the RLHS by the Mayor: “I will ensure that 36% of new Affordable Rent Homes will be family-sized.”

The RLHS also states that:

“The design standards set out in the London Housing Design Guide will be incorporated into the contracts with partners delivering new affordable homes.”

The extent to which such commitments are achievable for ARM will be dealt with later in this report.

There was some controversy in 2012 over the publication of the *London Plan Revised Early Minor Alterations* [REMA] (GLA, 2012). The alterations contained a number of proposals, but for the purposes of this study the most significant was that which prevented LAs from capping ARM rents on grounds of affordability, and which allowed developers and RPs to make decisions on rents in consultation with the Mayor. There were a number of local authority objections to this proposal, which was also tested in the courts (LB Tower Hamlets, 2012). Local authorities now have to accept that they cannot determine the rent levels of properties built by other RPs within their area.

It is now over two years since the initial announcement that ARM would be the model for providing new social housing for the present AHP. In terms of policy rationale and process, ARM has moved from the policy to the implementation stage and has been incorporated into the national housing targets. It has also been assimilated into the London Plan and into strategic housing policy. In spite of the success so far, the process generates some unanswered questions that will be looked at later in this report:

- Will the targets be met in terms of numbers both nationally and, more importantly for this report, in London?
- Will evidence of concerns about affordability in London at a policy level prove to be justified?
- When government announces the approach to funding affordable housing that it will adopt for the next [one year] spending period and beyond, to what extent will ARM remain in the picture?

ARM: welfare reform and affordability

It was perhaps inevitable that a development funding model predicated on charging higher rents would provoke a literature assessing the affordability of that model for those it is intended to house. Such has been the case, both in terms of the national picture and in London. A complicating factor in assessing ARM affordability is the importance of housing benefit in underpinning the rental payments of the majority of households in social renting. By the time the main features of ARM had become apparent, the Government’s intention to reform the welfare benefit system, and in the process make significant changes to housing benefit, had also been announced. The Framework document states that ARM is “social housing” and that consequently local authority nominations would play the dominant role in allocating properties. Thus the implications of the welfare reforms were bound to be crucial. ARM rents under existing housing benefit arrangements would be paid on the same basis as for

2. See Appendices one and two of the RLHS document.

other social rented housing where the tenant was eligible for assistance. The prospect of reform created a rather different picture.

Perhaps the most useful overview of the perceived impact of welfare reform on HAs is the report *Impact of Welfare Reform on housing associations - 2012 baseline report* (IPSOS MORI/CCHPR, 2013).

The report, which includes survey evidence from HAs, sets out the key aspects of the welfare reforms to be phased in after April 2013 from the perspective of RPs:

- Penalties for under-occupying properties (the bedroom tax) applying to those of working age.
- An overall cap on maximum benefits to be paid to any household that effectively puts pressure on the rent element.
- The direct payment of universal credit to tenants rather than landlords as is usually the case at present.
- Changes to support for Council Tax and the devolution of support to local authorities and changes to benefits for the sick and disabled.

As with other commentators (see below) this report sees the first three - under-occupation, the cap and direct payment - as the key elements in the package. The implications for ARM are two-fold. Firstly, the extent to which the benefits will affect the ability of tenants to pay rents in their existing properties, or in newly developed properties (including ARM) and secondly, the level at which rents can be set for different types of homes in different areas if they are to be let. Ultimately, these potential impacts can have a knock-on effect on development capacity which will be addressed later.

IPSOS MORI/CCHPR point out that

“84% of associations believe rent arrears will increase. The average increase expected is 51% which nationally would mean £245 million in arrears.”

The potential implications for developing HAs in terms of risk and development capacity are also highlighted:

“10% of associations involved in the Affordable Homes Programme believe that in particular the introduction of direct payments to tenants will make it a great deal harder to meet their delivery commitments.”

While London HAs were not always as concerned about welfare reform as associations in other regions, they had concerns nevertheless.

In London HAs believed that in overall terms they could anticipate a 55% increase in rent arrears following the introduction of welfare reforms. 15% believed that increased debt as a result of welfare reforms would make it harder for them to meet their loan covenants. Worryingly, 75% of London associations believed their tenants “know hardly anything or nothing at all”, about the planned benefit changes.

In terms of under-occupation, the majority of London associations surveyed believed that they would have

increased difficulty in rent collection and 80% predicted increased arrears, although only 2% believed the size criteria would make it “a great deal harder” to deliver their programmes. 35% of developing HAs believed the criteria would have no impact on delivery.

According to the report the benefit cap will affect London associations. 72% of HAs predicted increased difficulty in rent collection and 53% foresaw a fall in total rental income. 25% of developers under the AHP programme predicted the cap would have no effect on them.

Direct payment appeared to be the biggest concern to London associations. 87% of associations reported that they would have to provide more resources for money advice and other support in connection with rent collection and 80% predicted an increase in arrears. 64% predicted a fall in total rental income following the introduction of direct payment. 23% of AHP developers believed that direct payment would make no difference to meeting their delivery commitments, although only 5% believed direct payment would make it a great deal harder.

IPSOS MORI/CCHPR³ draw clear conclusions as to the HAs likely to be most at risk from welfare reform. These include “developing housing associations in London and other high-priced areas”. London in particular is likely to have a larger problem with tenants falling foul of the benefit cap because of high rent levels (IPSOS MORI/CCHPR, 2013).

The above report has recently been followed up by two others in the series: *Intended and Unintended Consequences; a case study survey of housing associations and welfare reforms* (Williams, et al., 2013) and *Impact of welfare reform on housing association tenants - baseline report* (CCHPR, 2013). These confirm the impact of welfare reform on housing associations and in particular the immediate impact of the bedroom tax and direct payment in the future. They also highlight the impact on tenants themselves. Although not specifically about ARM, the reports re-enforce fears that ARM homes could be particularly vulnerable to the impact of welfare reform due to the higher rents charged and the consequential greater impact on tenants.

While the above reports provide a helpful perspective from which to begin to consider the interaction of welfare reform and affordability in respect of the social rented sector and of ARM, the debate had begun long before their publication.

The *UK Housing Review 2011* briefing commented:

“Rent levels implied by the 80% of market ceiling have already raised concerns about affordability in many parts of London - especially for family-sized homes. Although occupiers can still claim housing benefit on the same terms as other social tenants, the danger is that people needing family-sized homes might see their entitlement capped below actual rent levels.” (Pawson & Wilcox, 2011)



Nationally, the Review remarked:

“In effect they [HAs] are giving up some of their potential capacity to build new homes to reduce the impact on tenants of the higher rents.”

In London, Affinity Sutton, using research by CCHPR, estimated that in some areas of London up to 50% or more of working families could not afford ARM rents. This is a reminder that affordability is not just a benefits issue, and relates to the belief of some landlords interviewed that ARM is better suited to working households than to the benefit-dependent (Affinity Sutton, 2011). This point is discussed at greater length in subsequent sections of the report.

Other HAs added their weight to the discussion. In 2011, Family Mosaic (Family Mosaic, 2011) commissioned research to examine the impact of rents up to 80% of MR on new tenants in a sample of different properties taken from their own stock in different parts of London. Their subsequent report claimed that setting rents at 80% of MR would increase their clients' requirement for housing benefit by 151%. Even at 60% MR, all properties in London would have increases in rent, and for those in Inner London rises would be over £150 per week. Given that the open MRs for properties could be as high as £576 per week (for a three-bedroom house in Islington) this is perhaps not surprising. Family Mosaic made the important point that rent increases were not uniform and that the lowest increases tended to be in Outer London (such as Waltham Forest), or in less expensive parts. The relative affordability of Outer London and less expensive boroughs has relevance to discussions later in this report about where affordable development should be sited.

A number of studies of the impact of ARM in particular boroughs have been published. While these are of uneven quality and each focuses on one borough they do throw further light on issues of affordability. Perhaps the most detailed and well-researched of these studies is that undertaken for Islington Council in 2011 (Jones Lang LaSalle, 2011). The report notes that MRs in Islington are higher than the average for London, particularly in the south of the borough and that the benefit cap is a major determinant of affordability. It also notes that rents have risen faster than incomes and asks what happens if this trend continues. With benefits (and presumably the overall benefit cap) set to rise at 1% per year this is a real issue.

The Islington report uses a maximum “affordability threshold” of 33% of net income to be spent on housing, although it accepts that some groups, such as single adults, can frequently afford a higher proportion. It concludes that even with ARM set at low percentages of MR there will be problems of affordability in relation to the overall cap, particularly in respect of family homes in the south of the borough. At 60% of MR the report estimates that 11.4% of benefit receiving households would find their benefit capped with an average shortfall of £127.00 per week. At 80% MR, 34% of benefit recipient households would be affected. The report notes that the 18.2% of households moving into social rented housing who are not benefit dependent would have to pay the increased rents out of their own pockets

and that many might become benefit dependent as a consequence.

In overall terms, the report concludes that those tenants most affected will be those in the 30-39 age group with a disproportionate effect on “multiple adults with children”, Black Africans and single parents; the latter most of all.

The report concludes that the negative impact on the availability of traditional social rented housing will be gradual, even with conversions from social to affordable rent by HAs. This is largely because of the high proportion of existing social rented housing in the borough.

The East Thames Group has published a series of studies on the impact of ARM on individual East London boroughs: Barking and Dagenham, Havering, Redbridge, Tower Hamlets and Waltham Forest. (Gaus, 2011a) (Gaus, 2011b) (Gaus, 2011c) (Gaus, 2011d) (Gaus, 2011e). Of these the study of Waltham Forest is particularly interesting, since the distribution of tenures in the borough is close to the East London average, with 30% social rented, 20% private rented and 49% owner occupied households. Rents and weekly income are also close to East London median levels. (Gaus, 2011e)

The Waltham Forest study suggests that rent increases from current social rents to 80% MR would range from £28 per week to £110 depending on ward. On the basis of an affordability threshold of 45% of net income, 25% of Waltham Forest households would be unable to afford a two-bedroom ARM rent of 80% MR and 37% could not afford a three-bedroom property. Over 57% of households could not afford a 4 bedroom property⁴. Significantly, a household of two adults and two children renting a two-bedroom home would qualify for housing benefit unless their income was £39,210 pa. or more. This suggests that a significant proportion of such households would find their benefit capped were they fully benefit dependent.

The other East Thames studies paint similar pictures. In Barking and Dagenham a household of two adults and two children would have to earn £36,328 pa. to be above the housing benefit level although rents are significantly lower than in Waltham Forest (Gaus, 2011a). In Havering almost 25% of households could not afford a two-bedroom ARM property at 80% MR (Gaus, 2011b). In Redbridge, where only 13% of the housing stock is social rented, 34% of two adult plus two children households could not afford an ARM two-bedroom home, although salary levels are the second-highest of the East London boroughs (Gaus, 2011c).

Overall, the East London studies suggest that affordability of ARM is still a problem in the less expensive areas of London and that the overall benefit cap will affect a significant proportion of benefit-dependent households in those boroughs.

The introduction of the overall benefit cap in 2013 will clearly have an impact on the affordability of ARM

4. The Waltham Forest report does not imply that these proportions of households would actually be seeking two, three or four bedroom properties.

homes for benefit dependent households in London. It is reasonable to assume that households paying 80% MR will find the penalties for under-occupation more difficult to cope with than would those on much lower social rents, although in most cases LA allocation policies will avoid this situation. In addition, it is clear that for many non-benefit dependent households ARM could be unaffordable in many parts of London unless offered at significantly lower than 80% of a MR, with households requiring family-sized homes presenting a particular problem. The Housing Voice independent inquiry into the affordable homes crisis, reporting in September 2012 commented:

“We were also told that in a number of areas “Affordable Rent” would be unaffordable to those on the living wage...In the London Borough of Camden, the weekly average rent for a one-bedroom Council property is £81.92. The “Affordable Rent” for this property would be up to £240 per week.” (Housing Voice, 2012)

In these circumstances it is perhaps no surprise that stories continue to surface of local authorities reluctantly accepting that there is a need to assist some poorer households to move out of their areas, or out of London. At the time of writing, Brent Council is, apparently, contemplating offering large families £6,500 to move out of the borough (Lloyd, 27 February 2013).

Ultimately, the financial capacity of RPs to develop affordable homes depends on the value of their core assets, the value of the assets to be developed and the rental income streams that support both cash flow and asset values. Therefore, the affordability issues surrounding ARM are likely to be relevant to the ability to deliver on ARM development targets. These issues are pursued in the next section.

ARM: the ability to deliver

It is beyond the scope of this study to argue that government has a responsibility to ensure that sufficient affordable housing is developed in London, or indeed elsewhere. Such a case has been ably made on numerous occasions. Nevertheless, those interested in pursuing the arguments would do well to consult the 2011 study, *The Case for Investing in London's Affordable Housing* (Whitehead & Travers, 2011). Whitehead and Travers argue that a public housing subsidy might be allocated on three main grounds:

- Housing need,
- The wider benefits of affordable housing to the economy, and
- The need to promote the development of sufficient numbers of affordable homes.

They claim that London scores highly on all three grounds. These arguments will be returned to later in the report. However, it is worth noting their important proposition that with London historically providing a high proportion of affordable home completions, it is unlikely that any national target in this area can be achieved if London does not pull its weight.

With the replacement of the traditional social rented funding model by ARM, it would seem that the Government has accepted for the present, the need for some (reduced) subsidy in the form of grant, and an enhanced subsidy in the form of additional housing benefit (although the then Minister downplayed the significance of the additional housing benefit subsidy). Therefore, the question is whether this new balance of funding interventions will generate an adequate supply of affordable housing as defined by the Government's own national target of 80,000 homes for ARM and low-cost home ownership and the GLA target of 16,614 new ARM homes by 2015 (HCA, 2011) (Mayor of London, 2011).

It should be noted at the outset that the affordable homes sector is not the only area of new residential development to be subject to barriers to the delivery of new homes in London. Research commissioned for the GLA in December 2012 indicates that development plans may be at risk across all tenures (Molior London Ltd, 2012). Molior suggests that although private sales construction in London is nearly back to 2007 peak levels, a number of question marks should be placed around future projections of development levels. Planning permission exists on sites for the delivery of c. 210,000 homes; about seven years' supply according to the RLHS. However, they estimate that the effective pipeline over the next three years is only 50,000-70,000 homes, due to the slow rate of delivery on the larger permitted sites. Even this figure would only be realistic if work commenced on all these sites “tomorrow”. Molior predicts that this is unlikely because some 45% of permitted sites are in the hands of those who do not build and 55% of the “pipeline” permissions are in such ownership, which includes owner occupiers, government, investment funds and others.

In addition, the report suggests that obtaining debt in order to build is difficult and expensive (although of course the position of RPs differs from that of private developers).

Molior also points to limited capacity in construction with 70% of private sale starts undertaken by only 23 firms in the 12 months to June 2012. According to the report, additional developer frustrations include “unrealism” from local authorities in negotiating s.106 requirements and continuing delays in the planning process as a whole.

Commenting on the deliverability of ARM in general Pawson and Wilcox (2011) remark that:

“In London rents set by the formula could underpin substantial increases in borrowing (at 80% of a MR).” The implication is thus that the financial capacity to maximise development numbers exists to a greater degree in London than elsewhere. However, they go on to discuss welfare reform and issue this reminder: “In effect the HAs are giving up some of their potential capacity to build new houses to reduce the impact on tenants of the higher rents.” (Pawson & Wilcox, 2011)



The increased borrowing required to develop with lower rents increases the level of debt and puts pressure on loan covenants and gearing ratios. While this is not a London-specific point, it does mesh with the literature on affordability discussed in the previous section. In that section, issues as to the degree to which rent levels anywhere near the 80% level could be sustained in London emerged strongly. Indeed, evidence later in this report that actual ARM rent levels in London average around 60%, suggest that issues of affordability, particularly when coupled with the implications of welfare reform, have had a real impact on ARM rents. The GLA took a realistic view of potential ARM rents from the outset and continue to aim for ARM rents to average 65% of a market rent.

A further question raised by *Social Housing* magazine using data and analysis by Hometrack is that of conversions (i.e. conversion of re-let existing social rented properties to affordable rent). As has been seen, ARM schemes rely on a certain level of conversions to ensure financial viability and to keep grant levels down.

“Areas where the conversion rate is in practice unfeasible must look for extra subsidy through more grant or landlords cash.” (Allen, June 2011)

Although *Social Housing* takes a more positive view on ARM prospects in the south of England than in the North their report does offer the caveat that:

“Although there is a clear regional pattern in the data, with the Midlands and the North looking much less suited to Affordable Rent than many areas in the South of England, there are also local variations in the results due to high MR levels in some localised areas...There is a clear North-South divide: the potential uplift (in rents) is greatest in Southern England yet the volume of stock turnover is generally lower in Southern England and replacement costs are higher.” (Allen, June 2011)

A less optimistic view of ARM emerges from the July 2011 report of the London Assembly Planning and Housing Committee: *Implications of the Affordable Rent Model in London*. Based primarily on interviews with senior representatives of RPs the report stresses the additional risks for RPs implied by the higher levels of borrowing required for ARM and the much lower (10%-20%) grant rates prevalent on the ARM programme compared to the NAHP. The picture of ARM that is sketched out is of a model that is less than ideal and which is probably a stop gap until a better model (or better times?) arrives. The report quotes David Montague of London and Quadrant [L&Q]:

“It gives us the ability to keep the show on the road, it gives flexibility with the way in which we use our assets and the level of rent that we charge and that is worth something to us at the moment.” (London Assembly Planning and Housing Committee, 2011)

The report cites Richard Donnell of Home track in relation to the low rate of stock turnover in London.

It also quotes Rod Cahill of Catalyst Housing to the effect that the proportion of three plus bedroom homes developed could drop very substantially due to the impact of affordability in the context of the overall benefit cap, which is perceived to hit those households requiring larger homes the hardest. This is seen as forcing lower rent levels on these properties in London and making them less viable to build.

As Cahill put it in relation to the proportion of larger homes they would build going forward compared to the 35-40% built under previous programmes, “If we achieve 20% we will be doing well” (London Assembly Planning and Housing Committee, 2011). By way of further illustration of localised problems over larger homes, Jones Lang LaSalle estimate that ARM rents on “family properties” would usually need to be less than 50% MR in Islington and would have to be set at below 40% in the south of the borough (Jones Lang LaSalle, 2011).

Overall, the Assembly Committee perceives there to be a strong risk that numbers of homes delivered will be very significantly down on those achieved under the previous NAHP. Given the expert input to the report, its conclusions should not be discounted in spite of its desire to influence the RLHS, which may have coloured its presentation.

Issues of affordability, higher borrowing and moving from target to market rates could mean that ARM becomes a higher risk activity for RPs, with implications for the ability to deliver on commitments. This is well summed up by Jones Lang LaSalle:

“The high credit-worthiness of the sector - highlighted by rating agencies - was the result of a combination of three factors; the assumption that Government would rescue ailing providers, the close regulatory oversight provided by the TSA and a guaranteed income stream in the form of housing benefit. The latter has been eroded somewhat by Affordable Rent as providers will now be exposed to market risk in the form of rental fluctuations and a greater likelihood that tenants will be unable to pay the rent...perhaps most importantly, the ending of secure tenancies means that providers will face the risk it might be difficult to re-let properties. This could lead to a re-pricing of risk by lenders and higher interest rates for the sector as a whole, stifling its ability to raise output.” (Jones Lang LaSalle, 2011)

The recent news of down-rating of HAs by Moody's, citing regulatory deficiencies (Moody's, 2013) (Inside Housing, 2013) and the recent difficulties of Cosmopolitan HA (now taken over by Sanctuary HA) should be a reminder that such fears should not be too lightly dismissed.

In conclusion, the literature focussing on the deliverability of ARM in London is mixed. On the one hand, commentators point to the potential to gain a significant uplift in rents in London. This is in the light of the modest (30-40% of MR) levels of existing social rents and the high and rising levels of MRs in the capital. On the other hand, there is clearly disquiet about affordability in London, particularly when coupled with the impact

of welfare reform, with the overall benefit cap clearly being perceived as a serious negative factor. In addition, the risks associated with ARM and additional question marks over the delivery of larger homes add to concerns about the ability of RPs to deliver on their commitments and the extent to which those commitments will meet the strategic housing requirements for London as set out by the Mayor. These questions will be examined closely in the subsequent sections of this report.

ARM: what happens after 2015?

It appears that the next Comprehensive Spending Review [CSR] that will take place on 26 June 2013 will be for a one year spending period only (Stratton, 23 September 2012). In effect, that means that there will be further, later consideration of the position to be adopted from 2016, which is likely to be after the next General Election. Sources with an ear close to Government suggest that this sharply increases the likelihood that ARM may be extended as the main funding model for a further year, with the eventual post-election position on affordable housing dependent to a significant degree on the outcome of that election. Therefore, the tendency of the affordable sector to focus on 2015 as the date for implementation of a new funding model, or re-affirmation of ARM, may be misplaced, with 2016 being the likely date for radical change.

Whatever the precise timing, speculation about what may eventually follow the present round of ARM has been active in the housing press, conferences and other forums. Issues raised have included supply versus demand side subsidy (Heywood, April 2012) and the role of market renting plus government guarantees in the housing mix (Montague, September 2012). Other contributions have re-stated general principles such as the perceived need for a restoration of higher grant levels to facilitate greater rent subsidy.

The scepticism that ARM can be more than a stopgap has been noted in earlier consideration of the report of the London Assembly Housing and Planning Committee (London Assembly Planning and Housing Committee, 2011). The Public Accounts Committee inquiry into ARM concluded that "this is a one-off opportunity and it is far from clear whether providers will have the financial capacity to take part in another round of the programme" (Public Accounts Committee, 2012).

Some more detailed work has been undertaken. L&Q with Price Waterhouse Coopers [PwC] published a series of papers exploring the current ARM model and looking ahead to subsequent spending rounds. They maintain that ARM is unlikely to be sustainable over the longer term due to its high borrowing requirements, which sap the financial capacity of the HA sector. L&Q/PwC maintain that the sector will have to borrow an additional £15 billion by 2015 to meet their AHP-related stock investment and re-financing requirements. (L&Q/PwC, 2011). The authors argue that LAs have significant borrowing capacity and that longer term tenancies plus subsidies, including deferred receipts on land, will allow some below market rent housing to be built. However, they also maintain that grant is needed to house the

poorest households. In a subsequent paper L&Q/PwC argue for a "new" private rented sector straddling the social and market sectors and offering both market and sub-market rents on homes that provide greater security and higher quality than is the norm for the private rented sector at present (L&Q/PwC, 2012).

L&Q/PwC maintain that such a sector could tap into a "Social Equity Fund" created by aligning rents to what different households can afford and by managing assets better. They argue that HAs should be given more freedom to manage assets, notably by raising rent levels to 35% of net household incomes of different client groups. Overall, they predict a very significant increase in financial capacity. Of the present position they comment:

"Essentially HAs are receiving a low level of grant to deliver an inflexible asset and with limited influence or control over the customer profile...if Affordable Rent continues in its current form after 2015, housing associations may be unable to continue development under the programme"(L&Q/PwC, 2012). The ideas put forward by these and other commentators will be fed into the consideration of post-2015/16 options later in this study.

However, there has also been a recognition that what happens after 2015/2016 will depend to a large extent on how ARM fares in terms of its implementation in the period up to 2015. As Pawson and Wilcox put it:

"Will the new funding formula for social house building in England meet ministers' targets?"
(Pawson & Wilcox, 2011)

Immediately following the drafting of this report the London Finance Commission published its findings *Raising the Capital, the report of the London Finance Commission* (London Finance Commission, 2013). The Commission point out that only 7% of tax paid by individuals and businesses in London is distributed by the elected London bodies (The GLA and Councils). It also maintains that London is much more dependent on central government grant than other comparable cities such as New York and Paris and suggests that devolution of such expenditure could boost economic growth.

While not directly concerned with ARM, the Commission makes a range of recommendations that would have a bearing on housing policy and the context within which ARM would operate:

- Devolution of control of resources and of fiscal control to London (GLA and boroughs) including the devolution of all property tax revenue streams. Devolution of decision making would be analogous to that already exercised by the devolved administrations of Northern Ireland, Scotland and Wales.



- London should build around 40,000 homes a year to house a population that it claims will reach 10 million by 2030. This is a significantly higher new-build figure than the current RLHS target.
- Limits on local authority borrowing for housing should be removed, or relaxed, within the prudential borrowing framework,
- Consideration should be given to devolving housing benefit expenditure to London.
- In terms of housing subsidy consideration should be given to moving from personal subsidy towards (capital) subsidy of investment in assets.

Clearly if such a programme of devolution was to take place, it would have major implications for housing policy in London. The move from capital to revenue subsidy in the form of housing benefit implicit in the ARM model could be re-considered. There would be additional subsidy available from local authorities, and the relative priority of housing compared to other spending in London could be considered afresh. London's housing policy could depart radically from that of the rest of England.

However, the Commission report is currently just that. Its recommendations have not been considered in depth by central Government and at the time of writing have yet to be fully discussed by stakeholders in London. Even if agreement was eventually reached on some, or even all, of the Commission's proposals, previous experience of devolution suggests that the time scale for implementation would be lengthy. There can be very little likelihood of legislative action before the next General Election and implementation would presumably take place over a protracted period. The Commission proposals are therefore unlikely to influence the future of ARM in 2015 and any projection further ahead would be extremely speculative.



ARM in London: trends and issues

Data sources

Any analysis of the progress of the implementation of ARM will inevitably rely heavily on available datasets focussing on the rate and distribution of ARM construction, on progress in achieving conversions, on tenants and tenancies, and on rents. In addition to the utilisation of a wide variety of data sources that have a bearing on one or more aspects of the research, this report has drawn on four main sources of data, which focus specifically on ARM itself:

Data supplied by the GLA

The GLA has provided significant amounts of data covering important information ranging from AHP contracts signed in London to ARM properties built over the past two years, to valuable information on conversions and ARM rent-levels. In the main this data derives from the GLA Internal Management System [IMS] and the quarterly survey of Finance Directors conducted by the HCA. The data covers the year 2011-12 and the first three quarters of 2012-13.

Statistical Data Return [SDR]

The SDR is administered by the HCA and is an annual return covering existing social rented properties and tenancies submitted by HAs and local authorities [LAs]. It thus includes information on property numbers, types and distribution plus other data including rents. While the coverage of this is comprehensive for England, unfortunately, the latest SDR data available covers the year 2011-12 which limits its usefulness. It should be noted that methodologically the SDR is significantly different from the HCA quarterly survey that informs the GLA data above.

Continuous Recording of Lettings and Sales [CORE] data

CORE data is compiled on a quarterly basis from returns made by RPs and is collected and compiled by TNS Global on behalf of DCLG. It is the most comprehensive record of social rented and low-cost home ownership [LCHO] activity by HAs and LAs in England. Its scope includes first lets and re-lets, type of tenancies offered, characteristics of tenants, geographical distribution, property type, sources of lettings and rents. CORE compiles specific datasets on ARM as well as for social rented properties. CORE ARM data for 2011-12 is in the public domain. However, CORE data has also been compiled for quarters one two and three of 2012-13. Although the corresponding CORE data for social renting is in the public domain, the ARM data was not. DCLG agreed to release this data to FoL. This was important

for the research because the 2012-13Q3 data provided more up-to-date information at a time when the ARM landscape is developing rapidly.

However, it should be borne in mind that this data is only for three quarters of a year and that some HAs and LAs submit CORE returns late. Thus there is a greater possibility, at least in theory, that this data may be unreliable in certain respects. Nevertheless, extensive comparisons with 2011-12 ARM data and with other sources have been made. It does not appear that there are significant additional aberrations in the more recent data. Indeed, the CORE 2012-13Q3 ARM data contains almost five times as many records as does CORE 2011-12 although it only covers three quarters of a year. Comparisons with HA general needs data for 2012-13 has been with data for the first three quarters, which are what is currently available and which in terms of period fits the ARM data.

Locally generated data

The above datasets have been supplemented where appropriate by data supplied by a variety of HAs, LAs and other organisations and which focuses on particular localities, often a specific borough. This data is usually limited in scope but is valuable as a supplement and cross-check for accuracy.

Data discrepancies

It should be noted that CORE is not a count of properties; it is a record of new lettings over a period. Thus it differs methodologically from surveys of existing properties, and/or tenancies, such as those offered by the GLA data and the SDR data (see above). This allows discrepancies to arise when data is drawn from different sources. These discrepancies will be identified in the report where relevant. Due to the comprehensive nature of the CORE data and its timeliness it has been used more extensively than other sources in preparing this report.

Supported housing

Finally, it should be noted that this report does not focus on ARM supported housing as a separate item. The reasons for this are that there were no supported housing units let in London as ARM in 2011-12 and only c. 50 in 2012-13. They also did not emerge as a specific interest of providers interviewed as part of the research. Given that supported housing inevitably raises specific and distinct issues, and that there is not enough data to analyse it meaningfully, it was decided to set it on one side and focus on the ARM sector as a whole.



Table 2: List of contracted Affordable Homes Programme organisations

Organisation name
A2Dominion London Limited
Affinity Sutton Group Limited
Agudas Israel Housing Association Limited
Almshouse Consortium Ltd
AmicusHorizon Limited
Catalyst Housing Limited
Centrepoint
Circle Anglia Limited
East Thames Group Limited
Eldon Housing Association Limited
Estuary Housing Association Limited
Family Mosaic Housing
Galliford
Gallions Housing Association Limited
Guildhouse UK Ltd
Hanover Housing Association
Hexagon Housing Association Limited
Home Group Limited
Housing 21
Hyde Housing Association Limited
Islington and Shoreditch Housing Association Ltd
Keniston Housing Association Limited
Leicester Housing Association Limited
Logic Homes
London Borough of Barking and Dagenham
London Borough of Camden Council
London Borough of Ealing
London Borough of Hackney
London Borough of Hillingdon
London Borough of Newham
London Borough of Wandsworth
London & Quadrant Housing
Metropolitan Housing Trust Limited
Moat Homes Limited
Network Housing Group Limited
Newlon Housing Trust
Notting Hill Housing Trust
Octavia Housing
One Housing Group Limited
Orbit Group Limited
Paddington Churches Housing Association Limited
Paradigm Housing Group Limited
Paragon Community Housing Group Limited
Peabody Trust
Persimmon
Places for People Group Limited
Poplar HARCA Limited
Riverside Housing Association Limited
Sanctuary Housing Association
Southern Housing Group Limited
Swan Housing Association Limited
Taylor Wimpey
Telford Homes Plc
Thames Valley Housing Association Limited
The Guinness Trust
Town and Country Housing Group
Viridian Housing
Wandle Housing Association Limited

Source: GLA

Contracts

The GLA listed a total of 58 organisations contracted to provide homes under the AHP 2011-15 (see **Table 2**, left).

This is very close to the 60 organisations predicted by the RLHS and indeed, two organisations originally contracted have withdrawn. Between them these organisations are contracted to provide a total of 22,268 homes under the AHP, a figure which includes both ARM and LCHO homes. The GLA has a working assumption that the ratio of ARM to other tenures within the programme would be 74:26. This implies a projected figure for ARM of 16,478, a figure close to the 16,614 proposed under the RLHS. However, this suggests a higher proportion of ARM homes in the AHP programme than suggested in the RLHS (60:40). Total grant allocation to those organisations is £580 million and the proposed [MR] percentage on ARM properties is 64.7%. This figure will be tested in practice later in the report. The GLA is currently predicting that 33% of ARM homes to be completed by 2015 will be family-sized (i.e. three bedrooms or more). This represents a modest retreat from the 36% target within the RLHS.

The proposed pipeline of completions, which includes properties originally commissioned under the NAHP and other legacy programmes, is as follows:

Table 3: Current profile of GLA-funded affordable housing delivery to March 2015

Year	Completions (outturn)
2011-12	16,173
2012-13	7,562
2013-14	11,788
2014-15	19,477
Total	55,000

Source: GLA

Recently released data from the GLA suggests that the 2012-13 target has been exceeded, with 8,114 affordable homes completed during the year, plus 1,100 for full open-market sale (GLA, 2013).

The RLHS has an overall target of 55,000 homes to be completed by 2015. This is made up of homes provided under the previous NAHP and a number of other legacy schemes, plus the numbers planned under the AHP. Thus the overall target of 55,000 homes currently includes 22,268 starts/completions under the AHP. It is intended that all AHP properties will be started by September 2013. The GLA is still signing contracts outside the AHP with providers to provide additional numbers should the output fall short of the delivery target.

Although the AHP programme involves a total of 58 organisations, contracts are, as might be expected, skewed heavily towards providers able to offer larger numbers of completed homes. The providers with the five largest contracts together are committed to completing

7,758 homes, or 34.8% of the total of 22,268. By contrast the five smallest contracts make up a total of 100 homes to be completed, a mere 0.45% of the total.

It should be noted that unlike the previous NAHP programme, which allowed the HCA to scrutinise at the level of individual schemes in order to ensure delivery under contract, the AHP is agreed on the basis that providers will develop a certain percentage of the programme. This in practice allows providers more discretion at a scheme by scheme level, and allows the GLA/HCA correspondingly less detailed oversight (HCA, 2011). The extent to which this may or may not contribute to a slower pace of delivery in London will be an issue later in the report.

New-build and conversions: position to date

At the time of writing, data including both new-build and conversions was available from the GLA and CORE for the year 2011-12 and for three quarters of 2012-13. SDR data exists for 2011-12 only and is therefore of little use in estimating total numbers.

The GLA and CORE estimates can be compared in **Table 4**, below.

While the two sources agree closely on total numbers of ARM, the breakdown between new-build and conversions are at variance with the GLA estimates providing lower new-build numbers but higher levels of conversions when compared to CORE. As already indicated a key difference between the two sources is that the GLA estimate is a count of properties signed off as completed or as conversions, in the former case by the GLA Internal Management System [IMS] and in the latter via the quarterly survey of finance directors.

By contrast, CORE is a cumulative record of lettings. As such CORE first lettings stand proxy for new-build properties and other ARM lettings appear as conversions. This is a reasonable approach during the first two years of ARM since there will be few cases of tenants leaving these properties and their being re-let over this period. One might have expected the CORE estimate based on lettings to lag behind the GLA estimate of completed properties but this does not seem to be the case with new-build. It has been suggested that discrepancies may be in part explained by the incidence of properties built under other programmes being converted to ARM on first letting and thus boosting the CORE first let/new build figures. If this is the case then the discrepancy will probably become less significant over time as previous programmes run their course and it is of limited significance since it is a finely balanced definitional issue

that can be argued in favour of either set of data. CORE data is more granular and susceptible to a much greater depth of analysis than that provided by the GLA, and will be used in preference in the analysis below.

One interesting feature of both sets of figures is that the figure for new-build has not markedly increased between 2011-12 and 2012-13Q3 (CORE), or has actually dropped (GLA). One would expect to see an increasing level of completions as the AHP programme works through. Some light was thrown on this issue in an HA interview where it was suggested that the GLA may have allowed some social rent schemes to convert to ARM in 2011-12. This would explain a relatively high level of completions in 2011-12 and could also explain the difference between the CORE and GLA data. However, GLA data released in April 2013 for completions for the four quarters of 2012-13 suggests that a further 222 homes were completed during the last quarter, bringing the total for the year to 277 and implying an upturn in the impetus of the programme (GLA, 2013).

Full tables of the GLA AHP for all tenures in terms of starts and completions for the whole of 2011-12 and 2012-13 are reproduced at Appendix 2. These include a breakdown by borough. In summary they show a total of ARM 6,686 starts over the two years and a total of 408 completions (GLA, 2013).

It is clear is that the GLA programme is “back-loaded” as an interviewee put it. However, it would appear that it may not be more back-loaded than the ARM component of the AHP programme for England as a whole. By December 2012, 3,411 new-build ARM homes in the national programme had contributed some 2% of the AHP total planned by 2015. The comparable figure for London is slightly higher, at c. 2.4% (CORE data). Nevertheless there is a pervading impression from HA and LA representatives that the programme is less advanced in the capital than it should be.

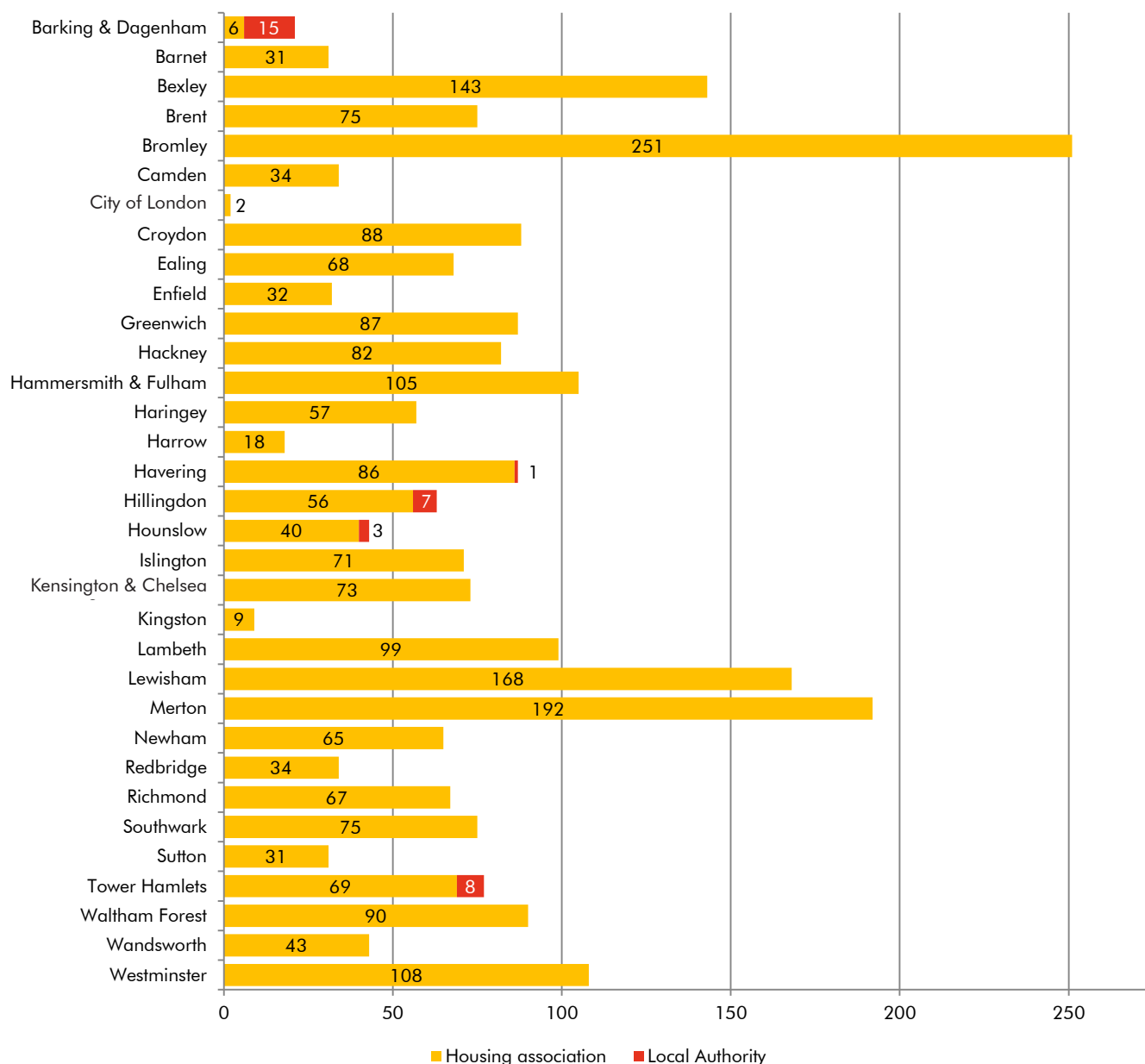
Table 4: First let and conversion estimates, to 2012-13Q3

	2011-12 first lets / new-build	2011-12 conversions	2012-13Q3 first lets / new-build	2012-13Q3 conversions	Total ARM to Dec 2012
GLA estimate	131	535	55	2370	3091
CORE	252	363	291	2198	3104

Source: CORE 2011-12, CORE 2012-13Q3, GLA



Figure 1: Total ARM homes (first lets and conversions), to 2012-13Q3, by London borough



Source: CORE 2011-12. 2012-13Q3

As one LA interviewee put it, "ARM is taking off very slowly in London." This issue will be examined further in the context of whether the GLA will realise its development targets by 2015.

The distribution of total ARM provision is certainly not even across London (see **Figure 1**, above).

As already indicated, numbers of ARM within supported housing are tiny and do not alter the overall picture of ARM as general needs properties. It should also be noted that all the above homes are HA owned. According to CORE there are currently no LA-owned ARM homes

in London, although it is understood that some are planned.

The overall numbers for individual boroughs are almost certainly skewed by the presence of large providers who may also have initiated ARM provision early in the AHP programme. It is believed that activity by Affinity Sutton HA has boosted the numbers in Bromley for instance. Nevertheless, it does appear that overall, ARM distribution for both new-build and conversions tends to favour Outer London and the eastern boroughs. The distribution of first lets and conversions by London borough is listed in **Table 5**, on the next page.5

5. Data on ARM provision by provider is contained in Appendix 1

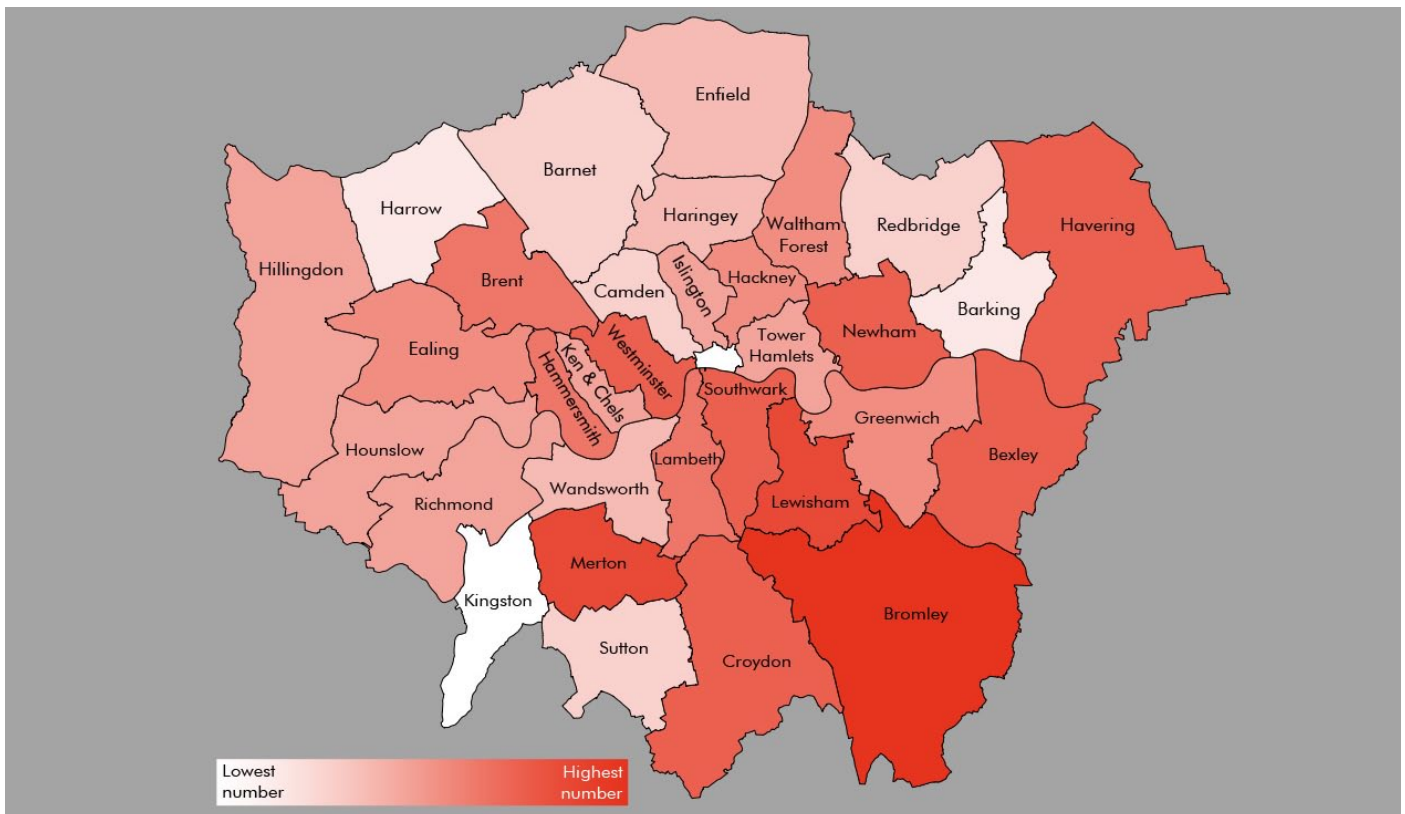


Table 5: Distribution of first lets and conversions, by London borough

Borough	First lets	Conversions	Grand Total
Inner London	71	1110	1181
Camden		39	39
City of London		2	2
Greenwich	8	84	92
Hackney	1	94	95
Hammersmith and Fulham	2	114	116
Islington		76	76
Kensington and Chelsea	2	76	78
Lambeth	3	109	112
Lewisham	26	154	180
Southwark	24	99	123
Tower Hamlets		84	84
Wandsworth	1	47	48
Westminster	4	132	136
Outer London	472	1450	1922
Barking and Dagenham		22	22
Barnet	1	38	39
Bexley	54	105	159
Brent	19	87	106
Bromley	27	298	325
Croydon	78	59	137
Ealing	25	63	88
Enfield	17	32	49
Haringey	4	60	64
Harrow		24	24
Havering	102	24	126
Hillingdon		78	78
Hounslow	34	46	80
Kingston upon Thames		10	10
Merton		225	225
Newham	73	65	138
Redbridge	10	30	40
Richmond upon Thames	8	73	81
Sutton	16	22	38
Waltham Forest	4	89	93
LONDON	543	2560	3103

Figure 2 (above): Map of distribution of total ARM provision (first lets and conversions), by London borough

Source: CORE 2011-12, CORE 2012-13Q3

The map above (**Figure 2**) visualises the distribution of first lets and conversions as presented in **Table 5**, right. The most densely coloured areas represent those boroughs with the highest levels of ARM provision (both first lets/new build and conversions). The map does illustrate the degree to which provision is focussed on Outer London and East London where rents and land values tend to be lower. Similar patterns are evident when new-build and conversions are considered separately.

Some, but not all, HA interviewees indicated that they were prepared to build in areas where land values are lower and so schemes would be more financially viable:

“Building affordable homes somewhere, is more important than where you build them.”

- HA interviewee

The other consideration, which will be dealt with in detail in the section on affordability below, is the issue of achieving a sufficient rental uplift/percentage of a market rent on conversions and new-build in the context of affordability constraints and welfare reform. It was clear that HAs were in some cases struggling to achieve a sufficient rate of conversions at adequate rental uplift in spite of seeking to develop in cheaper areas. In some cases scheme subsidies were being topped up from the Recycled Capital Grant Fund [RCGF].



These issues will be returned to later but it is worth noting even at this stage, that ARM does appear to be distributed to a significant degree according to viability defined in business terms rather than according to the distribution of need. This in turn raises questions about the degree to which ARM provision can support the statement in the London Plan that:

“The Mayor is concerned that there should be no segregation of London’s population by housing tenure.” (Mayor of London, 2011)

Affordable Rent has a specific profile in terms of the size of properties that have been built or converted (see **Figure 3**, below).

An examination of data for 2012-13 shows that at the end of Q3 2012-13 ARM did not replicate the normal social rented letting profile for London in terms of three or four plus bedroom properties for either new-build or conversions. ARM did not match the size profile of existing London general needs regulated stock either. 27.7% of that stock is one-bedroom, 37.2% is two-bedroom, 26.2% three-bedroom and 6.3% has 4 bedrooms or more (SDR return, 2011). In terms of new ARM properties it would appear that there was a particularly heavy preponderance of 2 bedroom flats. In fact flats and maisonettes make up 87.9% of all ARM provision in London (CORE). While residential development in London generally heavily favours flats, HA interviewees cited specific reasons why the proportion of small ARM properties was high. These focussed on affordability issues, and in particular, the impact of the Government’s welfare reform proposals in pushing down rent levels for larger properties and making them unattractive to build.

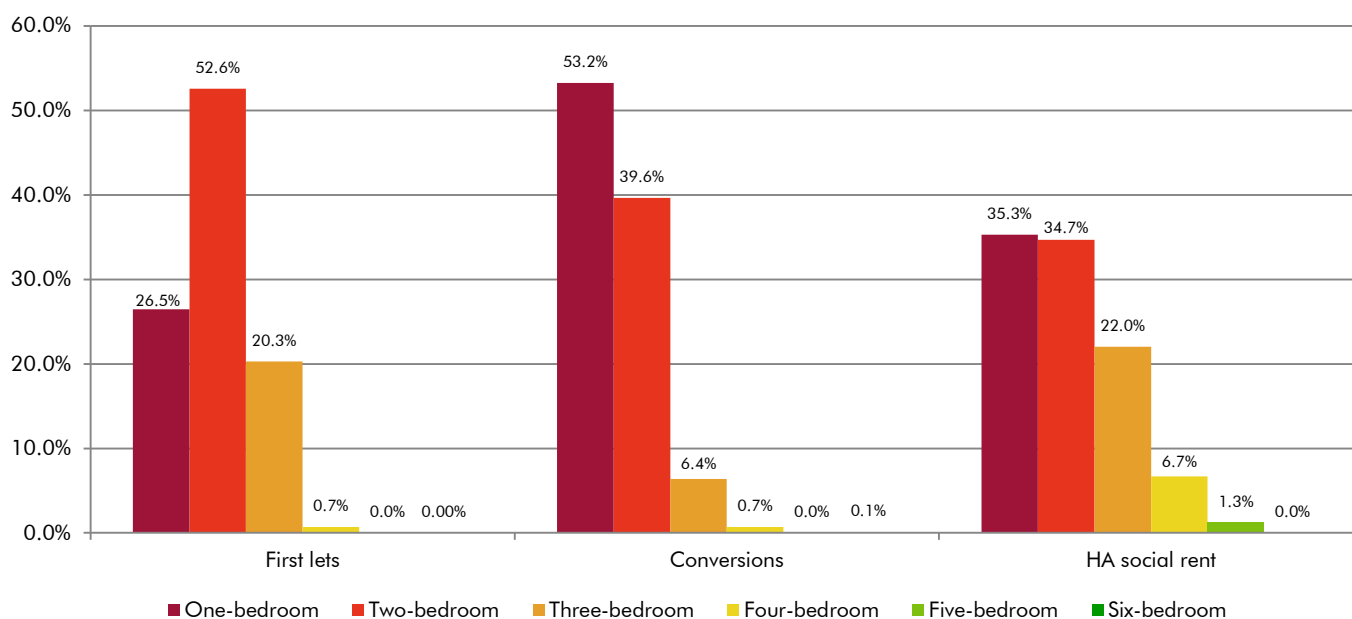
“Outside London close to 80% of a market rent is the norm but in London [HA Name] tries for 65% but can’t get it for larger properties. We are now aiming to build very few of them.”

- HA interviewee

Very recently the GLA has made available data from its IMS system suggesting that at the end of Q4 2012-13, 34% of ARM completions were of three bedrooms or more. This represents 170 homes out of a total of 498. Unfortunately the released data does not include a more detailed breakdown of completions by number of bedrooms. In addition, it does not cover conversions. These factors, combined with differences in methodology identified earlier in the report, make direct comparison with the CORE data difficult. Nevertheless, given that there has been an upturn in completions during Q4 2012-13 it does appear that by 31 March 2013, the proportion of family-sized homes had increased to roughly the level predicted by the GLA for 2015. At the time of writing the CORE data remains the most recent in relation to the size distribution of conversions.

Consideration of both sets of data suggests that the data on numbers of bedrooms for new-build is volatile over time (partly because the overall numbers of new-build are still low) and highlights the very low proportion of larger homes amongst conversions. Feedback from RPs suggests that affordability constraints, particularly in the context of welfare reform, can make building larger homes problematic because of the difficulty of obtaining viable rents (see the following section of the report). For these reasons achieving a sufficient proportion of family-sized homes as the programme unfolds may not prove easy.

Figure 3: Percentage of different bedroom numbers let in London: ARM first lets, ARM conversions, and social rent



Source: CORE 2012-13Q3

The HCA framework document offered providers the opportunity to offer fixed term tenancies for ARM of a minimum of 2 years, although current recommendations are for five year terms. Actual practice has been calculated using CORE data in **Figure 4**:

Figure 4: Tenancy type, London ARM and HA SR lettings, 2012-13Q3



Source: CORE 2012-13Q3

It is clear that over 50% of ARM tenants have been offered fixed term assured shorthold tenancies; virtually all for a term of five years. However, as the above chart demonstrates, in almost 40% of cases ARM tenants are offered permanent assured tenancies, as are most tenants in the wider social rented sector. Nevertheless, overall, 72.0% of ARM lettings involved the use of starter tenancies which normally precede the normal assured or assured shorthold tenancies.

Feedback amongst provider and local authority interviewees suggested that in some cases landlords and/or the LA were reluctant to offer a lower level of security of tenure than that provided by a full assured tenancy. This was ascribed in part to the perceived unpopularity of fixed-term tenancies amongst potential tenants, although relative unpopularity was also ascribed to the higher rents charged under ARM, particularly in the context of welfare reform (see affordability section).

There is some evidence that ARM properties are less popular than social rented properties in general:

Table 6: Number of days property was vacant before letting

Region	Number of days vacant
ARM London	25.7
ARM England	22.9
HA SR London	25.0
HA SR England	26.8

Source: CORE 2012-13Q3

Table 7: Number of times property was previously offered prior to letting

Region	Number of days vacant
ARM London	1.42
ARM England	0.74
HA SR London	0.93
HA SR England	0.75

Source: CORE 2012-13Q3

In terms of days vacant, ARM properties in London take longer to let than ARM properties in England, and are vacant for very slightly longer than social rented properties in London. They have also been offered more often than other London social rented properties prior to a successful letting. Given the very strong underlying demand for social rented property in London and the chronic lack of overall supply, it would seem that landlords are able to let ARM properties with little delay in spite of them being less popular than other social rented properties. Nevertheless, providers believed that the combination of higher rents and less security of tenure produced a reluctance to take on an ARM home amongst significant numbers of tenants. It was reported anecdotally that there was relatively poor demand for ARM properties from applicants and prospective tenants when offered via choice-based lettings systems [CBL].

“Conversions are coming through well, but they are slower to let. Five-year tenancy makes a difference as well as higher rents; a small sample so far but it’s an issue. People will go to other landlords.”

- HA interviewee





Case study

Peabody: converting to ARM in Inner London

Peabody is one of the oldest housing associations in London, established in 1862. Today it owns more than 20,000 properties across London which it lets and manages.

Peabody planned to convert 50 units to AR in 2011-12, 100 units in 2012-13, 150 units in 2013-14, and 200 units in 2014-15. It is on track to meet the deadline of March 2015.

Between 1st December 2011 and 30th November 2012 there were 152 conversions to AR lets across 14 boroughs, ten of which were in Inner London boroughs. The properties targeted for AR have been those which could be let for a higher rent. Peabody's policy is to let only bedsits and one- and two-bedroom properties as ARs. This is consistent with the results of a G15 benchmarking survey which suggests that most providers are converting one and two-bedroom units to AR. This is borne out by CORE data: 98% of conversions in London are of one or two-bedroom properties.

All AR homes have been issued with a 12 month periodic starter tenancy. During this starter tenancy the tenant receives review visits at six weeks and nine months, with a desktop review at six months. Successful tenancies progress to a five year full Assured Shorthold Tenancy. Initial feedback suggests that this process is more time consuming than that for general needs. Peabody can be seen as ahead of the trend here; London-wide some 72% of new ARM tenancies involve starter tenancies and around 50% involve ASTs with five year terms.

In the first year, two tenants have relinquished their tenancies principally due to affordability issues, although in one of the cases ASB was a secondary factor.

71.1% of tenants in AR properties receive full housing benefit. 2% are on partial housing benefit. 16.4% are in full time work. 10.5% are in part-time work. These tenants have a lower rate of housing benefit eligibility than ARM tenants in London in general. Average eligibility overall in London is c. 87%.

The AR homes have been let through the traditional nominations route resulting in a similar resident profile to the general needs stock. However, there is consideration being given to whether there may be scope for a different marketing and allocations process for some AR properties, to enable more choice and flexibility over the resident profile.

Peabody recognises that AR properties were harder to let using the same mechanism as social properties and the average number of days to re-let this category was 43 against an average 32 days for social rent properties. This compares with an average of 25 days for traditional general needs housing. Feedback from tenants suggests that the reduced security of tenure made an AR property "less appealing".

There are no under-occupying tenants so the social size criteria introduced in April 2013 will not impact on the Peabody ARM tenants. There are no family sized ARs, and the rent levels of the AR properties have been set "to allow sufficient headroom for benefits under the cap, in addition to housing benefit".

Good progress in meeting the GLA target has been achieved, and it is estimated that the number of AR conversions will be completed ahead of estimate.

Who is ARM housing?

There has been some confusion as to whom ARM properties are intended to house. As was noted in the literature review, the then Housing, Minister, Grant Shapps, suggested that tenants would be drawn in significant numbers from the private rented sector, which might imply a high proportion of working households. Now that ARM is in place, a number of local authority and housing association representatives have voiced disappointment that the early expectations that ARM would function as an intermediate tenure for working households had not been fulfilled.

“ARM should be for those who would never get a social rented property but the position is confused. LAs think ARM is a replacement for social renting and this is not consistent with what ARM is about. Ideally ARM is for people who are working but most ARM stock is LA nominated. ARM can't be sustainable unless it's for working people.”

- HA interviewee

In fact, the HCA Framework document (HCA, 2011) is clear that ARM is a form of social housing and that the traditional routes to gain access (LA referrals) would still apply. A source close to Government made it clear when questioned for this research, that in their opinion, it would be unlikely that HM Treasury would countenance a situation in which working households were housed in new grant-funded housing at subsidised rents in large numbers. The issue is housing benefit. Working families would typically be less reliant on housing benefit than workless households. However, if working households take up subsidised housing, then there is a strong likelihood that more heavily benefit dependent households would end up in the private rented sector, claiming still higher housing benefit than they would otherwise do.

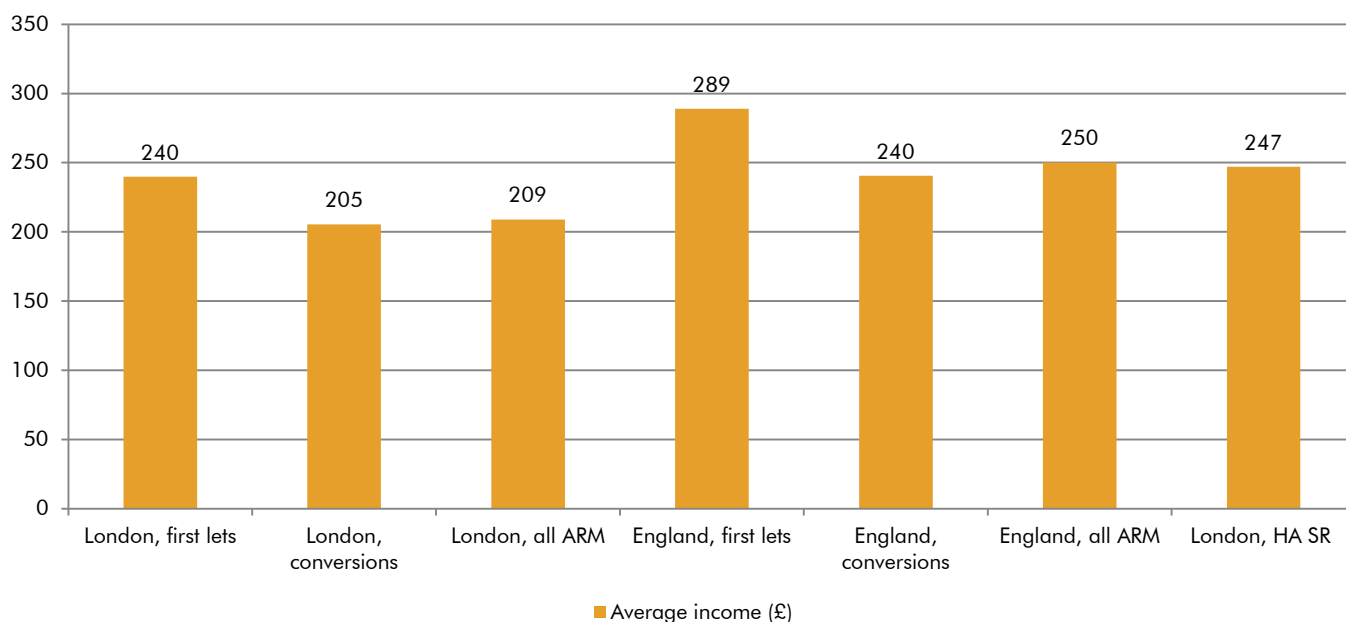
Therefore, it seems there is a dilemma for Government inherent in its decision to move from the traditional model for development where grant is significant, but housing benefit provides a further demand-side subsidy. Under ARM there is, in effect, a further swing away from supply-side subsidy in the form of grant to demand-side subsidy in the form of housing benefit. This dilemma can only be heightened in a situation where the Government is also committed to reducing the benefit bill.

The data for ARM lettings, when compared to that for HA social rented lettings suggests that the profile of ARM tenants is remarkably similar to that of the broader sector. Comparison between the two years (2011-12 and 2012-13) during which ARM has been in existence as a sub-tenure strongly suggests that this state of affairs is not changing.

Average household incomes for ARM and other HA social tenants are set out in **Figure 5**, below. As the chart shows, ARM tenants in London actually have lower weekly incomes than London social tenants in general and ARM tenants in the rest of England. In addition, there is a significant difference in income between tenants in first lets/new-build properties and those in conversions, perhaps suggesting that providers are exercising more discretion in relation to the former; although even here the weekly income is comparable to a non-ARM social tenant. It has been suggested that for larger-scale new ARM developments, lettings plans agreed between the local authority and the developing RP may influence the income profile of prospective tenants to some degree, since these plans proved targets for certain aspects of the tenants' profile such as children or those with disabilities in an effort to ensure balanced communities on new developments.

It is also significant that average weekly incomes for London ARM tenants in new-build properties and conversions for 2011-12, were £284/203, with an overall average income of £227. This compares with a

Figure 5: Average weekly income, ARM and SR tenants, 2012-13Q3



Source: CORE 2012-13Q3



figure of £209 for 2012-13. Thus, it would appear that average incomes of incoming tenants have declined since ARM has been in existence.

The fact that ARM tenants in London have lower incomes than their traditional social renting counterparts will be examined under the section on affordability below.

The economic status of heads of households shows strong similarities between ARM tenants and other social tenants:

Table 8: Economic status of head of household, 2012-13Q3

Region & tenancy	Working FT		Working PT		Total
	Number	Percent	Number	Percent	
ARM London	479	19.0%	318	13.0%	2489
ARM England	3618	22.0%	2196	13.0%	16823
HA SR London	2100	21.0%	1336	13.0%	10228
HA SR England	18079	21.0%	9219	11.0%	87050

Source: CORE 2012-13Q3

The position for ARM tenants was almost identical in 2011-12:

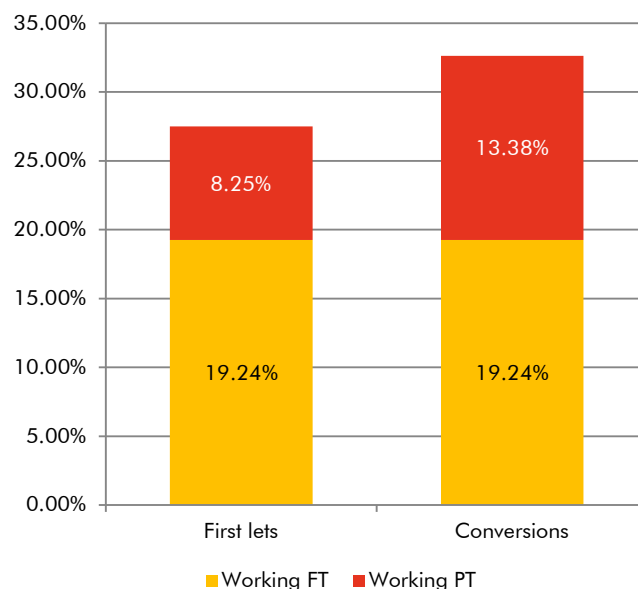
Table 9: Economic status of head of household, 2011-12

Region & tenancy	Working FT percent	Working PT percent
ARM London	22%	14%
ARM England	23%	15%
HA SR London	21%	13%
HA SR England	22%	11%

Source: CORE 2011-12

Again there is strong evidence of the similar profile of ARM and other social tenants. It also appears that this similarity has persisted. In fact new ARM tenants in London were less likely to be working in 2012-13 than in 2011-12, as visualised below:

Figure 6: Percentage head of households working full-time and part-time, by first lets and conversions

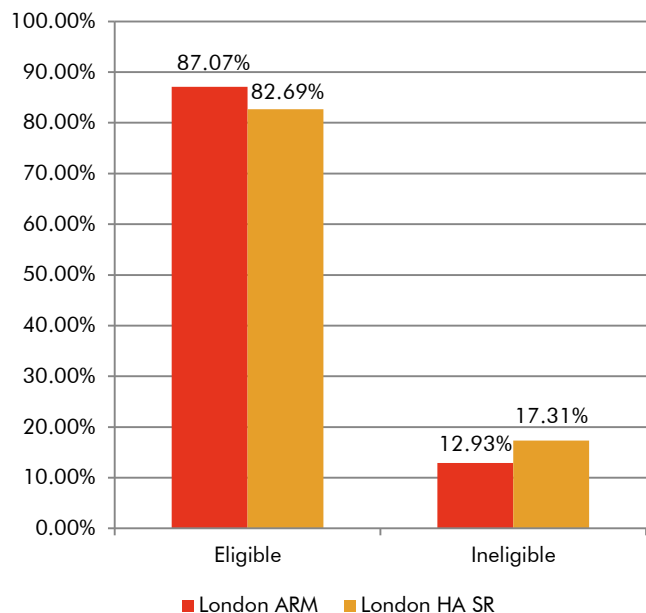


Source: CORE 2011-12, 2012-13Q3

Given the higher average incomes of tenants in new-build ARM properties than those in conversions, it is interesting to note that the incidence of full-time employment is identical for the two groups while the incidence of part-time working is actually higher for tenants in conversions. This suggests that if letting plans for new developments do influence the average income profiles of tenants in new-build that influence does not extend to employment.

Eligibility for housing benefit is another important indicator. Given the employment status and income profile of ARM tenants, it is not surprising that overall housing benefit eligibility is higher when compared to social rented tenants in general, and is higher for both full and part-time workers:

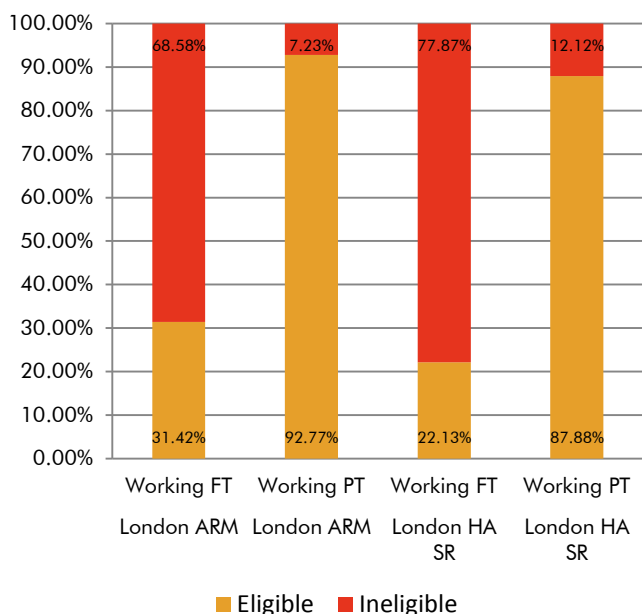
Figure 7: Overall eligibility for housing benefit, London ARM and HA SR tenants



Source: CORE 2012-13Q3

The level of overall eligibility for tenants in new-build ARM properties is 88.89% whereas that for those in conversions is 86.83 suggesting that the profile of all ARM tenants is similar in this respect.

Figure 8: Eligibility for housing benefit, full- and part-time workers, London ARM and SR tenants



Source: CORE 2012-13Q3

It would appear that with the higher rents of ARM homes when compared to the wider social rented sector, even those households where the head of household is working are less likely to be able to sustain their tenancy without recourse to housing benefit. This pattern is very similar to that for 2011-12 except that it appears that full-time workers have become more likely to claim housing benefit as ARM tenants, while part-time workers have become marginally less so.

Clearly, there are implications here for both the national housing benefit budget and for the affordability of ARM in the context of welfare reform. These will be explored further later in the report.

ARM tenants are a little younger than other HA social tenants:

Table 10: Average age of head of household, London and England ARM and HA SR tenants

Region	Average Age
ARM London	34.5
ARM England	34.5
HA SR London	38.8
HA SR England	37.4

Source: CORE 2012-13Q3

There are some differences in the gender balance of ARM and HA social tenants:

Table 11: Gender of head of household, London and England ARM and HA SR tenants

Region	Male	Female
ARM London	37.5%	62.5%
ARM England	35.4%	64.6%
HA SR London	35.8%	64.2%
HA SR England	41.9%	58.1%

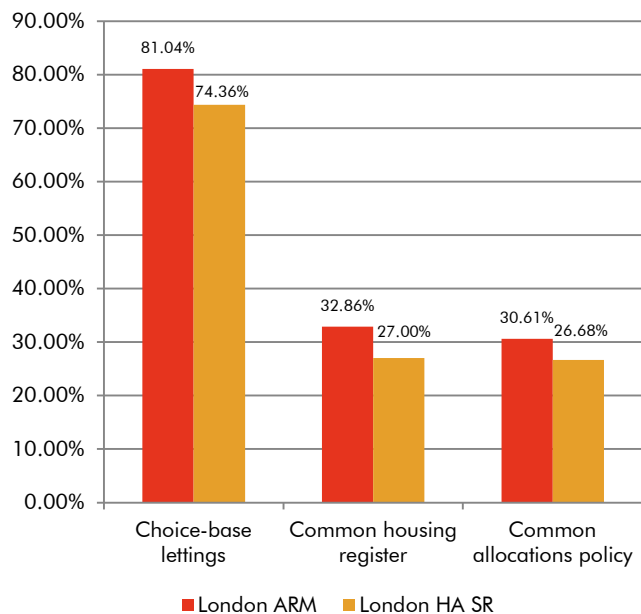
Source: CORE 2012-13Q3

However, the differences between ARM tenants and social tenants in London are small.

Overall, the personal characteristics of ARM tenants closely match those of tenants in the wider social rented sector in London, and this has been a stable picture over the two years that ARM has been in existence. If anything, ARM tenants are likely to exhibit lower incomes, and are more likely to be claiming housing benefit. A further consideration in comparing the groups is the source of the referral that led to the letting of ARM properties and those of the wider sector.

According to CORE 2012-13Q3, 73.1% of lettings of London ARM properties were as a result of a local authority referral compared to 73.9% for the wider social rented sector in London. In terms of the letting process the two sub-sets of lettings are also very similar:

Figure 9: Sources of lettings, London ARM and HA SR



Source: CORE 2012-13Q3

The available data would appear to confirm that not only are the personal profiles of ARM and other social tenants closely matched but they are also being drawn from the same sources. There has been some discussion within the HA sector and amongst LAs that LA referral/allocation policies could change to allow for a greater proportion of ARM tenants to be drawn from higher income “aspirational” and working households. LAs have some discretion in this respect under the Localism Act 2012. Comparison with the wider social rented sector and with tenant and letting profiles for 2011-12 against 2012-13, strongly suggests that such a shift has not, to date, taken place. One HA interviewee with a major ARM programme confirmed that “LA nominations policies haven’t changes since April 2012.”

Some LAs are known to have reviewed and, in some cases, changed their allocation policies to give additional priority to working households. Hammersmith & Fulham, LB Barnet and LB Newham provide three examples (Hammersmith and Fulham, 2012) (L B Barnet, 2012) (LB Newham, 2012). What is not yet clear is whether these changes will have a significant impact in practice, given the overall shortage of social housing and pressure from the groups in most acute need.

LAs have had, in any case, only a relatively short time to change their policies and CORE data on lettings does not cover the final quarter of 2012-13. Nevertheless, there is reason for some caution as to the degree to which LAs will feel able to make such changes. LAs have statutory duties towards the homeless and not all will be prepared to allow less needy households to “jump the queue”

simply to make ARM schemes more viable for Private Registered Providers [PRPs]. Not all LAs are in favour of ARM in principle in any case (c.f. LB Islington).

As will be seen when the affordability of ARM and its interaction with welfare reform are considered in the next section, the profile of ARM tenants is a critical issue. It may be partly resolved over the longer term through alterations to LA allocation policies, but at the time of writing there is no data to support the view that this has actually begun to happen.

Affordability and welfare reform

It is impossible to consider the degree to which ARM is affordable without considering the implications of the Government’s welfare reforms. This is in part because over three quarters of ARM tenants are benefit-dependent to some degree. In addition, ARM providers have shaped their rent policies to take account of what are perceived to be the likely impact of welfare reforms on the potential tenant group.

There are four main strands to the welfare reforms:

- An overall cap on maximum benefits to be paid to any household, that effectively puts pressure on the rent element. The cap applies to four London boroughs from 15 April 2013 and will apply in all other boroughs from July 2013. The caps on benefit will be £350 per week (£18,200 p.a.) for individuals and £500 per week (£26,000 p.a.) for households with children.
- The bedroom tax involving penalties for under occupation of properties applying to those of working age and based on the number of members in a household. This was introduced in April 2013 and involves a reduction in housing benefit for those with one or more spare rooms. Housing benefit is reduced by 14% for those households with one extra bedroom and by 25% for those with two or more extra bedrooms. There is already some evidence that households are having difficulty in making up the shortfall in their rent (Brown, 17 May 2013). Also as the benefit case study on the next page suggests, it may be that there are some cases where ARM tenants are affected by the bedroom tax in spite of their being chosen as tenants after the policy had been announced.
- The direct payment of universal credit to tenants rather than landlords, as is usually the case at present. This will be phased in from 2013.
- Changes to support for Council Tax and the devolution of support to local authorities and changes to benefits for the sick and disabled. (Shelter, 2013)

Although HA and LA representatives interviewed, or consulted via seminars, were aware of the changes in support for council tax and changes to a range of benefits, it was clear that the significant changes from an ARM affordability perspective were the cap, the bedroom tax and direct payment. The other changes were not spontaneously mentioned by any respondents. Therefore, these three elements of the reforms will be the focus of the discussion on welfare reform.



Case study

ARM and the benefit cap: the impact on one tenant

This case study has been provided by Open Doors www.opendoorshousing.co.uk

Ms M is a 35-year-old social tenant residing in a four-bedroom house in the London Borough of Croydon. As a single parent, Ms M is solely responsible for caring for her four children.

When Ms M was offered the property, the housing associations allocations policy was more generous than the criteria recently set by the Government under the Welfare Reform Act.

Ms M has an assured tenancy at £190.00 per week which is an affordable rent of approximately 60% of LHA.

Before the welfare reforms Ms M was entitled to the following:

- Child Tax Credit £ 219.38
- Income Support £ 71.70
- Housing Benefit £ 190.00
- Child Benefit £ 60.50

Her weekly household income was: £ 541.58

Following the welfare reforms, Ms M is now deemed to be under-occupying, which results in a housing benefit shortfall of £26.60 per week, in addition to the benefit cap which reduces her income by a further £14.98. Ms M is now required to find £41.58 per week towards the cost of her housing.

Ms M, although entitled, is not receiving full income support payments as she is repaying social fund loans at a cost of £8.60 per week. When moving into her property she required assistance to purchase essential furniture.

Ms M is also repaying her rent arrears of £1,647.00 at a rate of current rent plus £3.50 per week. These accumulated due to her partner moving into her property briefly. He was unemployed at the time; the change of circumstance caused a suspension of her housing benefit claim whilst a joint application for child tax credit was being made.

Ms M is in financial hardship, she is a single parent, is unemployed and has just £297.00 per week with which to provide for her family of four. Once she has paid the household bills including, food, gas, electric, water, insurance, TV licence etc. very little is left over for other items.

Ms M struggles to provide for her children and often they have to go without, being unable to afford luxuries such as day trips, holidays and birthday parties.

Options to mitigate the risks?

Open Doors are working with Ms M, as she is desperate to move into a property that she can sustain long term.

Ms M has no internet access. Therefore support officers from Open Doors have visited her property to help her apply to both the Local Authority and the Housing Association for re-housing into a smaller property via online application systems.

Open Doors officers have also helped Ms M register for a mutual exchange by taking attractive photos throughout the property and registering her onto the home swapper site with photos uploaded onto the system. A mutual exchange is being sought in order to move her into a three-bedroom property close to her current home, near support networks and her children's schools. Once suitable properties are identified, accompanied viewings will be carried out along with practical support to ensure that the move runs smoothly.

Although Ms M is unable to seek part-time work with an employer as she has a 2-year-old to care for, she is considering registering to become a child minder as she is available to provide after-school care. Open Doors have provided Ms M with the necessary assistance to be assessed by OfSTED.

A budget planner has been carried out with Ms M to identify savings in weekly expenses and by using the internet to shop around for cheaper utilities.

Open Doors will accompany Ms M to the Law Centre in order to appeal against the suspended housing benefit payment which caused the large rent arrears on the residents account.



Interviews with providers confirmed the conclusion of the literature review that the most serious aspect of welfare reform from the perspective of those providers is the cap on overall benefits:

“It is difficult to build large family homes in London under ARM because of the cap. We are building a lower proportion of three to four bedroomed houses than we used to.”

- HA interviewee

All interviewees cited the cap as their biggest concern in terms of welfare reform, which the majority cited as the biggest risk to the ARM programme. Interviewees were clear that building larger homes in sufficient numbers was problematic because the households who would be eligible for such homes would be those likely to be hit by the cap. One strategy would be to build fewer of these properties. The other reaction identified by all respondents has been to reduce the relative rents of larger properties when compared to smaller and in particular, to one- and two-bedroom properties. In some cases, rents on larger properties are claimed to be close to target rents for social rented homes:

“Larger re-lets have to be mainly at target rent levels. One- and two-beds let no problem at 60-70%.”

- HA interviewee

The bedroom tax was raised as an issue by respondents. However, it was not cited as a determinant in rent-setting since providers had been selecting families for ARM properties who would not be caught by the change (but see Open Doors case study on previous page). There were concerns that the bedroom tax could contribute to an overall rise in arrears amongst social tenants who did not down-size. This could undermine the AHP programme as a whole, as would other elements of welfare reform, for similar reasons.

In addition, respondents pointed to what they saw as an unintended consequence of the ARM programme in that the relatively high rents of one and two-bedroom ARM properties could actually mean that some down-sizing tenants could find the rents in their new smaller ARM homes higher than in their previous larger social rented homes, whose rents were close to target rents. This appears to arise as the result of the interaction of national housing policy with the welfare reform proposals. The impact of this interaction should be examined further by Central Government. While the problem is more likely to occur in London because of the relatively high rents of one and two-bedroom properties, it may be that there are also instances of this happening outside London.

Direct payment of universal credit to tenants was cited as a “worry” by a number of providers and ARM with its higher rent levels was believed by most to be particularly vulnerable to a scenario of rising arrears. The majority saw direct payment as a further business risk that could threaten present and future development programme levels.

An analysis of ARM rent levels in London has been conducted in order to place the feedback from PRPs and the Family Mosaic case study (next page) into an analytical context.

ARM rents across London

In estimating the pattern of ARM rents across London, and in comparing that pattern with market rents, there are certain methodological difficulties. When providers set ARM rents, ARM rents are compared to market rents. This is achieved for a particular property by valuing that property in terms of market rental value, and then setting the rent at a percentage of what a market rent for that property would be. Discussions with HAs suggest that there are various approaches to estimating the rental value of a particular property, and subsequently, to setting its ARM rent. The ARM rent and the market rent for a property are compared using the ARM rent, inclusive of service charges.

The GLA have provided limited data on ARM rents as a percentage of market rents based on ARM new-build completions to 31 March 2013. Useful as this data is as a reference point, it is very limited in terms of variables and therefore not susceptible to much further analysis.

Table 12: GLA estimates of ARM rents as percentage of market rents, for completions to 31 March 2013

	One-bedroom	Two-bedroom	Three or more bedrooms	London overall percentage
Average ARM rent as percentage of market rent (inc. service charge)	75%	75%	65%	71%

Source: GLA

Clearly, no researcher working on ARM across London will have access to valuations of all individual ARM properties, although the actual rents charged are available via CORE. Therefore, in seeking to analyse actual rent setting outcomes it is necessary to estimate market rents for similar properties to those for which ARM rents are known. This report has utilised Valuation Office [VOA] data for this purpose (Valuation Office Agency, 2013). VOA data on MRs is used for a variety of purposes including statutory purposes such as setting LHA levels. VOA median rents exist at London, borough and post code level.



Case study

Affordable Rent - really? The Family Mosaic experience

This case study has been provided by Family Mosaic.

Family Mosaic is a London-based Association with the majority of stock within the Greater London area, and a substantial element in the Inner London boroughs. We operate in areas with some of the highest market rents in the country.

The move to 80% of market under the ARM was discussed in a research document 'Mirror Signal Manoeuvre', published in February 2011. This showed that rents set at 80% would be unaffordable to most tenants, and would increase welfare dependency through much higher levels of housing benefit. Rents would go up by £80 to £147 per week.

Our key response to making sure tenants can afford to pay, has been to make a commitment to keep to social rents, as set by the previous rent restructuring regime rather than increase to affordable rents. We have changed our development programme to include a high proportion of market sales units. Profits are used to subsidise social rents to the levels that were once provided by social housing grant; both new units and re-lets remain at social rent levels.

We also have a new "Manifesto" which aims to keep rents low and help people into employment. With welfare cuts, the best thing we can do is help people off benefits and into work. Low rents make it easier to take jobs.

Those tenants at risk include under-occupiers, large families with high benefit claims and those with support needs.

Practical applications to ensure rent does actually get paid follow. Some have arisen from our involvement in the direct payment demonstration pilot for the DWP, some are our own initiatives.

- We don't know enough about our tenants in the way that commercial retailers must in order to retain and win business. So we aren't customer focussed enough! Things such as whether they have a bank account, an email address, the composition of the household, employment status and vulnerabilities are all now more meaningful in terms of how someone wants to pay us and their ability to do so.
- More people have internet connectivity, and digital communication is a very effective means of reaching tenants. Our experience has been that leaflets and letters are much less successful than a text.

- Multiple payment methods are important. Paying by phone, Direct Debit, payment card etc. are all obvious. Make sure that staff taking calls about payments (such as call centre operators) can take the payment swiftly and easily. If someone wants to pay now, do it now.
- Collection processes and procedures must be timely and practical. Low level arrears need to be dealt with before the amounts owing get too serious. We have a 'predicted payments' solution which identifies missed payments. On the day it informs our collection teams who can intervene immediately.
- Welfare benefits advice and financial inclusion services are more important. Staff involved in collections need to know how to deal with such matters, and how to signpost tenants to self-help. We have put more internal resources into these areas but also work with third sector support agencies (e.g. Toynbee).
- Collection staff need to be very customer-focussed. Negotiation skills (e.g. the ability to make sure payment of rent is prioritised by residents) are increasingly important, as is the ability to empathise to best effect.
- Outcomes and objectives need to be clear – are you going down a process route leading to eviction, or do you want to get paid?

Success for us is getting paid and the resident retaining the tenancy. 'Just' sending out the formal letters isn't good enough. Staff can achieve this using good communication and listening skills which require careful recruitment and training.

- Give staff the support to enable them to make tough decisions when needed.
- In future we will issue money judgement orders and attachments of earnings early in the process, rather than progress to full possession orders later.
- Collection is vital, so don't limit your options. Making statements that you won't evict because of under-occupancy deductions will hinder enforcement. You need to use the full range of tools, even if they are a last resort.
- Mobile solutions are becoming a must have – most people have smart phones. The ability to 'pay on the go' or access rent statements on-line are increasingly useful.
- The vast majority of tenants are decent and responsible. Look after them and don't let the minority of delinquent payers colour your views on how you should talk to them.
- Support those who need it using your new information and systems.
- In addition to collection measures, the organisation needs to provide as many other solutions as it can including transfer opportunities for downsizing.



The tables below compare VOA data on median market rents with median ARM based on CORE data in various permutations. It should be noted that ARM numbers at sub-borough level are extremely low and can be used for illustrative purposes only, since samples are not statistically significant. It should be noted that the GLA has not released comparable ARM data for similar reasons.

Leaving aside an aberrant result for Kingston⁶ the above table illustrates the wide variation in market rents across London as well as the wide variation in ARM as a percentage of a market rent. Percentages vary from 45% (Merton, Westminster) to 79% (Hillingdon).

6. Aberrant result for RB Kingston upon Thames is caused by a suspect VOA median rental figure.

There is a small difference between median rents of new-build homes and conversions. For London as a whole the median new-build ARM rent is £169 and for conversions it is £160. However, there is little consistency at borough level, with conversions sometimes higher than new-build. Indeed, for Inner London as a whole median conversion rents at £173 are higher than those of new-build homes at £167. As a percentage of market rents, new build ARM homes are 52% for Inner London, 74% for Outer London and 61% for London as a whole. The corresponding figures for conversions only are 53% of MR for Inner London, 64% for Outer London and 58% for London as a whole.

Table 13: Comparison of median social rents, ARM rents, and market rents, by London borough

Borough	Median social rent £, weekly	Median ARM rent £, weekly	Median market rent £, weekly	Percentage of ARM rent of market rent
Inner London	110	172	325	53%
City of London	104	204	400	51%
Camden	132	210	390	54%
Greenwich	122	144	231	62%
Hackney	107	176	300w	59%
Hammersmith and Fulham	126	220	360	61%
Islington	112	172	340	51%
Kensington and Chelsea	128	231	500	46%
Lambeth	110	152	300	51%
Lewisham	104	144	219	66%
Southwark	93	172	288	60%
Tower Hamlets	110	182	323	56%
Wandsworth	124	183	340	54%
Westminster	127	196	440	45%
Outer London	108	151	231	65%
Barking and Dagenham	92	118	202	59%
Barnet	121	202	275	73%
Bexley	110	134	190	70%
Brent	110	212	288	73%
Bromley	110	147	217	68%
Croydon	103	152	208	73%
Ealing	104	196	265	74%
Enfield	119	145	231	63%
Haringey	111	148	254	58%
Harrow	113	154	242	64%
Havering	111	147	196	75%
Hillingdon	106	165	208	79%
Hounslow	107	184	254	72%
Kingston upon Thames	110	175	98	179%
Merton	118	119	265	45%
Newham	95	141	219	64%
Redbridge	94	152	208	73%
Richmond upon Thames	124	175	294	59%
Sutton	111	143	208	69%
Waltham Forest	109	150	208	72%
London	109	162	276	59%

Source: CORE 2012-13Q3, VOA

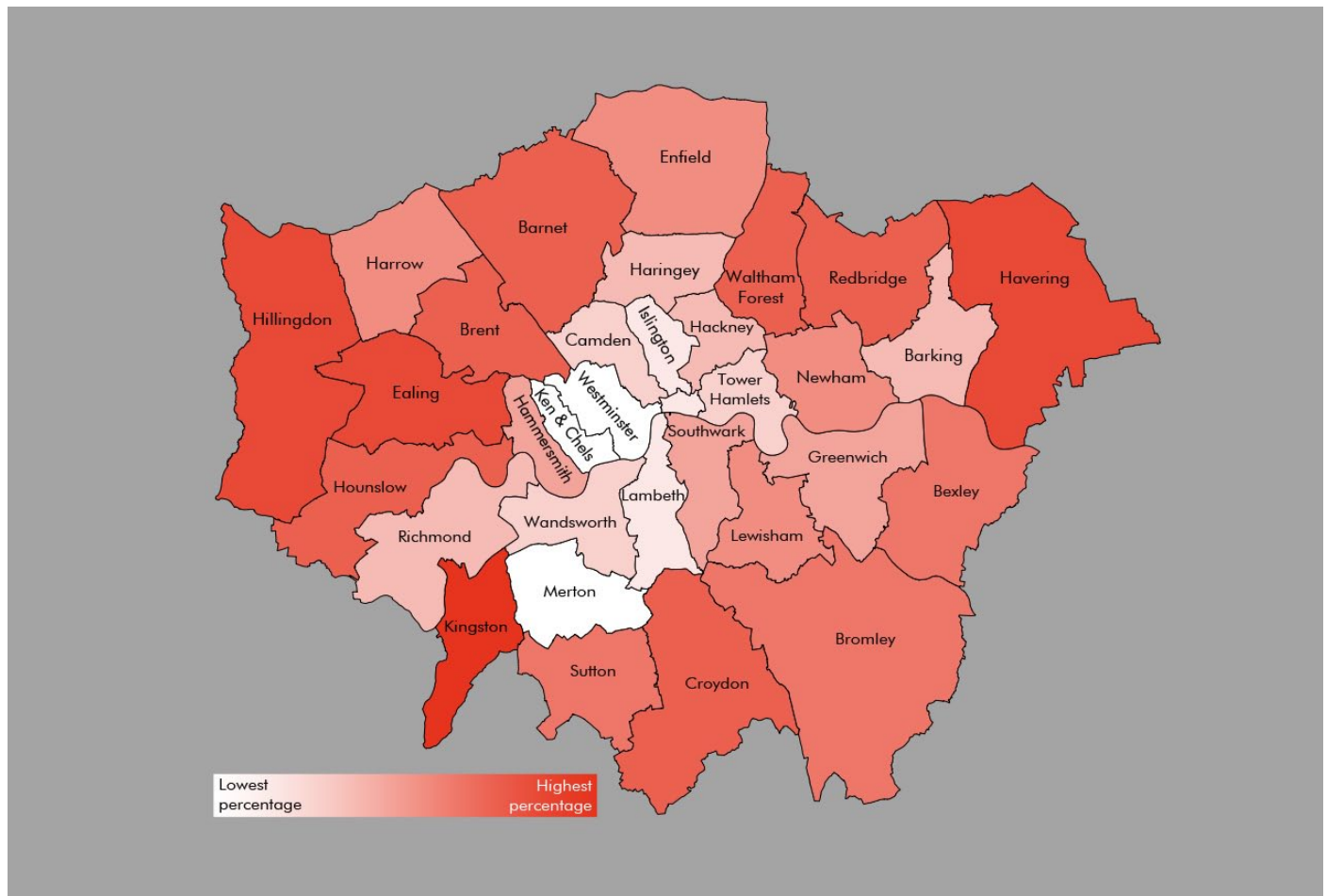
The results of the data analysis show an overall percentage of a market rent for London new-build of 61%. This compares to the estimate calculated by the GLA for AHP completions [to 31 March 2013 – see above] of 71%. The latter figure is not strictly comparable as the time period covered is different and, more importantly, the GLA uses average rather than the median rents used in the table above. Therefore, the differences between the GLA estimates and those in this report are probably less significant than might first appear. In fact the GLA is predicting an overall percentage of market rent to 2015 for new-build of 65%, which is even closer to the 61% figure quoted above.

The five highest rent boroughs⁷ showed rent levels at a significantly lower percentage of MR compared to the five with the lowest MRs⁸. This suggests that the ability to maximise the percentage of MR (with its implications for the viability of schemes) is at least a partial explanation for the tendency for ARM new build and conversions to be more densely sited in the boroughs with lower rent levels - i.e. Outer London and the East, as noted earlier in the report.

The comparison of percentages for Inner and Outer London shows that a significantly higher percentage of market rent has been achieved in Outer London (65%) than in Inner London (53%). The map below (**Figure 10**) illustrates the distribution of ARM as a percentage of market rent across London and shows the lower percentages in the Inner London boroughs:

7. Kensington and Chelsea, Westminster, City of London, Camden, Hammersmith and Fulham.
 8. Redbridge, Sutton, Hillingdon (all equal) Barking and Dagenham, Bexley, Kingston (but note doubtful data).

Figure 10: Map of ARM rent as percentage of market rent, by London borough



Source: CORE 2012-13Q3, VOA



When rents are examined in relation to the size of properties the results are also striking:

Table 14: Median ARM rents and market rents by number of bedrooms, London

Number of bedrooms	Median ARM rent £, weekly	Median market rent £, weekly	Percentage ARM rent of market rent
One	147	240	61%
Two	170	300	57%
Three	177	346	51%
Four or more	185	519	36%

Source: CORE 2012-13Q3, VOA

There is a clear inverse relationship between bedroom numbers and the percentage of MR achieved.

This data strongly suggests that the assertion by providers that rents for larger properties are set at lower levels to improve affordability, in the context of the benefit cap, is borne out in practice. The lower rents achieved would also provide an explanation for the lower numbers of larger properties converted under the ARM programme and highlight potential problems of viability in setting rents for new-build ARM.

It is interesting to compare the rental uplift between social rents and ARM rents in the context of conversions. A comparison broken down by borough is set out in **Table 15**, right.

The table confirms a higher uplift in percentage terms obtainable in Inner London compared to Outer London. This is not surprising; social rents in Inner London are much lower as a percentage of market rents (34%) than in Outer London (46%)⁹. The problem for RPs remains that with market rents 41% higher in Inner London than in Outer London they still cannot charge ARM rents that are a sufficient percentage of a market rent in Inner London to make ARM financially viable for RPs, particularly in respect of larger homes.

With rental uplift in London of 41% for conversions the table above does illustrate the potential impact on the overall housing benefit bill for London. As this research has already demonstrated, the profile of new ARM tenants matches that of traditional social tenants in terms of benefit dependency; indeed dependency is if anything slightly more pronounced under ARM. Putting the same tenants into the same homes as before but increasing the rents by 41% is inevitably going to have its effect. Government will no doubt wish to take this analysis much further.

The table also demonstrates the very wide variations in ARM rent levels between individual boroughs, compared to the social rents, for the same borough. For instance, the variation between Merton and Kensington & Chelsea in terms of median ARM rents is £117 per week, whereas the difference in social rents is only £10! Such variations

⁹ Percentages calculated using table *Median social rents, ARM rents and Market rents by London borough* above.

Table 15: Median ARM rents (conversions) compared to median social rents, by London borough

Borough	Median social rent £, weekly	Median ARM rent £, weekly	Percentage social rent of ARM rent
Inner London	110	170	55%
City of London	104	204	96%
Camden	132	209	59%
Greenwich	122	140	15%
Hackney	107	170	60%
Hammersmith and Fulham	126	220	75%
Islington	112	172	54%
Kensington and Chelsea	128	229	80%
Lambeth	110	151	38%
Lewisham	104	125	20%
Southwark	93	168	81%
Tower Hamlets	110	167	52%
Wandsworth	124	172	39%
Westminster	127	185	46%
Outer London	108	144	33%
Barking and Dagenham	92	118	29%
Barnet	121	193	59%
Bexley	110	125	14%
Brent	110	208	90%
Bromley	110	141	29%
Croydon	103	150	46%
Ealing	104	185	78%
Enfield	119	136	14%
Haringey	111	148	33%
Harrow	113	154	36%
Havering	111	131	18%
Hillingdon	106	162	52%
Hounslow	107	173	61%
Kingston upon Thames	110	175	59%
Merton	118	112	-5%
Newham	95	140	47%
Redbridge	94	141	49%
Richmond upon Thames	124	175	41%
Sutton	111	119	8%
Waltham Forest	109	144	32%
London	109	154	41%

Source: CORE 2012-13Q3

are likely to hinder tenant mobility across London; an important issue in the context of tenants wishing to move for employment reasons, or because of the bedroom tax. In addition, such large differences in rent levels are likely to foster differences in demand for homes in different boroughs as ARM numbers build up.

In discussion and interviews, a number of providers drew attention to the tendency of ARM to create localised variations in rent levels for similar properties, whether let by the same provider, or by different landlords.

This was seen as being due to the fact that rents for individual ARM properties are determined by reference to the market rent for that property. The fact that market rent levels can vary widely in different parts of the same borough was noted in the literature review.

To test this view, ARM rents have been compared to market rents for different sized properties within six individual boroughs using postcode data. It should be noted at the outset that numbers, particularly of larger properties, can be very small, and that in some cases

certain types of property may be absent altogether in a particular postcode. The analysis should therefore be seen primarily as illustrative of the tendency of ARM rents to vary, rather than as a quantitative analysis of trends. The boroughs selected are the two with the lowest and highest median ARM rents respectively (Barking and Dagenham and Kensington and Chelsea) plus Hillingdon, whose rents are at the median point for London and Bromley, Merton and Lewisham, which have the highest numbers of ARM homes of any of the London boroughs.

Table 16: Weekly median ARM rents vs weekly median market rents, by postcode for Barking and Dagenham

Barking and Dagenham (E09000002)	One-bedroom			Two-bedroom			Three-bedroom			Four bedroom		
	ARM Rent	Market Rent	% ARM Rent is of Market Rent	ARM Rent	Market Rent	% ARM Rent is of Market Rent	ARM Rent	Market Rent	% ARM Rent is of Market Rent	ARM Rent	Market Rent	% ARM Rent is of Market Rent
	£, weekly	£, weekly		£, weekly	£, weekly		£, weekly	£, weekly		£, weekly	£, weekly	
IG11	140	173	81%	118	216	55%	-	270	-	-	346	-
RM10	-	150	-	118	190	62%	-	231	-	-	-	-
RM6	-	156	-	118	196	60%	-	254	-	-	276	-
RM7	122	162	75%	-	201	-	-	231	-	-	-	-
RM8	120	152	79%	118	202	59%	-	231	-	-	-	-
RM9	101	160	63%	118	196	60%	135	242	56%	-	294	-
All of borough	122	162	76%	118	200	59%	135	242	56%	-	312	-

Table 17: Weekly median ARM rents vs weekly median market rents, by postcode for Hillingdon

Hillingdon (E09000017)	One-bedroom			Two-bedroom			Three-bedroom			Four bedroom		
	ARM Rent	Market Rent	% ARM Rent is of Market Rent	ARM Rent	Market Rent	% ARM Rent is of Market Rent	ARM Rent	Market Rent	% ARM Rent is of Market Rent	ARM Rent	Market Rent	% ARM Rent is of Market Rent
	£, weekly	£, weekly		£, weekly	£, weekly		£, weekly	£, weekly		£, weekly	£, weekly	
HA4	162	196	83%	480	248	193%	-	300	-	-	388	-
HA6	144	190	76%	175	277	63%	-	329	-	-	577	-
UB10	162	179	91%	156	254	62%	-	288	-	-	387	-
UB3	132	163	81%	182	213	85%	512	277	185%	-	312	-
UB4	-	173	-	165	219	75%	-	277	-	-	323	-
UB5	-	185	-	203	225	90%	-	288	-	-	-	-
UB7	138	167	83%	652	213	306%	-	265	-	-	323	-
UB8	274	182	151%	166	254	65%	-	297	-	-	381	-
UB9	-	185	-	175	-	-	-	265	-	-	-	-
All of borough	140	173	81%	175	231	76%	512	277	185%	-	369	-

Table 18: Weekly median ARM rents vs weekly median market rents, by postcode for Kensington and Chelsea

Kensington and Chelsea (E09000020)	One-bedroom			Two-bedroom			Three-bedroom			Four bedroom		
	ARM Rent	Market Rent	% ARM Rent is of Market Rent	ARM Rent	Market Rent	% ARM Rent is of Market Rent	ARM Rent	Market Rent	% ARM Rent is of Market Rent	ARM Rent	Market Rent	% ARM Rent is of Market Rent
	£, weekly	£, weekly		£, weekly	£, weekly		£, weekly	£, weekly		£, weekly	£, weekly	
SW10	240	400	60%	240	550	44%	-	850	-	-	1475	-
SW3	154	475	32%	166	695	24%	-	1050	-	-	2350	-
SW5	233	395	59%	233	600	39%	-	763	-	-	-	-
SW7	231	515	45%	-	670	-	-	1075	-	-	3125	-
W10	218	315	69%	250	385	65%	203	550	37%	294	-	-
W11	233	420	55%	233	550	42%	-	1150	-	-	-	-
W14	-	310	-	230	400	58%	-	575	-	-	875	-
All of borough	233	450	52%	240	615	39%	203	978	21%	294	1698	17%



Table 19: Weekly median ARM rents vs weekly median market rents, by postcode for Bromley

Bromley (E09000006)	One-bedroom			Two-bedroom			Three-bedroom			Four bedroom		
	ARM Rent	Market Rent	% ARM Rent is of Market Rent	ARM Rent	Market Rent	% ARM Rent is of Market Rent	ARM Rent	Market Rent	% ARM Rent is of Market Rent	ARM Rent	Market Rent	% ARM Rent is of Market Rent
	£, weekly	£, weekly		£, weekly	£, weekly		£, weekly	£, weekly		£, weekly	£, weekly	
BR1	140	185	76%	176	231	76%	183	277	66%	-	438	-
BR2	146	173	84%	169	254	67%	183	300	61%	-	462	-
BR3	129	185	70%	180	231	78%	184	288	64%	-	462	-
BR4	141	185	76%	163	231	71%	196	299	66%	-	346	-
BR5	120	162	74%	141	208	68%	143	247	58%	176	358	49%
BR6	140	180	78%	170	218	78%	190	254	75%	-	427	-
BR7	143	183	78%	163	231	71%	123	288	43%	-	525	-
CR8	-	144	-	177	218	81%	-	276	-	-	421	-
DA14	-	161	-	164	202	81%	-	265	-	-	352	-
SE12	150	176	85%	150	219	68%	-	300	-	-	381	-
SE19	123	192	64%	-	246	-	156	300	52%	-	392	-
SE20	143	160	89%	159	191	83%	174	247	70%	208	-	-
SE26	-	190	-	163	231	71%	-	300	-	-	395	-
SE9	127	162	79%	172	202	85%	150	247	61%	-	323	-
TN16	-	-	-	168	209	80%	-	254	-	-	311	-
All of borough	132	179	74%	164	219	75%	165	254	65%	-	410	-

Table 20: Weekly median ARM rents vs weekly median market rents, by postcode for Lewisham

Lewisham (E09000023)	One-bedroom			Two-bedroom			Three-bedroom			Four bedroom		
	ARM Rent	Market Rent	% ARM Rent is of Market Rent	ARM Rent	Market Rent	% ARM Rent is of Market Rent	ARM Rent	Market Rent	% ARM Rent is of Market Rent	ARM Rent	Market Rent	% ARM Rent is of Market Rent
	£	£		£	£		£	£		£	£	
BR1	125	185	67%	-	231	-	-	277	-	-	438	-
SE12	130	176	74%	150	219	68%	151	300	50%	-	381	-
SE13	125	196	64%	150	265	57%	-	300	-	-	415	-
SE15	-	208	-	-	268	-	168	369	45%	-	545	-
SE16	163	256	64%	127	320	40%	-	418	-	-	529	-
SE23	125	202	62%	156	254	61%	-	300	-	-	392	-
SE26	127	190	67%	150	231	65%	-	300	-	-	395	-
SE4	169	196	86%	150	271	55%	199	312	64%	-	496	-
SE6	130	178	73%	155	231	67%	199	288	69%	-	369	-
SE8	146	242	60%	184	300	61%	210	300	70%	-	466	-
SE9	118	162	73%	142	202	70%	-	247	-	-	323	-
All of borough	128	196	65%	150	242	62%	210	300	70%	-	415	-

Table 21: Weekly median ARM rents vs weekly median market rents, by postcode for Merton

Merton (E09000024)	One-bedroom			Two-bedroom			Three-bedroom			Four bedroom		
	ARM Rent	Market Rent	% ARM Rent is of Market Rent	ARM Rent	Market Rent	% ARM Rent is of Market Rent	ARM Rent	Market Rent	% ARM Rent is of Market Rent	ARM Rent	Market Rent	% ARM Rent is of Market Rent
	£, weekly	£, weekly		£, weekly	£, weekly		£, weekly	£, weekly		£, weekly	£, weekly	
CR4	113	173	65%	145	219	66%	170	277	61%	-	369	-
KT3	-	196	-	144	254	57%	-	323	-	223	404	55%
SM4	114	173	66%	146	240	61%	141	300	47%	-	415	-
SW17	113	230	49%	181	300	60%	-	369	-	-	462	-
SW19	113	231	49%	146	312	47%	155	404	38%	-	577	-
SW20	113	228	50%	144	288	50%	171	352	48%	-	456	-
All of borough	113	219	52%	145	285	51%	170	346	49%	223	485	46%

Source: CORE 2012-13Q3, VOA

As already indicated, numbers are very small. However, the tables do demonstrate that ARM rents for similar properties can vary significantly across an individual borough both in cash terms and as a percentage of a market rent. Clearly, the ARM model encourages such differences but it is questionable whether they would always be easy to justify to existing and prospective tenants. The data also re-enforces the perception that it is more difficult to maximise ARM rents for a given size of property in high rent areas, especially larger properties.

A further factor in the rent-setting process according to feedback from discussion with HAs is the Local Housing Allowance [LHA]. The LHA is the maximum private (market) rent that will be fully allowed for a specific type or size of property within a particular “broad rental market area” when the amount of housing benefit due to an individual claimant is calculated. Until April 2013 it had been set at the level of the median rent for a particular area but this has now been brought down to the 30th percentile point. Since ARM rents are social rents, the LHA does not directly influence housing benefit eligibility for their tenants. However, as noted in the literature review, the HCA Framework document does encourage providers to take account of it in setting rents:

“However landlords will wish to consider the local market context when setting rents, including the local housing allowance...” (HCA, 2011)

Interviews with HAs and consultation with representatives of the GLA suggest that HAs do in fact consider the level of the LHA in the relevant area. Many RPs are committed to keeping rents below the LHA to minimise the risk of arrears. This also ensures that should a tenant become unemployed or otherwise benefit dependent the LHA would not operate as a cap. One HA indicated that ARM rents were kept below 90% of the LHA as a matter of policy. Random checks of particular ARM rents in CORE against relevant LHA figures did not identify any cases where individual ARM rents were higher than the LHA. However, this could happen in some cases and in fact the median ARM rent for a 1 bedroom property in Lewisham, postcode SE4 at £196.00 (See Lewisham table above), is higher than the relevant LHA rate for that postcode for April 2013 of £188.68 (Valuation Office Agency, 2013). Such situations will be more common with smaller ARM properties because the rent relative to the median market rent is generally higher.

Given the existence of guidance for providers on this issue and the potential embarrassment of offering an “affordable” rent at a higher level than the local LHA for a similar property, it is likely that the LHA will be a further constraining influence on ARM rent levels, particularly since the reduction to the 30th percentile level. This provides another example of how the viability of ARM could potentially be affected by policy considerations. It highlights the need for Government and other policy makers to avoid policy decisions that could have unforeseen consequences.

Rents and incomes

In the end, affordability is about the relationship between rents and incomes. In order to gain an insight into whether affordability constraints are influencing the level at which rents are set, it is necessary to analyse that relationship. ARM rents have therefore been compared to median household incomes (Paycheck 2009, n.d.). Median household incomes are important in another respect also. As has been seen, the large majority of households housed in ARM homes are workless and the rate of benefit dependency is at levels that are comparable to, or higher than, those for the social rented sector as a whole. RPs have expressed regret that ARM has not been targeted at working households. In that context a comparison with median household incomes is relevant, although it should be remembered that those incomes are based on workless households as well as working.

Table 22: Weekly median ARM rents vs weekly median equivalised household incomes

Borough	Median ARM rent £, weekly	Median of equivalised household income £, weekly	Percentage of income paid as rent
City of London	204	930	22%
Barking and Dagenham	118	461	26%
Barnet	202	607	33%
Bexley	134	563	24%
Brent	212	508	42%
Bromley	147	645	23%
Camden	210	629	33%
Croydon	152	570	27%
Ealing	196	559	35%
Enfield	145	538	27%
Greenwich	144	536	27%
Hackney	176	515	34%
Hammersmith and Fulham	220	635	35%
Haringey	148	544	27%
Harrow	154	577	27%
Havering	147	558	26%
Hillingdon	165	564	29%
Hounslow	184	557	33%
Islington	172	578	30%
Kensington and Chelsea	231	758	30%
Kingston upon Thames	175	653	27%
Lambeth	152	576	26%
Lewisham	144	548	26%
Merton	119	610	20%
Newham	141	447	31%
Redbridge	152	568	27%
Richmond upon Thames	175	751	23%
Southwark	172	550	31%
Sutton	143	609	23%
Tower Hamlets	182	542	33%
Waltham Forest	150	531	28%
Wandsworth	183	688	27%
Westminster	196	730	27%

Source: CORE 2012-13Q3, Paycheck 2009



Table 23: Weekly median ARM rents vs weekly median equivalised incomes, by number of bedrooms

Area	One-bedroom		Two-bedroom		Three-bedroom		Four or more bedrooms		Median of Equivalised Household Income
	Median ARM rent £	Percentage of income paid as rent	Median ARM rent £	Percentage of income paid as rent	Median ARM rent £	Percentage of income paid as rent	Median ARM rent £	Percentage of income paid as rent	
Inner London	172	29%	187	32%	210	35%	164	28%	592
Outer London	134	23%	165	29%	171	30%	186	32%	573
London	147	25%	170	29%	177	30%	185	32%	580

Source: CORE 2012-13Q3, Paycheck 2009

In assessing whether a particular set of rents are affordable, it is common to use a threshold percentage of rent compared to household income. Inevitably, any such threshold can be a rough guide only; households vary in terms of numbers of members (and hence the size of property required) and financial commitments. A measure that has been used by a number of organisations, including LB Islington and East Thames, as noted in the literature review for this report, is 35% of household income. Clearly some households will be able to afford a higher percentage and some less but it does provide a benchmark.

The data on median rents versus income above, suggests that in only three boroughs (Brent, Ealing, Hammersmith & Fulham) are median ARM rents for that borough equivalent to 35%, or more, of household income. Nevertheless, ARM rents vary by the size of the property and within individual boroughs.

However, it should not be forgotten that by definition 50% of households will earn less than the median income. In fact 16% of households in Greater London earn less than £15,000 per year (Paycheck 2009, n.d.) For these households the median rents in the majority of London boroughs would be above the 35% affordability

threshold. Therefore, it is clear that ARM rents will exclude many households that could have accessed target social rents, unless those households are claiming housing benefit. The report has already noted the high level of benefit dependency among ARM tenants and their low average incomes.

ARM rents for London, Inner London and Outer London broken down by bedroom numbers and compared to median incomes are set out above in **Table 23**.

It would seem that in Inner London, higher equivalised incomes have allowed for rents to be set at higher levels, at least for one, two and three-bedroom properties when compared to Outer London. However, the above table also illustrates the degree to which the rents of larger properties have been set at levels that are relatively low when compared to smaller properties. Across London as a whole, the difference in rent between a one and four plus bedroom property is only 7% of median household income, with the difference between two, three and four plus bedroom properties amounting to only 3%.

The above data hides greater variations at a local level, as the following tables analysing the same six boroughs as highlighted above (**Tables 24-29**), demonstrate:

Table 24: Weekly median ARM rents vs weekly median household income, by postcode for Barking and Dagenham

Barking and Dagenham (E09000002)	One-bedroom		Two-bedroom		Three-bedroom		Four bedroom		
	Median of household income (£)	ARM rent £	Percent of income paid as rent	ARM rent £	Percent of income paid as rent	ARM rent £	Percent of income paid as rent	ARM rent £	Percent of income paid as rent
All of borough	461	122	26%	118	26%	135	29%	-	-
Postcode		ARM Rent (£)		ARM Rent (£)		ARM Rent (£)		ARM Rent (£)	
IG11		140		118		-		-	
RM10		-		118		-		-	
RM6		-		118		-		-	
RM7		122		-		-		-	
RM8		120		118		-		-	
RM9		101		118		135		-	

Table 25: Weekly median ARM rents vs weekly median household income, by postcode for Hillingdon

Hillingdon (E09000017)	Median of household income (£)	One-bedroom		Two-bedroom		Three-bedroom		Four bedroom	
		ARM rent £	Percent of income paid as rent	ARM rent £	Percent of income paid as rent	ARM rent £	Percent of income paid as rent	ARM rent £	Percent of income paid as rent
All of borough	564	140	25%	175	31%	512	91%	-	-
Postcode		ARM Rent (£)		ARM Rent (£)		ARM Rent (£)		ARM Rent (£)	
HA4			162		480		-		-
HA6			144		175		-		-
UB10			162		156		-		-
UB3			132		182		512		-
UB4			-		165		-		-
UB5			-		203		-		-
UB7			138		652		-		-
UB8			274		166		-		-
UB9			-		175		-		-

Table 26: Weekly median ARM rents vs weekly median household income, by postcode for Kensington and Chelsea

Kensington and Chelsea (E09000020)	Median of household income (£)	One-bedroom		Two-bedroom		Three-bedroom		Four bedroom	
		ARM rent £	Percent of income paid as rent	ARM rent £	Percent of income paid as rent	ARM rent £	Percent of income paid as rent	ARM rent £	Percent of income paid as rent
All of borough	758	233	31%	240	32%	203	27%	294	39%
Postcode		ARM Rent (£)		ARM Rent (£)		ARM Rent (£)		ARM Rent (£)	
SW10			240		240		-		-
SW3			154		166		-		-
SW5			233		233		-		-
SW7			231		-		-		-
W10			218		250		203		294
W11			233		233		-		-
W14			-		230		-		-

Table 27: Weekly median ARM rents vs weekly median household income, by postcode for Bromley

Bromley (E09000006)	Median of household income (£)	One-bedroom		Two-bedroom		Three-bedroom		Four bedroom	
		ARM rent £	Percent of income paid as rent	ARM rent £	Percent of income paid as rent	ARM rent £	Percent of income paid as rent	ARM rent £	Percent of income paid as rent
All of borough	645	132	21%	164	25%	165	26%	-	-
Postcode		ARM Rent (£)		ARM Rent (£)		ARM Rent (£)		ARM Rent (£)	
BR1			140		176		183		-
BR2			146		169		183		-
BR3			129		180		184		-
BR4			141		163		196		-
BR5			120		141		143		176
BR6			140		170		190		-
BR7			143		163		123		-
CR8			-		177		-		-
DA14			-		164		-		-
SE12			150		150		-		-
SE19			123		-		156		-
SE20			143		159		174		208
SE26			-		163		-		-
SE9			127		172		150		-
TN16			-		168		-		-



Table 28: Weekly median ARM rents vs weekly median household income, by postcode for Lewisham

Lewisham (E09000023)	Median of household income (£)	One-bedroom		Two-bedroom		Three-bedroom		Four bedroom	
		ARM rent £	Percent of income paid as rent	ARM rent £	Percent of income paid as rent	ARM rent £	Percent of income paid as rent	ARM rent £	Percent of income paid as rent
All of borough	548	128	23%	150	27%	210	38%	-	-
Postcode		ARM Rent (£)		ARM Rent (£)		ARM Rent (£)		ARM Rent (£)	
BR1		125	-	-	-	-	-	-	-
SE12		130	150	151	-	-	-	-	-
SE13		125	150	-	-	-	-	-	-
SE15		-	-	168	-	-	-	-	-
SE16		163	127	-	-	-	-	-	-
SE23		125	156	-	-	-	-	-	-
SE26		127	150	-	-	-	-	-	-
SE4		169	150	199	-	-	-	-	-
SE6		130	155	199	-	-	-	-	-
SE8		146	184	210	-	-	-	-	-
SE9		118	142	-	-	-	-	-	-

Table 29: Weekly median ARM rents vs weekly median household income, by postcode for Merton

Merton (E09000024)	Median of household income (£)	One-bedroom		Two-bedroom		Three-bedroom		Four bedroom	
		ARM rent £	Percent of income paid as rent	ARM rent £	Percent of income paid as rent	ARM rent £	Percent of income paid as rent	ARM rent £	Percent of income paid as rent
All of borough	610	113	19%	145	24%	170	28%	223	37%
Postcode		ARM Rent (£)		ARM Rent (£)		ARM Rent (£)		ARM Rent (£)	
CR4		113	145	170	-	-	-	-	-
KT3		-	144	-	223	-	-	-	-
SM4		114	146	141	-	-	-	-	-
SW17		113	181	-	-	-	-	-	-
SW19		113	146	155	-	-	-	-	-
SW20		113	144	171	-	-	-	-	-

Source: CORE 2012-13Q3, Paycheck 2009

The above tables show that median rents on three and four plus bedroom properties can be significantly in excess of the 35% of income threshold in some boroughs. They also illustrate the degree to which affordability of individual properties of similar size can vary even within a single borough.

It is recognised that median incomes are not necessarily the ideal measure for comparison with ARM rents. A comparison with lower quartile rents would have given a much stronger indication of whether ARM is affordable for lower-income (as opposed to median-income) households. Unfortunately such data is not currently available at borough level, so such an exercise was not possible. There is certainly scope for further work here.

Nevertheless, the fact that a subsidised product is affordable to those on median incomes is an indication of wider market failure. With median market rents in London currently standing at 48% of median household incomes and with the average house price of £276,000 currently equivalent to over nine times the median annual income such evidence is not hard to find (Lloyds Banking Group, 2013).

The brief analysis of ARM rents against incomes above suggests that ARM could, if LA nominations policies allowed, house those families on around median incomes or above in the majority of cases. It can also

house those on low incomes but in receipt of housing benefit. However, there would appear to be a group of households on below median incomes for whom ARM would be unaffordable without housing benefit. In addition, larger benefit-dependent households would clearly be vulnerable to the impact of the welfare benefit cap given the rent levels on larger properties as evidenced by the report. Therefore, it is not surprising that when interviewed two landlords alluded to the possibility that they would be forced to refuse some local authority nominations to ARM homes on affordability grounds.

The above analysis, when combined with the earlier analysis of rent levels alone, is consistent with the assertion by RPs that the welfare benefit cap has shaped rent setting policy and the rents achievable. This in turn could influence the numbers of larger homes to be built as RPs adjust programmes in the light of experience.

In terms of the national housing benefit bill, the above analysis is too brief to make definitive statements. Nevertheless, it would appear that LA nominations policies favouring those without jobs and on very low incomes will, in the context of higher ARM rents, mean that the housing benefit bill will, over time, be higher than it would have been, had new social rented housing in London been developed on the basis of target rents. This contradicts early predictions from Government itself.

It also raises the question again, of whether the savings in capital expenditure that the Government has achieved through lower grant levels for ARM new-build housing, will be wiped out by higher revenue expenditure in the form of housing benefit. As was observed in the literature review, the Public Accounts Committee has already raised this question in strong terms.

This raises the question of back-to-work incentives. The Government is committed to “making work pay” and the welfare reforms are in part aimed at incentivising the workless to find jobs. However, given that ARM is housing a similar proportion of workless households to the rest of the social rented sector, there must be a question as to whether the higher rents will act as a disincentive to take up work, particularly when the option is low-paid work.



Case study

LB Barking & Dagenham’s response to ARM

The London Borough of Barking and Dagenham [LBBD] has taken a novel approach, in that the borough is offering the Affordable Rent Model [ARM] as a high-standard intermediate competitor to market rent, as well as effectively using some ARM provision to deliver more social housing.

Over the last five years, the private rented sector has doubled in LBBD, a probable indication that owner-occupation was increasingly out of reach for many residents who would have previously been able to access the tenure. This shift suggested to the borough that there needed to be a broader definition of housing need, to include both this growing middle sector and those in acute need.

The borough had sites ready, and its existing Local Education Partnership [LEP] included in its scope housing and regeneration. With the LEP able to set up a Special Purpose Vehicle for investment, LBBD began exploring ways to subsidise affordable housing. The scheme the borough came up with is financed by an institutional asset funder, Long Harbour, with the borough contributing the land and a 60-year rental guarantee. 477 homes will be complete under this scheme by June 2014, with the first homes becoming available from December 2013.

The 20% of homes designated as social rent will effectively be cross-subsidised by the balance of properties, which will be let at up to 80% of market rent – rates that, given LBBD’s relatively low market rents in the London context, still align with a social rent product in other parts of the Capital.

Social rent properties will be let through LBBD’s choice-based letting scheme to eligible applicants who fit typical priority need criteria, while the higher-rent properties will be advertised to the general public. Tenants applying for the higher-rent homes in the scheme must be in employment and meet strict criteria, including that rent will not exceed 35% of their household income; priority is also

given to applicants in employment within the local authority. All tenants will begin with a 12-month probationary tenancy, which if successful will be followed by a new 5 or 10-year Assured Shorthold Tenancy.

This allocation criteria is unique to LBBD’s developments outlined here, and does not apply to nominations to HA conversions. To the third quarter of 2012-13, 22 homes have been re-let under ARM in the borough, all of which are HA-owned. To that point, there have been no new-build ARM homes let in the borough.

This scheme has enabled LBBD to work effectively under ARM. The borough is contracted with the Greater London Authority to provide 762 homes through both tiers of the AHP by the end of March 2015. LBBD are on track to deliver 900 homes, 300 at social rent level and 600 at ARM, of which rent levels will be between 65% and 80% of market rent. Overall the grant per property for the programme is around £24,000. LBBD confirms that there is considerable and growing appetite from institutional investors for investment in residential rented accommodation opportunities.

Proactive approaches such as this LBBD strategy will play an important part in the borough’s ability to deliver affordable housing. This case highlights the success from taking a longer-term view of resources, including land value. It further encourages boroughs to explore opportunities for self-financing, including opportunities which could come from Housing Revenue Account reform.



Risks and challenges of developing under ARM

Interviews with HAs and LAs and feedback from seminars from those who are developing under ARM, or who have an interest in that development, have highlighted the ambivalent attitude of RPs identified in the literature review:

“Not ideal obviously but it’s the only game in town.”

- HA interviewee

This ambivalence focuses on the perceived risks associated with developing under this model, which would ordinarily make it unattractive. Those risks are, in the eyes of RPs involved in the AHP programme, to be balanced against the fact that the development of affordable housing is seen as a key corporate objective. Feedback suggests that RPs see themselves as participating to remain in the frame as significant developers of affordable homes. Some indicated that if they took hard-headed business decisions and refused to participate in the AHP, they could find their position compromised with agencies such as the HCA and GLA in the future.

In this sense, the remark that “ARM is a poisoned chalice” (HA interviewee) can be interpreted in terms of RPs feeling compelled to participate in something that they do not believe to be in their interests as viable housing businesses. All interviewees saw ARM to varying degrees as a necessary evil, to be pursued for a limited period in the hope of maintaining their development expertise and their ability to participate in any future grant-funded development.

Developing RPs saw a range of risks associated specifically with ARM development, or to which ARM providers were particularly vulnerable. Unsurprisingly, welfare reform and its impact on affordability ranked highest.

“Welfare reform is the biggest concern.”

“The risks are round the benefit system.”

- HA interviewees

The benefit cap was seen as the biggest problem since it raised the risk of arrears and potentially prematurely terminated tenancies. This in turn was seen as leading to a distortion in rent setting policies resulting in reluctance to build larger units.

“Caps are causing under-pricing of bigger units which is a drag on delivery.”

- HA interviewee

Although not all RPs saw direct payment as equally challenging, the majority saw it as a potential threat to the income stream and hence to financial capacity and viability.

At a less extreme level the high-rent environment in London was seen as a problem in generating sufficient rent levels on new-build ARM and on conversions as a source of subsidy:

“We’ve signed up to moderate grant rates on the basis we can charge up to 65% of market rent but we can’t...”

- HA interviewee

In fact, analysis in this report suggests rent levels of around 59% of market rent, with larger properties apparently dragging down the overall level of rental uplift on conversions.

The risks of failing to achieve a sufficient rate of conversions, or conversions at sufficient rents, were cited by a number of providers, although, some reported adequate levels of conversions. While most AHP contractors are in the early stages of their programmes there were concerns on this front:

- One RP indicated that they were not able to achieve the desired rate of conversions and had had to draw on the Recycled Capital Grant Fund [RCGF] as an alternative source of funding.
- Another indicated that local authorities were themselves providing a capital subsidy; although this intervention was often motivated by a desire to reduce ARM rents from what were considered unacceptable levels.
- Another cited problem with conversions was the perceived effects of tenancy reform and higher rents.
- Some providers believed that tenants were turning down ARM properties because of their fixed term tenancies and high rents.

This research has found some evidence within the CORE data to support the latter claim. In addition, it was claimed that with social renting moving in the direction of fixed term tenancies across the board, existing tenants were tempted not to move from a property where they had a permanent assured or secure tenancy. This is seen as reducing opportunities to convert sufficient numbers of empty properties to ARM. It was clear that some HAs would welcome the opportunity to seek tenants through the normal private rented sector routes (rental websites, estate agents etc.) in order to bring in more working households. However, this was not normally possible in the context of the need to respond to LA nominations.

A number of HA providers cited LA nominations policies as being unhelpful and thwarting their desire to offer ARM at a variety of rent levels for different client groups.

“LAs think ARM is a replacement for social renting and this is not consistent with what ARM is about.”

- HA interviewee

The LA response to this was mixed. While one respondent did express a wish to be able to offer ARM homes to working households to generate higher rental income, other LA representatives drew attention to their statutory responsibility to the homeless and to their obligation

to prioritise the allocation of housing for those most in need. The profile of ARM tenants as evidenced in this report strongly suggests that LAs are nominating a similar cross-section of tenants to ARM properties as are nominated for social renting in general, and no evidence exists at the time of writing that this approach has yet changed in practice.

There may be signs of a broader divergence of interest here. HAs are being forced to act in a more commercial way in relation to ARM and wish to attract a more affluent client-base. This may sit uneasily with LAs who not only have statutory responsibilities but may have development plans of their own, which may mean that their interests and those of certain HAs can be in conflict.

Another major source of risk with respect to ARM was the reduction in grant levels resulting in higher capital costs to be funded, creating a greater reliance on cross-subsidy:

“ARM requires such a long-term [cross] subsidy. Every unit weakens our financial position.”

- HA interviewee

This was a significant cause for concern amongst developing RPs who felt that the rapid erosion of financial capacity through increased borrowing risks was prejudicing the size of future programmes accordingly. This view has been widely discussed in the housing press.

The need for enhanced cross-subsidy was cited as a risk by more than one interviewee. It was clear from interviews that HAs are vigorously pursuing cross-subsidy opportunities, not only in the traditional area of shared-ownership development, but increasingly in building for open-market sale and for market renting. Market renting has taken off amongst HAs relatively late, but there have been several high-profile announcements about initiatives over the past three years. The Thames Valley “Fizzy Living” initiative is an interesting case, and is covered later in this report. In addition, it has recently been announced that Aviva and A2 Dominion are in talks about a joint initiative to fund and develop up to 600 homes, with A2 Dominion building on its successful £17 million bid to the Government’s Build to Rent Fund. (Hammond, 13 May 2013) (Duxbury, 13 May 2013).

Development for sale inevitably carries market risk, but the volatility of London house prices and the reliance on overseas investors – with one HA saying they’d marketed homes in Hong Kong and Singapore – were seen as significant factors by some.

While an analysis of the London residential market is beyond the scope of this report, it is worth noting that fears of market volatility are understandable:

Table 30: Average house prices 2007-2013
England and Wales vs London

Region	September 2007 £	March 2013 £	Percentage increase (decrease)
England and Wales	181,157	161,793	(10.7%)
London	346,403	374,568	8.1%

Source: Land Registry

It has been estimated that overseas investment in the London housing market was £5.2 billion in 2011. This is more than the value of the entire AHP for England and Wales for 2011-15 and equivalent to over 30% of all mortgage loans for house purchase in London in that year. London has been seen as being at increased risk of excessive volatility. (Heywood, 2012).

Recent rises in market rents in London have been in the press (notably Prynne and Bryant for *London Evening Standard*, 18 April 2013). The degree to which rises since 2009 can be characterised as volatility, rather than evidence of high and continuing demand, can be debated. Nevertheless, reliance on market renting for income inevitably involves risk of rent fluctuations that reliance on social renting does not, and requires a market focussed approach. HAs are not alone in voicing concern about the enhanced risks associated with increased diversification into non-social housing development in order to cross-subsidise affordable housing development. On April 9th 2013, the HCA as regulator issued a discussion paper *Protecting social housing assets in a more diverse sector; a discussion paper on principles for amending the regulatory framework for social housing in England* (HCA, 2013). The paper calls attention to the increase in diversified activity that can put social housing assets at risk. The proposals set out to tackle these risks include ring fencing social housing assets, and other measures to protect the value of public assets and external confidence in the sector. The paper is clear about the implications of a changed environment for affordable development.

“Before the credit crunch providers could base their plans on substantial levels of government grant for new development, housing benefit underwriting rental income in full, and banks providing long-term debt on low margins. None of these conditions apply now and the Government’s position post-2015 is not yet clear.” (HCA, 2013)

At the time of writing it is not clear how constricting the eventual regulatory proposals will be or to what extent they will affect the levels of cross-subsidy obtainable in the future, through activities such as development for open-market sale and the development, or acquisition of, market renting portfolios.



Other risks to the AHP programme in London were highlighted by HAs and LAs. However, these were seen as less crucial and were in any case not specific to ARM. Such risks included increasing construction costs and land prices, brought about in part by increased demand from the AHP programme itself.

Another frequently voiced complaint from HAs was that many LAs would not release their own land for affordable housing on a priority basis, or at reduced cost. LAs responded that sound asset management was an important component of managing their own financial capacity and viability. In addition, LAs drew attention to the competing claims on land which had to be resolved, balancing the need for homes against the need for land to site new schools was one example given. It is not clear that competing claims on a scarce, costly and diminishing public asset are easy to resolve, or that such resolution would, or indeed should, always be in favour of housing as the topmost priority. Again, there may also be evidence of a broader conflict of interest between certain LAs with development plans and some HAs with an interest in obtaining land for affordable housing and who could be in competition. There is scope for additional research here.

Overall, RPs were concerned about the additional risks involved in pursuing the ARM programme and in some cases, this had had an impact on the scale of their development commitments. One HA reported that in their view no RP was developing at previous levels, and another claimed their programme was half the size of the previous programme under the NAHP.

The perception of the financial risks and the fear that financial capacity could be progressively drained put a qualification against future participation in ARM programmes. The degree of commitment to ARM that might be expected from RPs post-2015 will be dealt with below.

ARM post-2015

Looking ahead, a problem for the GLA appears to be that RPs' analysis of risks and challenges associated with ARM and the experience of implementing the programme to date, may have sown doubts for some RPs as to whether they would participate in further ARM programmes. For the majority of those questioned, it was likely that participation would be scaled back in order to minimise risks and lessen the drain on financial capacity.

HA representatives made a number of comments when questioned about their commitment to ARM post-2015 and about take up by RPs in general.

"We could do a modest programme because we wouldn't want to hoist the white flag."

"Honestly I don't know - depends on the sales market."

"ARM is sustainable for the very short term but it's not affordable in London."

"A grinding halt" (ARM after 2015).

"A sustainable model might be 1 ARM, 2 open-market sales and some shared ownership. But it's high-risk."

- HA interviewee

The pervading impression from interviews was that the majority of RPs currently undertaking development under ARM would participate in a further programme at reduced levels, although some were doubtful about their future participation at all. Most saw one further programme as the limit unless the Government/GLA were prepared to contemplate a further diminishing of output.

If government were prepared to make changes to ARM, either by ensuring that it was a tenure for working households and/or if additional grant funding was available so that a proportion of new-build social rent could be "traditional" social rented housing, then the outlook was seen as more optimistic:

"ARM is only sustainable as part of a package including other interventions. These should include market rents and social rents with grant funding."

- HA interviewee

RPs were generally sanguine about prospects for additional grant in the present political and economic climate. There was a sense that there was in practice a contradiction between what would be sustainable in business terms (which could involve focussing purely on existing tenants, or undertaking some modest market development, whether for home ownership or market renting) and their social mission as providers of affordable housing. For many, the situation post-2015 could in practice be one of uneasy compromise between the pursuit of sound business practice and of social objectives with outcomes that are unlikely to satisfy strategic housing authorities.



Case study

Fizzy Living: market renting for young professionals

This case study has been provided by Fizzy Living.

FIZZY LIVING is a Private Rental Sector product, established to house the young professionals "Rentysomethings" unable to get on to the housing ladder.

Typical Rentysomethings are 25 to 35, employed and frustrated that no one is delivering homes with tenancies which suit their budget and lifestyle.

FIZZY LIVING, with a blend of its own equity, Institutional investment and Debt, is now bringing suitable property to the sector.

The typical FIZZY building will provide 50-125 apartments, and it will be within a 5 minute walk of a Tube or Rail station. We anticipate that the majority of our tenants will be employed in the City, West End or Canary Wharf, so our preferred locations will provide direct links to these locations.

Tenants are offered free WIFI, rent-to-own furniture, on-site manager and on-call maintenance

FIZZY LIVING has developed a bespoke software system which manages administration including all financial transactions, fault reporting and rectification, tenant surveys and marketing.

We have now fully let our first building, and are underway with the letting of our second. Our initial tenant survey has reported that FIZZY tenants are in the 30-30-30 category; average age 30, average salary £30,000 (close to the median household income in London), and average rental payment as a proportion of salary of 30%. While these are average figures, the ages fall between 23 and 36, and salaries from £14,500 upwards. All successful prospective tenants have to be in work or able to pay up-front the rent for the term of the lease. A combined salary of three times the rent is required.

FIZZY tenants are sourced through our web site, as well as standard property portals. We do not use rental agents. Tenants come from overseas, from substandard rental flats, or from the parental home.

While Rentysomethings should constitute a major part of any local market demographic, they are often marginalised in favour of more affluent tenants or overseas investors. Property values in London are driving young professionals further from the centre, leaving unbalanced neighbourhoods devoid of young tenants. This has a negative impact on local businesses, which would thrive on

the patronage of this customer group.

FIZZY LIVING is committed to long-term rental. We have commissioned HTA Architects to design the ideal apartments for the rental market. Our flats are 1, 2 or 3 bed units at an average 500 sq ft, 800 sq ft and 1,000 sq ft. All 2-bed flats have 2 bathrooms and similar sized bedrooms, making them more suitable for sharers. Leases are standard Assured Shorthold Tenancies (ASTs) and all sharers are named on the lease. Families with children are eligible to become tenants. Flats are bright and spacious, with plenty of storage, flexible living space, balconies and quality fittings.

FIZZY charges rent at £1,000 - 1,300 for 1-bed flats, £1,250 - 1,650 for 2-beds and £1,700 - 2,400 for 3-beds. The rent includes service charge, the 'extras' listed earlier, but not utilities.

FIZZY is here for the long term, so longer tenancies of 3 to 5 years are welcome.

Initially a portfolio of around 1,000 apartments is being procured in London and the South East. So far all are new-build although suitable conversions would be considered. We will fund the business through our own equity, conventional bank debt, and in the medium term with Institutional Investment. However we have structured the business to ensure that FIZZY Living is a separate subsidiary from Thames Valley Housing Association, and does not use TVHA resources.

- Fizzy Living, May 2013



As the Fizzy Living case study, left, illustrates, HAs are already diversifying in anticipation of a low-grant environment necessitating additional cross-subsidy or at least development that is financially viable in its own terms. However, one unknown factor little referred to by HAs was the extent to which they could sustain future programmes using accumulated financial surpluses and embedded subsidy in the form of RGCF. Some HA interviewees referred to using reserves or RCGF to support the current AHP programme and all believed ARM would have an ongoing impact on those reserves.

HAs were reported to have virtually doubled their financial surpluses in the year 2010-11, the year immediately preceding the introduction of ARM (TSA, 2011). The HCA reported in the Global Accounts that in 2011- 2012 the aggregated surplus for HAs was £1.8 billion, up £0.7 billion from the previous year. The sector had total reserves of £20.7 billion in March 2012 (HCA, 2012). While these reserves are substantial, a sector with a turnover of £13.8 billion trading in an environment that is widely acknowledged to exhibit higher risks cannot afford to draw on those reserves indefinitely. The recent downgrading of HAs cited earlier and the recently published HCA consultation paper *Protecting the social housing assets in a more diverse sector are reminders of the need to maintain adequate provision against future contingencies* (HCA, 2013).

It is likely that some HAs will choose to draw on reserves to support future programmes at higher levels than they might otherwise have undertaken; in effect trading strategic for financial advantage. Nevertheless, in overall terms the message about future programmes remains pessimistic in terms of scale.

Will the GLA meet its development targets?

For the purposes of this report there are three components to the above question. The first, which will be touched on briefly, is whether the GLA affordable programme as a whole (including the AHP, residual NAHP and other programmes) is on track to deliver its planned numbers by 2015. The second is whether the ARM programme will contribute the expected numbers. The third is whether ARM will contribute towards meeting the more specific requirements and concerns in the RLHS and the London Plan. These are in relation to ensuring that 36% of new homes are family-sized i.e. three bedrooms or above and the risks of “segregation by housing tenure” (GLA, 2011). Questions about the extent to which ARM meets these requirements and concerns have already been raised.

This report is focussed on the ARM model. A detailed analysis of the broader AHP programme taking in the development prospects for the other components (social rent, intermediate rent and affordable home ownership) is beyond its scope. However, some observations about the progress of the overall programme can be made, if only to put ARM development in context.

Total affordable programme

GLA projections over the four years of its AHP are as follows:

Table 31: Current profile of GLA-funded affordable housing delivery to March 2015

Year	Completions (outturn)
2011-12	16,173
2012-13	7,562
2013-14	11,788
2014-15	19,477
Total	55,000

Source: GLA

It should be noted that the programme has exceeded its overall target for affordable completions in 2012-13 as the above table shows. Starts amount to 14,383 in total which, at the halfway point in the programme would appear to be insufficient to fulfil the total programme by 2015. However, completions at 24,287 are further advanced¹⁰. Overall, it would seem that a rapid increase in the number of starts over the next few months will be needed if the programme is to remain on track, and sources close to the GLA have said they have confidence that this can be achieved. A number of RPs interviewed for this report suggested that they will fulfil their own contributions to the overall programme. Where concerns exist they are usually in relation to the ARM component, although competition with developers for land for all forms of affordable development has also been cited.

In addition to the original contracts to deliver the AHP plus other legacy programmes, the GLA has signed a number of additional contracts to provide security should other aspects of the programme fall short on delivery. These have included contracts under the Mayor’s Housing Covenant for both affordable home ownership and supported housing projects (Mayor of London, 2012).

Overall, while it is not within the scope of this report to make a credible prediction as to the outcome for the affordable programme, it does appear that the programme is on track as far as completions are concerned. Although starts will need to increase rapidly, there was a big increase in total starts from 2011-12 and 2012-13 from 4,291 to 10,092 (GLA, 2013). There appears to be a consensus amongst RPs and other commentators that if sufficient starts are in place on site by September 2013, the programme as a whole will remain on track.

10. See Appendix two for starts and completions on overall GLA programme.

The ARM contribution

By April 2013 the position of the programme could be summarised as follows according to GLA figures:

Table 32: ARM starts and completions 2011-12 and 2012-13Q3

	Starts	Completions
2011-12	1750	131
2012-13Q3	4936	277
Total	6686	408

Source: GLA

As referred to earlier, the RLHS target for ARM by 2015 is 16,614. The GLA internal working projection is based on an assumption that ARM will comprise 74% of the total AHP programme. This amounts to a projection that 16,478 ARM units will be developed.

At first, the number of starts may seem low, although starts on the broader affordable programme as set out above show a similar lag. In addition, the disparity between starts and completions may seem striking, particularly when compared to the wider affordable programme. However, it should be remembered that ARM was a new initiative and that as such the first starts were not achieved until late 2011, whereas components such as shared ownership were able to get off the ground earlier. Given this situation one might expect starts to be “back-loaded” and completions at a relatively low level.

Nevertheless, in the context of concern about the ARM programme in London identified in RP interviews, one must ask whether there are other factors at play.

Some interviewees expressed doubts as to the extent to which they felt their ARM commitment would be fulfilled by 2015.

“Nationally our programme is rolling out according to plan and it’s been well embraced by LAs. In London it has been a tough introduction and councils are still firming up. Also there has been a lot of resistance to affordable rents plus problems over the cost of construction and financing. However, we are still committed to handing over our commitment of homes by 2015, although we may drop the proportion of ARM.”

“Some increase in shared ownership and reduction in ARM.”

“The Mayor is rather optimistic with his target isn’t he?”

“Mayor’s target? I get the impression he’ll be a few short.”

“There are aspirations but there are constraints; we’ll be below target.”

- HA and LA interviewees

It was also clear from interviewees that their reservations about the ARM programme stemmed primarily from the risks involved in developing under ARM (See Chapter 4). Of these risks the biggest were seen as those associated with welfare reform and affordability, followed by linked doubts about the ability of RPs to achieve sufficient numbers of conversions at sufficient uplift, particularly in respect of larger properties. Other concerns, such as the enhanced need for cross-subsidy from other development and the tendency of ARM to drain the financial capacity of developing organisations, were secondary but still significant.

A perception emerges from the interviews and seminars organised around this research that there are doubts about the capacity of some RPs to fulfil their ARM commitments and that there are real concerns about risk. In these circumstances there must be at least the possibility that some RPs will not fulfil their commitment and that some may “go slow” on implementing their programme in the hope that some of the associated risks, notably from welfare reform, will crystallise in the meantime.

If the above suppositions prove to be correct, then there is some likelihood that a proportion of the ARM will not be built at all. Whether increased development of other tenures would eventually partly compensate for any shortfall would be difficult to determine.

However, there is also some likelihood that some development could be the subject of delay and eventually come on stream later than anticipated, and perhaps even outside the 2015 deadline for the AHP. In this case the GLA could be faced with a dilemma. Under the AHP the GLA has the power to re-allocate grant from organisations that are not fulfilling their commitments. Such a procedure is a real sanction and allows for the opportunity to offer grant to RPs who are more likely to perform. However, by the time it becomes apparent that some RPs will deliver late there would be limited opportunity for grant to be re-allocated to RPs that could realistically develop from scratch within the 2015 deadline; already less than two years away.

As already indicated, the above scenarios are constructions from feedback obtained from a limited number of RPs. They have some plausibility but fall well short of predictions. It may be that the ARM programme will deliver the numbers planned for within the April 2015 deadline. However, the GLA may wish to consider the possibility that there could be some shortfall, and make some contingency plans.



Meeting other strategic requirements

In considering the role of ARM in London, this report has identified an important area where there are questions as to whether ARM can deliver on the Mayor's undertaking in the RLHS that:

"I will ensure that 36% of new Affordable Rent Homes will be family-sized." (Mayor of London, 2011)

"Family-sized homes" is scarcely a precise technical term but enquiries to the GLA have confirmed that in this context it refers to homes with three or more bedrooms. The current GLA forecast for 2015 is that 33% of new ARM homes will be family-sized. Given the value of development land in London there has long been pressure to maximise land use for residential purposes in terms of density of use. Up to 90% of all new development in London is of flats. ARM is not immune to these pressures. According to CORE 91% of first-let ARM properties were flats in 2012-13.

Analysis of the proportion of family homes built so far suggests that the data is volatile and based on low numbers. In addition, analysis of the impact of welfare reform on rent levels by size of property illustrate the difficulties in building larger properties highlighted by RPs.

The research has highlighted why ARM development in London is likely to favour smaller properties. Briefly, the issue is one of affordability particularly in the context of welfare reform. Even without welfare reform there will be pressures to reduce the rents of larger properties where these may be occupied by working households from lower income groups due to the likelihood that many households on below median incomes will find ARM unaffordable. However, the welfare cap being phased in creates a situation where larger benefit-dependent households may have their housing benefit capped at levels at which they cannot afford these properties. To make ARM schemes viable in the new low grant environment, rent levels on conversions and new-build properties are being maximised and rents on larger properties set at levels that are relatively low. RP developers have commented on the reduced numbers of larger homes being built under ARM compared to previous programmes, although GLA completion data at Q4 2012-13 showed an overall proportion of family-sized homes of 34%. In summary the ARM programme could be vulnerable to a significant reduction in this proportion as the programme unfolds, should RPs adjust development plans in the light of experience.

In the London Plan the Mayor voiced a significant concern about the distribution of affordable housing.

"The Mayor is concerned that there should be no segregation of London's population by housing tenure. London's legacy of mono-tenure estates has in some cases contributed to concentrations of deprivation and worklessness. Coupled with some housing trends and management practices, these have been exacerbated by the tendency for new social housing to be built in the areas where it is already concentrated. Conversely, market homes have tended to be developed in areas with very little social housing." (GLA, 2011)

As this research has demonstrated, ARM development is in fact more focussed on the Outer London boroughs and in boroughs where land is cheaper than elsewhere. HAs have justified this approach in terms of the need to secure the viability of sufficient schemes to achieve their part of the programme in a situation where grant levels are low. In the absence of higher levels of grant funding, such choices are almost inevitable and as one developing HA put it, "building affordable homes somewhere is more important than where you build them."

However, such an approach carries risks over time that ARM and similar development could be concentrated in certain areas and in some cases exacerbate existing high concentrations of social housing in certain localities. This carries the risk that communities can become unbalanced and function less effectively. While this research has not sought evidence that certain specific localities are at risk, the historically low levels of grant may promote such a situation. Therefore, there is a case for monitoring the geographical distribution of ARM development carefully so that any potential problems can be identified and addressed at an early stage.

An important related issue raised at a research seminar concerned situations where revenue raised from conversions by an HA in one borough could be wholly or partly invested in new-build by that HA in another. This situation could create political tensions between authorities and/or PRPs because of the perceived inequity where money raised in one borough was spent in another. The borough receiving the additional housing could also gain additional nomination rights and arguably would gain indirectly, jobs and economic growth. This is referred to in the LB Islington case study on the next pages.



Case study

ARM: LB Islington's response

Shortly after the Homes & Communities Agency announcement of the ARM programme in 2011, the London Borough of Islington commissioned a study on the impacts of the ARM product in their borough amidst concerns on affordability, particularly as an Inner London borough. It found that maximum rent under ARM – 80% of market rent – was substantially higher than social rent levels and therefore unaffordable for many people: 80% of a market rate was a 202% increase on chargeable social rent for a one-bed flat, and a 299% increase a three-bed home. In recognition that the Affordable Homes Programme was to offer homes at a range of rents up to the maximum level, the study further noted that even at proportionally lower rents, any significant increase over social rent levels could cause affordability problems for certain groups.

The council outlined a number of potential impacts from this level of rent unaffordability, including reduced social mobility, an increase in housing-benefit dependency, increased financial hardship, and more difficulty in delivering sustainable communities. With these challenges in mind, the council issued a policy statement to make clear to the GLA, Registered Providers and other interested parties, including developers, that it was committed to delivering new homes for social rent, would not support development under the ARM programme and would actively resist conversion of existing RP homes to the ARM when they become available for relet. This would principally be achieved through enforcing pre-existing legal agreements, including section 106 and transfer agreements.

Despite this clear policy position, there has been some ARM activity in the borough. As of the third quarter of 2012-13, 76 ARM homes have been delivered in LB Islington, all which have been re-let properties owned by housing associations; almost two-thirds of this activity can be attributed to Circle Housing Group and comprise older street properties which are not subject to any legal agreements. Of these properties, the average weekly rent for one-bedroom and three-bedroom homes let in 2012/13 under ARM are £178.2 and £244.3 respectively. These rents are 64 and 74% higher than comparable social rent homes let in Islington during the same time period. HAs undertaking this conversion activity are not necessarily actively developing new affordable homes in the same locations, which means the cross-subsidy derived from the higher rents would not be re-invested within the borough.

In July 2012, LB Islington joined eight other London boroughs in submitting a joint response to the London Plan Revised Early Minor Alterations. This submission objected to the Mayor of London's approach in relation to the ARM product; particularly, to how some proposed alterations sought to prohibit boroughs from setting rent caps or targets for affordable rented housing in their local development frameworks.

At the same time, Islington Council is actively exploring alternative models for delivering social rented homes. In 2011/12, 817 affordable homes (including 599 at social rent) were delivered.

The overall picture

In examining the progress of ARM to date, the GLA affordable housing programme as a whole and the AHP, a mixed picture emerges:

- The affordable homes programme as a whole is able to meet its 55,000 target, although much will depend on the level of starts achieved in the next few months.
- There is a possibility that the risks attendant on ARM development, including its interaction with the government's welfare reform measures, may create a situation where ARM development falls short of expectations. This is by no means certain.
- It will be interesting to see the extent to which any shortfall within the AHP is made up by development within other tenures, such as shared ownership.
- ARM may not produce the proportion of larger properties that would contribute to meeting the Mayor's target that family-sized homes should comprise 36% of new development.
- The distribution of development across London raises questions about the degree to which excessive concentration and even "segregation" by tenure could become a risk.



These were principally schemes in the pipeline before ARM was introduced, although some of the borough's new initiatives are now feeding through. The borough is on track to deliver over 2,000 new affordable homes by 2015.

Some examples of how Islington Council are enabling delivery of new social rented homes for rent include:

- Disposing of council-owned sites to 10 Registered Providers appointed to a new Land Disposals Framework for Affordable Housing procured in 2012
- Allocating New Homes Bonus to Registered Providers to top up GLA grant funding under the Affordable Homes programme to achieve social rents on sites in their ownership
- Using the new freedoms and flexibilities introduced by HRA self-financing to build more council homes for social rent. The council's HRA Medium Term Financial Strategy (MTFS) agreed in February 2013 includes funding of £109.2m for the three year period 2013 to 2017 for new council housing
- Taking advantage of high values in Islington to provide cross-subsidy for new council housing and stretch resources to deliver more new affordable homes. A pilot scheme which comprises 5 homes for Shared Ownership and 5 for outright sale as well as 7 social rented homes at Vulcan Way was completed in April 2013
- Adoption of a Small Sites Contributions for Affordable Housing SPD to secure financial contributions which can be used to fund new affordable housing, including new council homes as well as those delivered through Registered Providers
- Investigating opportunities to use HRA new build resources to acquire land in the borough to help bring forward council-led affordable housing schemes
- Securing maximum reasonable amount of affordable housing through section 106 agreements through robust arrangements to test viability through the planning process
- Introducing a Shared Ownership scheme for up to 60 existing one-bedroom council homes a year, subject to an overall cap of 120 homes being sold through the scheme over three a three year period. This scheme is aimed at providing a low cost home ownership option for local people on low or modest incomes up to £40k and secure additional resources to fund housing investment priorities, including new affordable homes

ARM: the Government scorecard

It would be beyond the scope of this London-focused report to examine the extent to which ARM has so far met Government's own policy aims for it nationally. In addition, the AHP programme is only at its halfway stage. Nevertheless there may be some merit in briefly setting out Government's key stated objectives for ARM and comparing them to the London experience in practice.

Drawing on the policy statements contained in Section 2, four aims that the Government articulated in relation to ARM were identified:

- There was the intention to continue to produce affordable housing with lower grant expenditure in the context of the Government's commitment to fiscal austerity. The initial national target was for 150,000 homes to be built under the AHP by 2015.
- ARM was launched as representing a move towards "Intermediate contracts that are more flexible at rent levels between current and market rents" (HM Treasury, 2010). This could be taken to imply that ARM was originally conceived as an intermediate tenure, i.e. not simply a tenure for those who would traditionally have gained access to social housing.
- The Government appeared to aim for flexible tenancies and flexibility of rents. (HM Treasury, 2010)
- Government clearly intended that there would be "relatively limited impact" on the housing benefit bill ascribable to the introduction of ARM though the impact assessment on ARM was qualified in this respect. (Wilson, 2011)

To take each point in turn:

- Government has indeed continued to build “affordable” homes in significant numbers and the original 150,000 national target for the AHP has been increased to 170,000. However, as this research shows the AHP in London is significantly smaller than the NAHP that preceded it. In addition there are real questions as to whether even this volume of output can be maintained in subsequent programmes. In addition the homes are less “affordable” than traditional social rented homes except for those claiming housing benefit.
- The Government’s commitment to ARM as an intermediate tenure, if it ever existed, was short lived. ARM was soon to be defined a social housing and as this report has demonstrated, in London at least, the profile of ARM tenants closely matches that of traditional social tenants in all key respects. This has itself caused problems in London due to the effects of the welfare benefit reforms and has distorted development both geographically.
- In terms of flexible tenures and rents, this research shows ARM in London has indeed allowed landlords to introduce five year Assured Shorthold Tenancies in around 50% of cases. Nevertheless many landlords still use the standard assured tenancy for ARM lettings, largely because they or their tenants resist the erosion of security of tenure that “flexibility” implies. Rent levels under ARM in London vary widely and much more widely than do rents for traditional social housing. However, this variation is within a framework of ensuring that rents are maximised in relation to market rents. There is only limited evidence that flexibility over rent setting has been used for strategic purposes such as ensuring affordability though there are exceptions (c.f. Barking and Dagenham case study). The inability of LAs to determine or cap the rents set by other RPs in their areas has contributed to this in London.

- The impact of ARM on the housing benefit bill is still a matter of dispute. Nevertheless, the evidence gathered for this research suggests that the impact in London will be very significant indeed, with a largely benefit-dependent clientele being placed in ARM homes at rents over 40% higher than had the same tenants been housed in traditional social housing. It is beyond the scope of this report to quantify the impact on housing benefit expenditure but Government should enquire as to whether the reduction in grant for ARM homes will be balanced or exceeded over time by what is likely to be a substantial increase in housing benefit payments.

Overall, the picture for Government is a mixed one. There have been achievements through the introduction of ARM but many of them are partial and there is a residue of unanswered questions, notably about the scale of ARM development and the impact on housing benefit expenditure.





Conclusions and recommendations

Towards a post-2015 strategy

In drawing together the conclusions from the foregoing research and in attempting to identify the key recommendations that should be considered by Government, the GLA, or other stakeholders, one cannot help but be conscious that ARM is a new initiative that has barely reached the halfway point in its initial four year development programme. Data, experience and feedback are inevitably all limited. From that perspective conclusions on key matters such as the overall pace and distribution of development across London, the distribution of ARM new-build and conversions by property size and rent levels and other particular features of ARM provision, must ultimately be treated as provisional. Caution in both drawing conclusions and in making recommendations is desirable on that count. Often a recommendation that a policy question be raised and resolved is more useful than a highly qualified prescription.

It should also not be forgotten that the economic and political environment is uncertain in key respects. New Government policy on social rent levels is awaited at the time of writing, while the scale and shape of affordable housing programmes after 2015 remains a matter of speculation. The final shape of other policies, notably direct payment under Universal Credit is still evolving. The economy has not performed as Government had hoped in terms of economic growth or deficit reduction, and within two years there will be a general election that may well bring into focus dimensions (such as Europe) that have figured only peripherally in domestic electoral politics for a generation.

The London Finance Commission report *Raising the Capital* has been referred to earlier in the report (London Finance Commission, 2013). Its proposals are radical, and the devolution of decision making and control over resources to London could lead to the capital taking a radically different housing strategy direction than that of the rest of the country. In particular, the ability of the GLA and/or boroughs to control housing benefit expenditure and to decide on the balance of capital and revenue subsidies, would enable London to substantially modify ARM in order to deal with affordability and welfare reform issues identified in this report. ARM could be re-targeted at working families (see recommendations below) or even superseded altogether. However, the Commission recommendations will have to be agreed with key London stakeholders and then be considered by central Government. All of them have national implications in terms of fiscal policy and would raise profound issues about the future course of devolution and the role of the UK government itself in relation to England and the newly augmented devolved administrations.

As already suggested, the future progress of the Commission's recommendations is uncertain and very unlikely to be swift. They represent an exciting vision for London's housing strategy but are unlikely to influence the fate of ARM in London in the years immediately following 2015.

ARM: lessons to learn

There is, at the time of writing, a likelihood that ARM will be extended for a further programme (possibly for one year only) after 2015. In this context the lessons to be learnt from the London programme so far and the implications of a further round, or even successive rounds of ARM in the capital, should be considered.

Who is ARM for?

The question of who should be housed in ARM properties is a difficult one. As this research confirms, early hopes amongst some RPs that ARM would focus on providing homes for working households, where housing benefit would be a limited issue, have proved unfulfilled. As the HCA framework document made clear almost from the beginning, ARM is a form of social housing and the pattern of referrals closely resembles that for other social housing in London. The profile of ARM tenants is, if anything, one of marginally more deprivation than that for new social tenants in general, with similar levels of worklessness and slightly greater dependence on housing benefit. There has been discussion that some LAs may use recently acquired discretion to alter their nomination/priority policies in order to allow more "aspirational" working households to become tenants. The data so far shows no evidence that this has begun to happen in practice. However, LA representatives interviewed have indicated that some boroughs have acted to change their policies or are intending to do so. The examples cited in this research have included Hammersmith & Fulham, LB Barnet and LB Newham. It is still too early to judge whether these changes have had significant impact in changing the personal profiles of new ARM tenants.

Any re-assessment by LAs of their nomination/priority policies should take into account the incidence of increased homelessness from the PRS as a result of welfare reform. To fulfil their statutory duty in relation to homelessness, LAs can currently house homeless households in ARM homes. If ARM homes are to be increasingly allocated to working households it is important that provision for homeless households is maintained. LAs interviewed saw this as a difficult dilemma.

RPs have made it clear in the course of this research that this tenant profile creates risks for the programme

in terms of achieving sufficient rental uplift, particularly in the context of welfare reform and the welfare cap. This has had an impact on the rate of conversions and the rental uplift that can be achieved. This in turn has a knock on effect on overall development levels and could ultimately mean that there is a shortage of new family-sized homes. The analysis of data on ARM clearly demonstrates that ARM is not producing sufficient numbers of family-sized homes when measured against the Mayor's target that 36% of homes should be family-sized. Family-sized homes are defined by the GLA as homes with three or more bedrooms. Currently, only 7% of conversions are family-sized. This does not preclude the Mayor's 36% overall target being made up by other tenures but it seems anomalous that ARM, which houses a specific low-income group who would find it difficult to access other tenures, should be exempt from the 36% target.

The issue of attracting working families into ARM homes raises a real dilemma for government focussed on the housing benefit bill. At first, it may appear that attracting non-benefit dependent households may reduce the benefit bill but in fact the opposite is likely to be the case. If ARM homes at 59% of a market rent are taken up by working instead of workless households, then the latter will be housed in greater numbers in the private rented sector at 100% market rents to be paid by housing benefit. The traditional reluctance of HM Treasury to countenance the use of grant-funded homes to house those who are not benefit-dependent can be accounted for in this way. Early statements by ministers to the effect that the introduction of ARM would not significantly increase the benefit bill have obscured the position. As this research shows, the building and converting of ARM properties does increase the reliance on housing benefit over that which would have prevailed had those homes been for traditional social rent.

The confusion and unintended consequences created by the interaction of welfare reform and affordable housing development are not uniquely London problems. However, the issue of the benefit cap is significantly more important for London, because of its residential property market which drives high and rising land values, rents and house prices. This is in contrast to England as whole. In part, it is a function of London's role as a commercial centre and capital city but also reflects the dramatic effects of overseas investment on the residential market. In the context of the promotion of strategic housing objectives for the capital, there is a case for reviewing the way in which the cap is working in London, and whether problems might be mitigated by setting it at a higher level in the capital. Living costs and median incomes are higher in London than in England as a whole so that such a move could be set within a broader context. Adjustment of the cap need not be presented as a climb down by government but as part of the process of fine tuning and adjustment.

Adjusting the cap might ultimately allow a higher proportion of family-sized homes to be built in London and this would attract larger households. If no re-evaluation of allocation criteria to attract working families were considered, these larger homes would be tenanted in large measure by benefit-dependent households. It is important that adjustment to the cap be considered in tandem with adjustment to facilitate ARM tenancing by working households, so the question of the degree to which ARM should be used for benefit-dependent households is explicitly considered.

Recommendation 1

Currently ARM is designated as "social housing". However, this research has shown that ARM is more viable housing working households. Government should therefore re-assess its current designation of ARM as "social housing" and decide whether some increase in the housing benefit bill through displacing more benefit dependent households into the private rented sector can be justified in the interests of promoting new affordable housing supply via ARM. Alternatively Government may decide to adopt Recommendation 11 of this report and support a tier of social renting at target rents, which would mitigate the impact of housing benefit expenditure.

Recommendation 2

The newly introduced cap on welfare benefits which forms part of the programme of welfare reforms will bear particularly heavily on London and is already distorting the ARM programme in terms of rent levels and the distribution of properties. The cap also increases the business risks for Registered Providers and thus risks reducing outputs. The government, in conjunction with the GLA, should consider whether there is a case for raising the level of the cap in London in order to promote the strategic housing aims for the capital.

Recommendation 3

Notwithstanding the need to reconsider the level of the benefit cap in London, the GLA should monitor closely the progress of ARM development to ensure that its own requirement for 36% of new homes to be "family-sized" is being met and should examine what additional steps might be necessary to ensure that the target is fulfilled.

Recommendation 4

The GLA should confer with local authorities as a matter of urgency to determine their likely future policies in regard to tenant referrals and priorities in relation to ARM properties. The GLA should consider whether further encouragement to amend these policies to favour working households is desirable. Any conclusions should take account of the need to maintain provision for homeless families.



The geographical distribution of ARM properties

This research has shown that ARM new-development and conversions tend to be focussed in the outer boroughs, and to the East rather than the West. This tendency appears to be driven by the need to secure development where land and associated costs are lower, in the context of a low-grant environment:

“Building affordable homes somewhere is more important than where you build them.”

- HA interviewee

In a situation where funds are tight, it is almost inevitable that strategic decisions about the siting of new affordable homes will be compromised to some extent in practice in order to secure the financial viability of a sufficient number of development schemes. It would be difficult to argue that this should be otherwise in the present climate. However, there are some principles of sound community building that should come into play. As the London Plan has stated:

“The Mayor is concerned that there should be no segregation of London’s population by housing tenure. London’s legacy of mono-tenure estates has in some cases contributed to concentrations of deprivation and worklessness. Coupled with some housing trends and management practices, these have been exacerbated by the tendency for new social housing to be built in the areas where it is already concentrated. Conversely, market homes have tended to be developed in areas with very little social housing.” (GLA, 2011)

The GLA is ultimately responsible for monitoring the development of ARM in its early stages to see whether the commitment to mixed communities in mixed areas risks being undermined, with certain parts of London becoming a focus for high concentrations of social/ARM housing, particularly if ARM is extended.

Recommendation 5

The GLA should monitor the concentration and distribution of ARM development in the context of existing social rented provision to ensure that the Mayor’s concern “that there should be no segregation of London’s population by housing tenure” does not risk being excessively compromised over time with negative implications for the development of sustainable and vibrant communities.

Variations in rent levels

As has been noted earlier in the report, one feature of the ARM process is that rents are set for a property using an individual valuation of that property to determine what the market rent on it would be. In practice, the approach to valuation and the subsequent rent-setting process clearly vary between RPs. It is thus possible for rents on similar properties, offered by different providers in the same location, to be significantly different. It is also possible for rents on similar properties to vary across different parts of the same borough, depending on the level of MR in different locations.

As has been seen from RP feedback and from the CORE data analysed as part of the research, significant variations in rents on similar properties do occur within individual boroughs and overall, the variations in rent for ARM properties are far more exaggerated across the London boroughs than rents for traditional social rent properties. The lowest median ARM rent in London by borough (Merton) is £112 and that for the most expensive (Kensington & Chelsea) is £229. Social rents for these boroughs are £118 and £128 respectively. Wide variations between boroughs can clearly hamper tenant mobility (to which the GLA is strongly committed via its Housing Moves scheme) and create inequality of demand for affordable housing across the capital. Variations within individual boroughs may cause frustration and annoyance amongst residents and are likely to foster administrative complexity.

The GLA should look at this situation to ascertain whether it is possible for individual LAs to co-ordinate some “smoothing” of rents for similar properties within their borders without fatally compromising RP business plans. The position is complicated because while boroughs will have a Tenancy Strategy, PRPs do not have to follow it. LAs cannot simply impose rents on PRPs. The GLA would therefore need to use its influence to persuade PRPs to accept agreed formulae designed to create a greater degree of coherence between rents within boroughs.

The wide variations in rents between boroughs will be more difficult to tackle under ARM. Nevertheless, it may be that the GLA can examine options to mitigate these problems, for instance through offering higher grant rates in more expensive boroughs and correspondingly lower grant rates elsewhere, although this unlikely to be an approach free of difficulties.

Recommendation 6

The GLA should work with local authorities and with PRPs to examine ways in which rent structures for similar properties within individual boroughs can be made more coherent, and to look for possible interventions to mitigate the very wide variations in ARM rents between boroughs.

Rents and incomes

A more radical proposal suggested by interviewees in relation to ARM rents has been that they should be linked to household incomes rather than to median market rent levels for a particular property in a particular area. This idea has also been raised by L&Q/PwC and was discussed briefly in the literature review section of this report (L&Q/PwC, 2012). This proposal rests on two key arguments:

- That median market rent levels offer only a very indirect guide to what rents are affordable for a particular income group within an area and that ARM needs to be better targeted towards a particular group.
- That significant additional funds could be raised for development if rents were more closely tied to the maximum that an individual household could afford; for instance 35% of household income.

RPs clearly consider household incomes and income related factors such as the benefit cap in setting rents relative to market rents. However, the process is an indirect one and if ARM were to be used to house working households in the future then a means to target a particular income band more directly would be advantageous.

The idea that rents be directly linked to affordability is an attractive one. However, linking rents to individual household incomes is more problematic. There is the obvious question as to what happens if an applicant can only pay a very low rate; would the rent automatically be correspondingly low? This might militate against ARM as a truly intermediate tenure unless eligibility was restricted to those with incomes (for example) within a quartile either way of the median household income for an area. Another difficulty with tying rents too closely to individual incomes might be the difficulty for tenants in predicting what their rent might be in advance if contemplating moving and this in turn could affect mobility. In addition, there might be limited incentive for tenants who had become unemployed to return to work or for employed tenants to seek a better job if their rents rose in response. Finally, the current disparity of individual rents within boroughs noted in this report would not be mitigated under such an arrangement.

A compromise position might be to link ARM rents to incomes in a particular borough. This would have the advantage that ARM would be genuinely affordable for a particular group and targeted and promoted as such. Thus different sized properties could be set at different percentile points in relation to a median rent. This would provide an opportunity to set rents in relation to different sized households. It would also avoid the complexity of setting different rents for different individual properties and would do something to mitigate the disparity of rents within boroughs that this research has shown to be a current characteristic of ARM.

One consequence of such an approach might be that more grant might be needed to make schemes financially viable in boroughs with higher rents and land values,

since median incomes tend to vary between boroughs within narrower limits than median rents. Overall, there is the possibility that this might tip the balance of capital subsidy versus revenue subsidy (grant versus housing benefit) back towards grant. This in turn might make the scheme less attractive to Government in the context of a desire to reduce public spending in the short rather than the long term.

Nevertheless, further work to test the workability and viability of such an approach would be worthwhile.

Recommendation 7

The GLA should undertake some analysis of the implications for the ARM programme of linking ARM rents for different sizes/types of ARM properties to a particular percentile point in relation to median incomes in different boroughs, with the aim of targeting ARM more effectively in relation to affordability.

What about tenants?

If this researcher were to have to name one obvious lacuna in the range of data and information available on ARM in London to date it is the lack of a tenant perspective informing the discussions surrounding present and future practice.

It may be that LAs and HAs have surveyed or questioned tenants about ARM as a programme and, perhaps more importantly, about the consumer experience of ARM provision on the ground. However, if that work has been done it does not appear to have found its way into the public domain. In the considered view of this researcher, tenant interests are enlisted in the debates on one side or another but the overall perspective is of outsiders looking in.

Inferences can be made from some of the data and feedback (about the relative lack of popularity of ARM homes within CBL systems for instance) but this is not the same as direct consumer feedback.

ARM creates a range of new issues for tenants as consumers which include:

- Issues of tenant mobility given the wide disparity in rents within, and, across boroughs.
- Issues relating to moving from benefit dependency to employment in the context of ARM rent levels.
- The impact on tenants, as consumers, of the fixed term, assured shorthold tenancies used in the majority (but by no means all) of ARM lettings.
- Perceptions about relative value for money and the adequacy of service levels in a new higher rent environment.

The above list is not intended to be exhaustive. Consultation with one's customers is recognised as best practice throughout the private and public sectors. Some work has been done and is in progress on the impact of welfare reform but this is one aspect only.



Recommendation 8

The GLA should work with local authorities to commission qualitative and quantitative research into the views and attitudes of tenants and prospective tenants to ARM as a programme and, importantly, the experience of tenants as consumers of ARM. Such research should be London-wide but should aim to explore a range of social, economic and geographical variables insofar as they may have an impact on the tenant experience.

Post-2015 prospects for ARM

Should the Government choose to implement a further programme of ARM post-2015, it is unlikely that the same level of output in terms of new homes will be attained as that contracted for under the 2011-15 programme, unless certain key issues are resolved.

The traditional grant-funded model for development of social rented housing at sub-market rents represents a combination of four subsidy components:

- Grant funding as a supply-side capital subsidy to directly enable sub-market renting and to offer the HCA/GLA a degree of strategic control over the distribution and pace of development.
- A subsidy, in the form of housing benefit, covering the majority of social rents.
- A further cross-subsidy, usually in the form of shared ownership, but also from open-market sales and more recently market renting.
- Sundry subsidies from land made available at sub-market rates and a range of other sources.

Historically, over the last twenty-five years, grant subsidy has diminished in relative importance while subsidy from housing benefit and other sources has become relatively more important.

The move to ARM can be seen as a further move away from grant subsidy and an only partially acknowledged move to demand-side revenue subsidy in the form of higher rents, still to be met in the majority by housing benefit. Such a move has advantages for the Government in the context of public finances, in that the additional costs of housing benefit are only apparent over time, whereas cuts in capital grant amount to an immediate saving, as the impact assessment for ARM acknowledges (DCLG, 2011).

It may be seen as unfortunate that as government has altered the balance between capital and revenue subsidy for affordable housing away from the former, it has also introduced radical reform to the benefit system with the aim of reducing the housing benefit bill.

As this research and earlier work has shown, the impact of welfare reform in London has been to distort strategic aims in favour of ensuring the financial viability of RPs and reducing risk that is seen as unacceptable. Overall, new supply is distributed increasingly according to land prices rather than need as strategically determined. Rent levels demonstrate large variations that will themselves have a range of undesirable consequences. In the

meantime the high levels of benefit dependency in ARM homes (comparable or higher than for traditional social renting in London) will inevitably have a negative impact on the benefit bill because of the higher rents.

However, perhaps the most serious potential impact is the effect on the output of homes under ARM particularly under any future programme, even if some HAs choose to draw on accumulated financial surpluses to sustain those future programmes. There is some doubt as to whether all RPs will deliver their full contracted ARM outputs in the present programme, or whether any consequent shortfall in numbers of affordable homes will have to be made up from other tenures and programmes. However, looking beyond 2015, analysis of the risks associated with ARM and feedback from RPs as to their future intentions, suggests that any future programme would have to be scaled back in terms of volume.

Clearly, this would have serious implications for the supply of affordable housing in London and for overall new supply since London represents around 13% of the national AHP programme.

In response to the above situation the Government has broadly four choices:

1. To continue with ARM as at present and accept the outputs in terms of new supply will be lower and that distortions in terms of geographical distribution and lack of family-sized homes will continue.
2. To partially “de-risk” ARM by allowing an increase in capital grant. This would reduce the drain on RP financial capacity and allow for lower and less disparate rent levels. This might allow RPs to plan for higher outputs with confidence. In addition, as the National Housing Federation and the House of Commons Public Accounts Committee have argued, the impact of using grant instead of housing benefit as subsidy may be positive in terms of Government finances over the longer term. However, there would be a short-term impact on public spending and such a move could be seen by both supporters and opponents as a radical departure from established fiscal policy precepts.
3. To partially “de-risk” ARM by adjusting the housing benefit reforms to make it more viable for higher rents to be charged in London, particularly on larger properties. This report has recommended that consideration be given to raising the level of the cap in London. Such an option is not, of course, pain free from a public finance perspective. However, it might be easier to present in political terms. Alternative or complementary approaches might include a re-examination of the planned introduction of direct payment for Universal Credit. While changes to the proposed regime for direct payment would not have a direct impact on ARM they would create a lower-risk environment within which it operated.

4. Consider alternative additional sources for subsidy. These could be as diverse as allowing London to keep its receipts from stamp duty and putting further pressure on local authorities to release land at discounted values and would have to be considered on their merits.

It is beyond the scope of this report to recommend the kind of changes to macro-fiscal strategy that some of the above approaches would necessitate. In the end Government must decide what it expects from its own housing strategy and what it can contribute in the way of resources in a difficult economic and fiscal climate.

However, what Government should do is to make its intentions explicit and to make its plans realistic and coherent. The unanticipated risks and unintended consequences of the ARM programme as presently constituted in London, not only risk affecting future output directly but have also created a climate of confusion and lack of confidence amongst RPs that could itself lead to further caution in decision making. Government must make up its mind and communicate its intentions straightforwardly. In the light of the move from the NAHP to the AHP and the likelihood that ARM will require some modification, a period of stability should be the order of the day once decisions have been made. There has been some anecdotal feedback that development levels post-2015 may be affected by lack of certainty and long-term planning by central authorities.

Recommendation 9

The Government should seek to resolve the current tensions between its affordable housing policy and welfare reform policies which have undermined the move from capital towards revenue subsidy implicit in ARM, and which threaten future programme levels in London.

Recommendation 10

Government and the GLA should be realistic in setting out goals for any forthcoming ARM programme and ensure that there is certainty over the longer-term future of such programmes.

ARM: towards a broader strategy?

This research has focussed on ARM in London. It has covered the policy background, the process and outcomes of implementation of the programme to date, how it has been rolled out in practice and its implications for tenants and RPs. From this perspective any suggestions as to broader housing strategy in London, embracing the full range of tenures, can only be made tentatively and with caution.

A need for realism?

Those who comment on public policy and programmes or who propose alternatives are often urged to “be realistic.” In practice what this frequently means is that proposals should be within what prevailing perceptions of the economy and fiscal climate deem to be achievable and within the limits set by the political consensus that unifies the Government itself, about what governments should do in certain situations and, just as importantly, about what they should not do.

To simply ignore the prevailing economic, fiscal and political climate would be, in an important sense, unrealistic. Public debt as a percentage of GDP is less than half the 173% it was in 1951 (UKpublicspending.co.uk, 2013) and the UK has not recently been ravaged by the destruction of a world war. Nevertheless, the current housing minister, Mark Prisk, is unlikely to sanction a public housing programme involving the building of 872,000 council homes over five years, financed on the public sector balance sheet, as did Harold Macmillan the housing minister in 1951 (Holmans, 2005). This is arguably not primarily a question of practicality. It is a question of political will based on a very different set of political beliefs about what government should do, and the relative priority of housing within overall government spending, than that which characterised the Conservative Government of 1951-55.

However, there is another meaning to the term “realistic” which should not be forgotten. The GLA has argued convincingly in the RLHS that London should build at least 32,000 homes a year and recent demographic data suggests that this target may be too modest. Actual building of homes falls well short of this figure and has done over years. Within this overall total, there is an objective need for a certain level of affordable housing, although there may be argument about precise numbers. Within this context judging a proposal as “realistic” or not is about deciding whether what is proposed will deliver the number of homes of the right type to meet identified need, it is not about acceptability.

There is thus a potential (and usually an actual) tension between the pressure to propose measures that are acceptable and to propose those that are adequate to the scale of the task.

In the case of this research, a strong commitment to meeting the need for affordable housing across London has been apparent throughout amongst HAs, LAs and other stakeholders. Yet there has also been a strong



sense that there are limitations on what Government might be prepared to countenance, particularly over issues such as grant. The research itself and feedback from participants did shape the outline of an alternative strategy which was voiced in whole, or in part, by different participants. This is presented below. However, it bears the marks of the tension described above. While it tests prevailing orthodoxies, some may consider it to be too cautious to meet the demands of the situation in which Londoners find themselves.

As this research demonstrates, ARM as currently constituted is flawed in a London context in some important respects:

- It creates a distorted social rented programme in terms of geography and rents for different house types.
- It creates very wide disparity in what are de facto social rents, limiting tenant mobility and potentially damaging “back to work” incentives.
- It is not coherent with the government’s welfare reform programme and is likely to increase the housing benefit bill overall in spite of welfare reform.
- Even if it produces the planned numbers in this programme, it is likely that subsequent programmes of ARM would produce progressively smaller numbers.
- The current AHP leaves a gap in provision for lower income working households, especially those with families that ARM, as currently constituted, cannot fill.

The outline model that follows aims to address the above issues to varying degrees.

ARM and a new model

“ARM is only sustainable as part of a package including other interventions. These should include market rents and social rents with grant funding.”

- LA interviewee

It was a strong view held by interviewed RPs that ARM would work better if it were targeted at working households. In their view workless/benefit dependent households would best be housed in grant-funded social rented housing built as part of an overall affordable programme. In the view of these providers offering ARM to working households would:

- Reduce the dependency of tenants on housing benefit and remove the issue of the benefit cap.
- Allow rents to be higher in some cases (particularly for larger properties) and better matched to local needs and incomes.
- Reduce the risks faced by developing RPs by ensuring that part of the programme aimed at housing benefit dependent households would be more adequately grant funded than ARM is at present.

A new model for London might therefore comprise the following four elements:

A tier of grant-funded new-build social rented housing

This would fulfil the function that traditional and ARM social housing does in London currently; house benefit-dependent workless and very low income households. This would provide a stream of new-build social rented housing to take up the pressure of LA referrals and to replace homes lost through ARM conversions.

The need for grant to build “traditional” social rented housing would cut across the reductions in grant introduced in 2010 and might therefore be seen as a political problem by the Government. However, the additional grant would enable rents to be set at target rent levels. This would reduce the amount of housing benefit required to service rents compared to housing the same households in ARM properties. It is arguable that over a period of years the overall level of subsidy from the combination of grant and housing benefit would be lower. The lower rents would also lessen the likelihood that larger households would be caught by the benefit cap, which in consequence might not need to be raised in London as suggested earlier (Recommendation 2). There would also be stronger “back to work incentives” because of lower rent levels and less constrictions on mobility due to wide disparities in rents. Overall, government could present such a change as a response to the particular situation of London and as a fine-tuning of its national welfare reform and strategic housing policies.

ARM directed principally at working households

Although HM Treasury may have reservations about housing non-benefit dependent households in grant-funded housing, this idea is not as radical in a UK context as it might seem. The Scottish Government has offered grants for Mid Market rented housing [MMR] to housing association subsidiaries since 2009, “...when MMR is included as part of new developments for social rent” (Scottish Government, 2010).

As described in Scottish Government briefing material, “The expectation is that the vast majority of tenants will be economically active.”

There is also a clear vision of a client group: “They are popular with people on incomes that are not quite enough to afford owner occupation, or who need or want to rent for a limited period and can afford to pay more than a social rent- for example- those who expect to be able to buy a home later in their careers” (Scottish Government, 2010).

There were 875 approvals for such properties in 2011-12 (Scottish Government, 2012). While Scottish experience and conditions are specific, they do at least set a precedent for consideration.

ARM targeted at working households, at rents at similar levels to those at present, would be affordable for many households below, or above, median income levels i.e. in the £20,000-40,000 p.a. band. These households would be substantially less dependent on benefit than current ARM households and would thus reduce the benefit bill

significantly. There would clearly be strategic advantages in using such a saving to reduce the rate of conversions required for cross-subsidy purposes. Such a decision would require detailed calculations of consequences in terms of housing benefit outcomes and numbers of social rented housing versus housing need amongst particular groups. These are outside the scope of this study.

This shift to ARM as a tenure for working households would not negate the need to address Recommendations 5, 6, 7 and 8 on geographical distribution of properties, rent disparities, linking rents to household incomes and tenant feedback.

Market renting

Were ARM to be targeted at working families (i.e. become a genuinely intermediate rental product) then market renting would be seen as not simply an option in terms of cross-subsidy for ARM. It would also be coherent in serving working households with incomes above those of working ARM households. Market renting as an option for London HAs is clearly taking off in any case and attracting institutional investment. Initiatives by London and Quadrant, Thames Valley Housing Association and most recently Aviva and A2Dominion are three examples that have been touched on in this report.

Shared equity/shared ownership/open-market sale

While shared ownership and shared equity can be seen as complementary products enabling households to gain a rung on the housing ladder, open-market sale can be seen as standing slightly to one side.

Shared ownership/equity can be seen as an option for those households with incomes insufficient to access full home ownership in London but able to gain a foothold. The existence of a model that includes ARM for working households, plus a market renting option, allows for the introduction of a range of "rent to buy" initiatives to ease the transition from renting to owning. Only a low proportion of shared ownership purchasers come from the traditional social rented sector but the intermediate and market rented sectors should be more fruitful ground.

Open-market sale appears to be seen by some providers as simply a means to gain a cross-subsidy for affordable housing, with sales and marketing frequently targeted at the overseas market for London properties. This is a legitimate pursuit in a low-grant environment and does increase housing supply, although it raises wider issues about the role of overseas investment in the London residential market. However, open-market sales can also be linked to shared ownership/equity programmes, although this will influence the type of property built and the target group for outright sale.

While, the proposal above, which is applicable to London, is not a fully worked out blueprint; it is a sketch that merits further analysis and assessment. It builds on this research as to how ARM in London is currently working in practice and offers a possible way forward

which will enable many of the problems identified in the report to be addressed, or at least mitigated.

Recommendation 11

The GLA should work with the HCA and DCLG to assess the merits of re-targeting ARM towards working households within a model of development across four tenures, including grant-funded social renting, market renting and building for shared ownership/equity, plus open-market sale.

Conclusion

The recommendations set out above operate on three levels. The first eight recommendations are aimed at solving, or mitigating, shortcomings of the ARM model as currently constituted and on the assumption that it could be resurrected after 2015 on similar terms. In that sense they can be considered as relevant both to the present programme and to a future programme should that be announced.

At the second level, Recommendation 9 on capital versus revenue subsidy attempts to look at ARM from a broader perspective and stimulate discussion about its interaction with the welfare system and the most appropriate way to subsidise affordable rented housing. The capital versus revenue subsidy (or, in other terms, supply-side versus demand-side) question is a long running one. In recent years the move has tended to be towards revenue subsidy. In that sense the UK has been consistent with some other EU countries such as Germany. However, the UK has also a further long running difficulty. Many commentators have observed over more than thirty years that housing supply is inelastic relative to demand. An increase in demand/revenue subsidy all too often feeds through into higher prices, rather than increased supply. In addition, in the affordable sector, it has been noted that grant subsidy offers the strategic housing agencies a degree of control over the amount of housing produced, the timescale for construction, where it is situated and its type. It has been remarked that the current low levels of grant have lessened the leverage that the GLA can exercise over RPS in these respects, and this deserves to be investigated further. The whole area of supply-side versus demand-side subsidy and the interaction of housing and welfare policies badly need further discussion, although it clearly has a national dimension that goes well beyond the scope of this report.

Recommendation 10 again takes the broader view, calling for realism about the scale of future ARM programmes and highlighting the need for certainty over the longer term if development opportunities are to be maximised.

Finally, Recommendation 11 involves consideration of an alternative model that could, subject to further analysis, offer an alternative way to meet diverse demand for affordable housing and a new focus for ARM. It is not a blueprint however; it is a starting point for further work.



The recommendations are not particularly radical; they attempt to build on what exists rather than overturn it. While they do challenge elements of the prevailing political consensus on housing strategy they are, it is hoped, eminently practical. They have been developed in discussion with senior representatives from RPs and other stakeholders who have a strong commitment to affordable housing. They are grounded in the practicalities of development and housing management, and are aware of the limits set by what others perceive as possible, and in what all concede is, a difficult economic and fiscal environment.

Yet there is a crying need for aspiration. There has been a chronic under-supply of housing, including affordable housing, going back almost 30 years. In the not so distant past housing inspired passionate commitment from both the political right and the left, who both saw decent housing as the hallmark of a just and civilised society, as well as an engine of economic growth and a mechanism to promote mobile and responsive communities. Even in the depths of the Depression of 1929-31 around 185,000 local authority homes were built in that desolate three year period. As late as 1980 a total of 98,000 homes were built by local authorities and housing associations; a figure never equalled since (Holmans, 2005).

Perhaps one should finish as this report began, with the late Harold Macmillan. In 1951 Winston Churchill, reflecting on his newly appointed housing minister's commitment to build 300,000 homes a year remarked:

"It is a gamble - it will make or mar your political career, but every humble home will bless your name if you succeed." (Beckett, 2006)

Macmillan delivered a year ahead of schedule.

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May 2013



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Appendices

Appendix One

First lets and conversions in London by owning provider, to Q3 2012-13

Owning	First lets	Conversions	Grand Total
London and Quadrant Housing Trust	14	440	454
Affinity Sutton Homes	55	313	368
Merton Priory Homes	-	195	195
Peabody Trust	-	160	160
Notting Hill HT	-	159	159
Circle 33 HT	-	157	157
Network Stadium	28	115	143
Gallions HA Ltd	40	102	142
Catalyst Housing	51	59	110
Genesis HA	79	29	108
East Homes Ltd	41	58	99
AmicusHorizon Limited	-	80	80
Swan HA	62	13	75
Orbit South	28	33	61
Richmond Housing Partnership	7	52	59
Guinness South	-	54	54
Town & Country Housing	53	-	53
Viridian Housing	27	25	52
Hexagon HA	-	49	49
Shepherds Bush HA	-	44	44
Riverside Housing Group	-	40	40
A2Dominion Homes	-	39	39
Home Group	-	32	32
Octavia Housing & Care	-	29	29
Origin Housing	17	12	29
Moat Homes Ltd	14	14	28
Asra Housing Association	15	11	26
One Housing Group	-	26	26
Sanctuary HA	-	25	25
A2Dominion North	-	22	22
Gateway HA	-	22	22
Richmond upon Thames Churches HT	1	21	22
Metropolitan HT Ltd	1	17	18
Hyde HA Group	-	17	17
Newlon HT	3	14	17
Southern Housing Group	-	16	16
Estuary HA Ltd	4	11	15
A2Dominion South HA Ltd	-	12	12
Old Ford	-	11	11
Agudas Israel HA Ltd	1	8	9
Centrepoint	2	5	7
Guinness Trustees Ltd	-	6	6
Community Based HA	-	4	4
Places for People Homes	-	3	3
Croydon Churches HA Ltd	-	2	2
Poplar HARCA Ltd	-	2	2
Paradigm HA	-	1	1
Thames Valley Charitable HA Ltd	-	1	1

Source: CORE 2011-12, 2012-13Q3



Appendix two

GLA funded starts and completions 2011-12 and 2012-13

Starts on site, April 2012 - March 2013

ONS Code	Location (Local Authority)	Affordable Rent	Social Rent	Intermediate Affordable Rent		Total Affordable	Open Market	Total
				Intermediate Rent	Affordable Home Ownership			
00AB	Barking & Dagenham	333	126	-	39	489	83	572
00AC	Barnet	129	-	-	71	200	-	200
00AD	Bexley	125	16	-	155	296	-	296
00AE	Brent	429	60	-	643	1,132	-	1,132
00AF	Bromley	56	-	-	46	102	-	102
00AG	Camden	56	30	-	59	145	-	145
00AA	City of London	-	-	-	-	-	-	-
00AH	Croydon	306	-	-	129	435	-	435
00AJ	Ealing	231	45	-	23	299	-	299
00AK	Enfield	98	20	-	22	140	-	140
00AL	Greenwich	237	285	-	291	813	201	1,014
00AM	Hackney	141	163	-	130	434	-	434
00AN	Hammersmith & Fulham	36	34	-	-	70	-	70
00AP	Haringey	168	-	-	164	332	140	472
00AQ	Harrow	102	-	-	78	180	-	180
00AR	Havering	250	2	-	135	387	-	387
00AS	Hillingdon	63	-	-	28	91	-	91
00AT	Hounslow	173	5	-	115	293	-	293
00AU	Islington	-	44	-	31	75	-	75
00AW	Kensington & Chelsea	-	45	-	39	84	-	84
00AX	Kingston upon Thames	46	-	-	24	70	-	70
00AY	Lambeth	111	227	-	279	617	-	617
00AZ	Lewisham	289	-	-	89	378	-	378
00BA	Merton	16	18	-	-	34	-	34
00BB	Newham	91	54	-	86	231	-	231
00BC	Redbridge	20	12	-	12	44	-	44
00BD	Richmond upon Thames	34	-	-	10	44	-	44
00BE	Southwark	223	140	-	204	567	-	567
00BF	Sutton	141	34	-	27	202	-	202
00BG	Tower Hamlets	600	312	-	327	1,239	-	1,239
00BH	Waltham Forest	260	-	-	107	367	-	367
00BJ	Wandsworth	100	-	-	106	206	-	206
00BK	Westminster	72	-	-	24	96	13	109
Total		4,936	1,672	-	3,484	10,092	437	10,529

Source: GLA, 2013

Note: the full Excel tables for the above and earlier years can be found at the source. The above is reproduced to offer an overview of information available only.

Completions, April 2012 - March 2013

ONS Code	Location (Local Authority)	Affordable Rent	Social Rent	Intermediate Affordable Rent		Total Affordable	Open Market	Total
				Intermediate Rent	Affordable Home Ownership			
00AB	Barking & Dagenham	-	52	33	6	91	36	127
00AC	Barnet	10	225	-	118	353	151	504
00AD	Bexley	1	11	-	161	173	-	173
00AE	Brent	12	304	-	122	438	-	438
00AF	Bromley	64	157	-	135	356	-	356
00AG	Camden	-	342	-	97	439	-	439
00AA	City of London	-	-	-	-	-	-	-
00AH	Croydon	10	149	0	98	257	-	257
00AJ	Ealing	-	127	-	47	174	49	223
00AK	Enfield	3	59	55	11	128	-	128
00AL	Greenwich	6	162	-	102	270	162	432
00AM	Hackney	5	463	39	81	588	106	694
00AN	Hammersmith & Fulham	-	9	20	-	29	-	29
00AP	Haringey	-	188	126	64	378	140	518
00AQ	Harrow	28	128	-	143	299	-	299
00AR	Havering	31	354	-	48	433	-	433
00AS	Hillingdon	8	61	-	121	190	-	190
00AT	Hounslow	4	44	-	18	66	-	66
00AU	Islington	-	199	18	75	292	-	292
00AW	Kensington & Chelsea	-	69	-	3	72	-	72
00AX	Kingston upon Thames	-	5	-	4	9	-	9
00AY	Lambeth	7	175	-	131	313	-	313
00AZ	Lewisham	1	348	-	320	669	-	669
00BA	Merton	8	61	-	125	194	157	351
00BB	Newham	5	138	16	100	259	254	513
00BC	Redbridge	15	53	0	67	135	-	135
00BD	Richmond upon Thames	14	8	-	-	22	-	22
00BE	Southwark	9	337	19	81	446	-	446
00BF	Sutton	-	65	-	48	113	-	113
00BG	Tower Hamlets	31	238	-	166	435	45	480
00BH	Waltham Forest	5	145	17	132	299	-	299
00BJ	Wandsworth	-	56	-	71	127	-	127
00BK	Westminster	-	53	-	14	67	-	67
	Total	277	4,785	343	2,709	8,114	1,100	9,214



Starts on site, April 2011 - March 2012

ONS Code	Location (Local Authority)	Affordable Rent	Social Rent	Intermediate Affordable Rent		Total Affordable	Open Market	Total
				Intermediate Rent	Affordable Home Ownership			
00AB	Barking & Dagenham	434	84	-	-	518	-	250
00AC	Barnet	1	-	-	-	1	-	1
00AD	Bexley	147	32	-	68	247	-	247
00AE	Brent	35	231	-	15	281	-	281
00AF	Bromley	112	1	-	47	160	-	160
00AG	Camden	13	23	-	-	36	-	36
00AA	City of London	-	-	-	-	-	-	-
00AH	Croydon	37	-	-	24	61	-	61
00AJ	Ealing	11	58	-	58	127	-	127
00AK	Enfield	81	-	-	58	139	-	139
00AL	Greenwich	36	203	-	141	380	202	582
00AM	Hackney	28	5	-	46	79	-	79
00AN	Hammersmith & Fulham	-	-	-	128	128	-	128
00AP	Haringey	39	-	-	63	102	-	102
00AQ	Harrow	-	-	-	44	44	-	44
00AR	Havering	228	0	0	114	342	-	342
00AS	Hillingdon	8	-	-	5	13	-	13
00AT	Hounslow	23	33	-	58	114	-	114
00AU	Islington	-	22	-	-	22	-	22
00AW	Kensington & Chelsea	-	-	-	-	-	-	-
00AX	Kingston upon Thames	61	-	-	23	84	-	84
00AY	Lambeth	13	127	-	58	198	-	198
00AZ	Lewisham	122	7	-	84	213	-	213
00BA	Merton	8	-	-	9	17	72	89
00BB	Newham	-	-	-	-	-	-	-
00BC	Redbridge	14	2	-	-	16	-	16
00BD	Richmond upon Thames	7	-	-	-	7	-	7
00BE	Southwark	93	66	-	212	371	-	371
00BF	Sutton	1	-	-	-	1	-	1
00BG	Tower Hamlets	76	79	14	31	200	94	294
00BH	Waltham Forest	113	10	-	110	233	-	233
00BJ	Wandsworth	9	-	-	148	157	-	157
00BK	Westminster	-	-	-	-	-	-	-
	Total	1,750	983	14	1,544	4,291	368	4,659

Completions, April 2011 - March 2012

ONS Code	Location (Local Authority)	Affordable Rent	Social Rent	Intermediate Affordable Rent		Total Affordable	Open Market	Total
				Intermediate Rent	Affordable Home Ownership			
00AB	Barking & Dagenham	-	250	27	90	367	80	447
00AC	Barnet	-	479	-	166	645	2,150	2,795
00AD	Bexley	-	215	-	135	350	-	350
00AE	Brent	-	523	37	127	687	-	687
00AF	Bromley	24	230	-	94	348	-	348
00AG	Camden	-	198	-	28	226	-	226
00AA	City of London	-	-	-	-	-	-	-
00AH	Croydon	12	489	-	62	563	-	563
00AJ	Ealing	7	432	68	151	658	-	658
00AK	Enfield	3	528	93	238	862	-	862
00AL	Greenwich	9	237	70	166	482	538	1,020
00AM	Hackney	-	610	55	348	1,013	93	1,106
00AN	Hammersmith & Fulham	-	24	45	12	81	-	81
00AP	Haringey	2	195	12	257	466	-	466
00AQ	Harrow	-	213	-	188	401	-	401
00AR	Havering	56	587	-	112	455	-	455
00AS	Hillingdon	-	355	-	281	636	75	711
00AT	Hounslow	-	165	35	126	316	-	316
00AU	Islington	-	442	39	251	732	31	763
00AW	Kensington & Chelsea	-	57	-	-	57	-	57
00AX	Kingston upon Thames	-	67	-	25	92	67	159
00AY	Lambeth	-	507	-	151	658	41	699
00AZ	Lewisham	10	569	100	191	870	42	912
00BA	Merton	-	233	39	165	437	-	437
00BB	Newham	-	502	47	235	784	89	873
00BC	Redbridge	7	17	-	1	25	-	25
00BD	Richmond upon Thames	-	149	-	77	236	-	236
00BE	Southwark	-	576	19	133	728	-	728
00BF	Sutton	1	186	9	52	248	-	248
00BG	Tower Hamlets	-	1,434	65	299	1,798	542	2,340
00BH	Waltham Forest	-	416	27	92	535	-	535
00BJ	Wandsworth	-	221	-	90	311	-	311
00BK	Westminster	-	74	-	32	106	-	106
	Total	131	10,880	787	4,375	16,173	3,748	19,921





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