



## BRIEFING PAPER

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# What is affordable housing?

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1. Defining affordable housing
2. Affordability by tenure type
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## Summary

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

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

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

Currently, the most commonly referred to definition of affordable housing is set out in Annex 2 to the [National Planning Policy Framework](#) (NPPF). This is the definition that local planning authorities apply when making provision within their areas to meet local demand/need for affordable housing. In its December 2015 [Consultation on proposed changes to national planning policy](#) the Government proposed to amend the definition of affordable housing within the NPPF to incorporate Starter Homes. This proved controversial: commentators questioned how affordable Starter Homes will be. The homes will be sold at a minimum discount of 20% off the market price subject to price caps of £250,000 outside of London and £450,000 within London. The Government argued that the homes built will be sold at prices substantially below the price caps, but subsequently decided not to require local planning authorities to include a minimum percentage of Starter Homes on development sites. A [draft revised NPPF](#) was published for consultation on 5 March 2018 – submissions are invited up to 10 May 2018. The draft NPPF proposes that on major housing development sites, at least 10% of the housing should be for affordable home ownership, subject to some exceptions.

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

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

Sector submissions to the 2016 Autumn Statement called for a reconfiguration of the Affordable Homes Programme to allow providers more flexibility over the type of housing developed. There were calls to encourage development at social rent levels to reduce pressure on Housing Benefit expenditure and to increase housing options for people on a low income without having to rely on Housing Benefit to assist with rent payments. The [Autumn Statement](#) *did* announce the relaxation of restrictions on grant funding "to allow

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providers to deliver a mix of homes for affordable rent and low cost ownership, to meet the housing needs of people in different circumstances and at different stages of their lives." Subsequently, the Housing White Paper (February 2017) set out "a comprehensive package of reform to increase housing supply and halt the decline in housing affordability."

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

# 1. Defining affordable housing

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

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

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

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

## A statutory definition of social housing

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

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<sup>1</sup> Lydia Marshall, NatCen, [Defining and measuring housing affordability in the PRS using the minimum income standard](#), August 2016

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

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

<sup>4</sup> Section 70(3) of the 2008 Act.

## Affordable rents

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

Affordable Rent is designed to:

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

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

In addition to building to let at affordable rents, housing associations can re-let social rented homes that fall vacant to new tenants at affordable rent levels.

## Defining affordable housing for planning purposes

Local planning authorities may require developers to include an element of affordable housing on a site as a condition of granting planning permission. These planning obligations, sometimes known as section 106 agreements or - affordable housing levies -, are legally enforceable obligations entered into under section 106 of the *Town and Country Planning Act 1990* (as amended) to mitigate the impacts of a development proposal.<sup>6</sup> In 2013/14, for example, section 106 agreements delivered more than 16,000 units of affordable housing representing 37% of total affordable housing provision.<sup>7</sup> For these purposes, the current definition of affordable housing is found in Annex 2 to the National Planning Policy Framework (NPPF, 2012). The definition incorporates social rented housing, housing let at affordable rents and low-cost home ownership products:

**Affordable housing:** Social rented, affordable rented and intermediate housing, provided to eligible households whose needs are not met by the market. Eligibility is determined with regard to local incomes and local house prices. Affordable housing should include provisions to remain at an affordable price

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<sup>5</sup> HC Deb 9 December 2010 cc31-4WS

<sup>6</sup> For more information see [Library Briefing Paper 07200, Planning Obligations](#)

<sup>7</sup> Joseph Rowntree Foundation, *Rethinking Planning Obligations*, 2015



for future eligible households or for the subsidy to be recycled for alternative affordable housing provision.

Social rented housing is owned by local authorities and private registered providers (as defined in section 80 of the Housing and Regeneration Act 2008), for which guideline target rents are determined through the national rent regime. It may also be owned by other persons and provided under equivalent rental arrangements to the above, as agreed with the local authority or with the Homes and Communities Agency.

Affordable rented housing is let by local authorities or private registered providers of social housing to households who are eligible for social rented housing. Affordable Rent is subject to rent controls that require a rent of no more than 80% of the local market rent (including service charges, where applicable).

Intermediate housing is homes for sale and rent provided at a cost above social rent, but below market levels subject to the criteria in the Affordable Housing definition above. These can include shared equity (shared ownership and equity loans), other low cost homes for sale and intermediate rent, but not affordable rented housing.

Homes that do not meet the above definition of affordable housing, such as “low cost market” housing, may not be considered as affordable housing for planning purposes.<sup>8</sup>

It had been the Government’s intention to use section 159 of the *Housing and Planning Act 2016* to amend the definition of affordable housing in regard to planning obligations under the *Town and Country Planning Act 1990* (as amended) to include Starter Homes (as defined in Part 1 of the 2016 Act).<sup>9</sup> However, the Housing White Paper, [Fixing our broken housing market](#) (February 2017) marked a shift in the Government’s housing policy from a strong focus on Starter Homes to delivering a wider range of affordable housing. The White Paper set out a proposal to amend the National Planning Policy Framework (NPPF) to introduce a policy expectation that housing sites of 10 units or more will deliver a minimum of 10% affordable home ownership products.

The Annex to the Housing White Paper sought views on an updated definition of affordable housing which included a revised definition of Starter Homes in relation to an income cap. Alongside that, the Government proposed to restrict the availability of Starter Homes to first-time buyers with a mortgage. Consultation on the proposals closed on 2 May 2017. A [summary of responses and the Government’s response to the consultation](#) was published on 5 March 2018<sup>10</sup> alongside a [draft revised NPPF](#). The draft NPPF includes a revised definition of affordable housing for planning purposes, including reference to Starter Homes and affordable private rented housing under Build to Rent schemes. A separate consultation paper on Planning and Affordable Housing for Build to Rent had been published alongside the Housing White Paper which sought views on planning measures to

The 2017 Housing White Paper marks a shift in the Government’s housing policy from a strong focus on starter homes, to delivering a wider range of affordable housing.

<sup>8</sup> HM Government, [National Planning Policy Framework](#), March 2012, Annex 2 p50

<sup>9</sup> [Housing and Planning Act 2016](#), Part 6, Section 159(4)

<sup>10</sup> Ministry of Housing Communities and Local Government (MHCLG), [Government response to the housing White Paper consultation: Fixing our broken housing market](#), 5 March 2018, Question 31

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support an increase in Build to Rent schemes across England, and which included proposals to change the NPPF to support and increase the number of new Build to Rent homes. [Planning and affordable housing for Build to Rent: summary of consultation responses](#) was published on 3 August 2017. With reference to the proposed changes to the definition of affordable housing, the following outcomes were recorded:

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

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

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

Similarly, there were varied results in respect of the parameters for operating affordable private rent (such as eligibility criteria, discount levels, and about how clawback could work).<sup>11</sup>

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

- An expanded definition would give flexibility in relation to the provision of affordable housing.
- Concerns were raised that the suggested definition would not address the needs of those with greatest housing need, and might reduce social and affordable rented housing.
- A number of respondents suggested that the definition needed to work in conjunction with viability assessments, to ensure it leads to sufficient delivery of affordable housing.
- Others would like caveats within the definition: for example, a perpetuity clause to enable affordable homes to remain affordable indefinitely, and the linkage of affordable homes to local incomes, house prices and rents.<sup>12</sup>

The following definition of affordable housing has been included in the draft revised NPPF:

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

a) **Affordable housing for rent:** meets all of the following conditions: (a) the rent is set in accordance with the Government’s

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<sup>11</sup> DCLG, [Planning and affordable housing for Build to Rent: summary of consultation responses](#), 3 August 2017, p14

<sup>12</sup> Ministry of Housing Communities and Local Government (MHCLG), [Government response to the housing White Paper consultation: Fixing our broken housing market](#), 5 March 2018, Question 31



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

b) **Starter homes:** is as specified in Sections 2 and 3 of the Housing and Planning Act 2016 and any secondary legislation made under these sections. The definition of a starter home should reflect the meaning set out in statute at the time of plan-preparation or decision-making. Income restrictions should be used to limit a household's eligibility to purchase a starter home to those who have maximum household incomes of £80,000 a year or less (or £90,000 a year or less in Greater London)

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

d) **Other affordable routes to home ownership:** is housing provided for sale that provides a route to ownership for those who could not achieve home ownership through the market. It includes shared ownership, relevant equity loans, other low cost homes for sale and rent to buy (which includes a period of intermediate rent). Where public grant funding is provided, there should be provisions for the homes to remain at an affordable price for future eligible households, or for any receipts to be recycled for alternative affordable housing provision, or refunded to Government or the relevant authority specified in the funding agreement.<sup>13</sup>

Consultation on the draft NPPF is open until 10 May 2018.

The Communities and Local Government Select Committee conducted an inquiry into the Government's proposals on planning policy over 2015-16 and published a report on 1 April 2016.<sup>14</sup> The Committee expressed concern over a broadening of the definition of affordable housing:

Home builders will understandably seek to build the products with the highest return, and we are concerned that the Government's policy should not lead to fewer truly affordable homes to rent being built. There is a finite amount of money available from developers to deliver affordable housing, and the duty placed on councils is likely to mean that building Starter Homes could be prioritised over other types of affordable housing. Local authorities will be under pressure to satisfy their legal obligations, and this could make negotiations with developers extremely difficult and could undermine Local Plans. Starter Homes should

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<sup>13</sup> MHCLG, [National Planning Policy Framework – draft text for consultation](#), 5 March 2018, p62

<sup>14</sup> Communities and Local Government Select Committee, [Department for Communities and Local Government's consultation on national planning policy - Third Report of Session 2015–16](#), HC 703, 1 April 2016

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not be built at the expense of other forms of tenure; **where the need exists, it is vital that homes for affordable rent are built to reflect local needs. The definition of affordable housing should better reflect individual and local circumstances.**<sup>15</sup>

The Government's response, published in February 2017, reflected the changes announced in the Housing White Paper set out above.<sup>16</sup>

### Planning to provide affordable housing

The [draft revised NPPF](#) provides that:

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

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

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

Where major housing development is proposed, planning policies and decisions **should expect at least 10% of the homes to be available for affordable home ownership**<sup>17</sup>, unless this would exceed the level of affordable housing required in the area, or significantly prejudice the ability to meet the identified affordable housing needs of specific groups. Exemptions should also be made where the site or proposed development:

- a) provides solely for Build to Rent homes;
- b) provides specialist accommodation for a group of people with specific needs (such as purpose-built accommodation for the elderly or students);
- c) is proposed to be developed by people who wish to build or commission their own homes; or
- d) is exclusively for affordable housing, an entry level exception site or a rural exception site.<sup>18</sup>

A [consultation paper](#) issued alongside the draft NPPF on reforms to developer contributions to affordable housing and infrastructure, floats the possibility of nationally set and non-negotiable contributions to affordable housing and infrastructure.<sup>19</sup> Any moves in this direction would be subject to further consultation.

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<sup>15</sup> Ibid., pp17-18

<sup>16</sup> [Cm 9418](#), February 2017, paras 32-39.

<sup>17</sup> As part of the overall affordable housing contribution from the site.

<sup>18</sup> MHCLG, [National Planning Policy Framework – draft text for consultation](#), 5 March 2018, pp17-18

<sup>19</sup> MHCLG, [Supporting housing delivery through developer contributions](#), 5 March 2018, para 10

## Alternative measures and definitions

Although the definitions of affordable housing outlined above refer to housing that meets the needs of those who cannot secure accommodation on the open market, there is no attempt to specify a maximum percentage of income/earnings that a household should spend on housing costs. Planning Policy Guidance Note 3: Housing (now repealed and replaced by the NPPF), said that authorities should define what they considered to be affordable in their areas in terms of the relationship between local income levels and house prices or rents for different types of households.<sup>20</sup> There is a view within the housing sector that a failure to set income related affordability targets results in definitions of affordability which are lacking in credibility.<sup>21</sup>

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

### Housing cost to income ratio

The housing cost to income ratio (HCIR) is the proportion of a household's disposable income that is spent on housing. This measure was used by the Resolution Foundation in a 2016 report on affordability.<sup>22</sup>

The report identifies four phases in housing affordability. Between 1995 and 2003, the HCIR measure was broadly stable as incomes and housing costs grew at the same rate. The average HCIR then grew from 17% in 2003 to 22% in 2009 as house prices grew faster than earnings. After the financial crisis, house prices dropped faster than earnings, bringing the HCIR back down to 20% by 2012. The report predicts that the HCIR will remain stable going forward, although at a higher level than in the 1990s.<sup>23</sup>

The report also looks at regional trends in the same period, noting that the North-South divide has grown less pronounced:

...there was a discernible North-South divide [in 1994-95], with London, Eastern England the South West and South East having HCIRs in the range 19 per cent to 21 per cent – some 3 percentage points higher than anywhere else in the country. The North-South gap has subsequently narrowed across most regions, with HCIRs rising much more rapidly in Scotland, the North West, North East and Midlands than in the South East for example [...]

However, the standout region is London. Here, the average HCIR increased by more than 7 percentage points over the period (or just over one-third). As a result the average HCIR reached 28 per cent, leaving it 6 percentage points higher than the area with the next highest ratio and 11 percentage points (or roughly two-thirds) higher than the North East.<sup>24</sup>

The Resolution Foundation notes that the HCIR measure doesn't account for whether residual income after housing costs is enough for a household to live on, or whether a household is making trade-offs to

<sup>20</sup> HL Deb 9 June 2005 cWA99

<sup>21</sup> Duncan Bowie, Senior Lecturer in Spatial Planning and Housing at the University of Westminster, speaking at the Policy Forum for London, 11 October 2016

<sup>22</sup> Resolution Foundation, [The housing headwind](#), June 2016

<sup>23</sup> Ibid., p15

<sup>24</sup> Ibid., pp23-24

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keep costs low (e.g. by choosing overcrowded housing). It also relies on a normative judgement about the proportion of income that should be spent on housing for the housing to count as 'affordable'.<sup>25</sup>

Another disadvantage of the HCIR measure is that reliable income data is not available for small areas. Comparing housing costs with earnings allows for more in-depth geographic comparisons. However, earnings data is an incomplete measure of income, particularly for low-income households. This measure is discussed further in the next section.

Research by Savills, carried out on behalf of the National Housing Federation and the Joseph Rowntree Foundation, [Living Rents – a new development framework for affordable housing](#) (2015) proposes the development of rented homes which would be accessible to a household in employment with rents based on the bottom quarter of local earnings, starting at a level based on 28% of that figure. Theresa May's [Social Reform Cabinet Committee](#) has been urged to consider an approach which links rents with local wage levels.<sup>26</sup>

### **A residual income approach**

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

This residual income approach defines housing as affordable if "a household is able to afford to meet their other basic or essential needs after paying for their housing." The [Minimum Income Standard](#) details the income that different households are believed to need in order to reach a minimum socially acceptable standard of living in the UK.<sup>27</sup>

The analysis presented to the conference showed:

...at least one in five households in the private rented sector has unaffordable housing – which means that they have high housing costs and have insufficient income left over to afford a minimum acceptable standard of living after paying their rent.<sup>28</sup>

### **National Housing and Planning Advice Unit (NHPAU)**

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

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<sup>25</sup> Ibid., p14

<sup>26</sup> *The Guardian*, "May is urged to consider policy of 'living rents' linked to wage levels, 1 September 2016

<sup>27</sup> Work on the MIS programme is conducted by the University of Loughborough with funding from the Joseph Rowntree Foundation.

<sup>28</sup> Lydia Marshall, NatCen, [Defining and measuring housing affordability in the PRS using the minimum income standard](#), August 2016

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

**Can you afford the ongoing costs of owning or renting** – or are the mortgage payments or rent going to eat up too much of your income?<sup>29</sup>

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

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

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

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<sup>29</sup> NHPAU, [Housing Affordability – a fuller picture](#), 2010

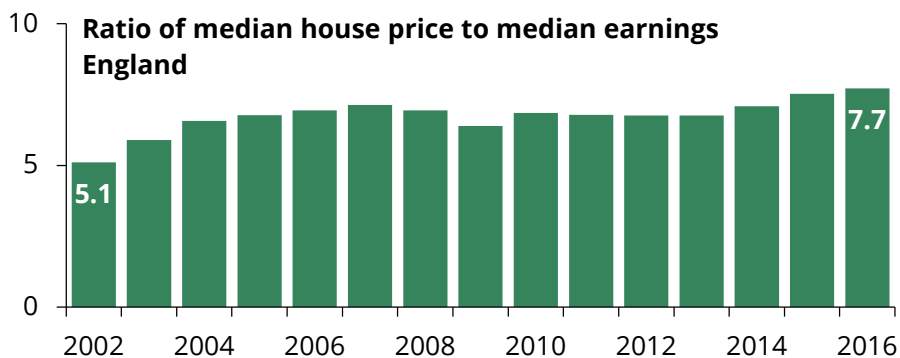
## 2. Affordability by tenure type

### 2.1 Home ownership

#### Income to house price ratios

One way of looking at affordability is to compare individual earnings with house prices. The Office for National Statistics (ONS) tracks affordability in England over time by comparing median and lower-quartile house prices with median and lower-quartile earnings.

As the chart below shows, both ratios have increased since 2002 and are now at their highest recorded level: median house prices are 7.7 times higher than median earnings.



**Notes:** Earnings are based on the before-tax salary of an employee living in England.

**Source:** ONS, [Housing affordability in England and Wales, 1997 to 2016](#), Residence-based earnings dataset.

The map overleaf compares the same ratio for Parliamentary constituencies in England.

There are some issues to note with the earnings measure used here. Self-employed workers are not included, and the measure doesn't include the effect of other income sources (e.g. benefits) or deductions (e.g. tax and national insurance). The measure is for individuals, but many households have multiple earners which affects the accommodation they can afford.

The earnings measure comes from a small sample size at constituency level. This means that the estimate isn't as reliable as national figures. Variation between areas and over time may be due to changes in the sample rather than reflecting real differences.

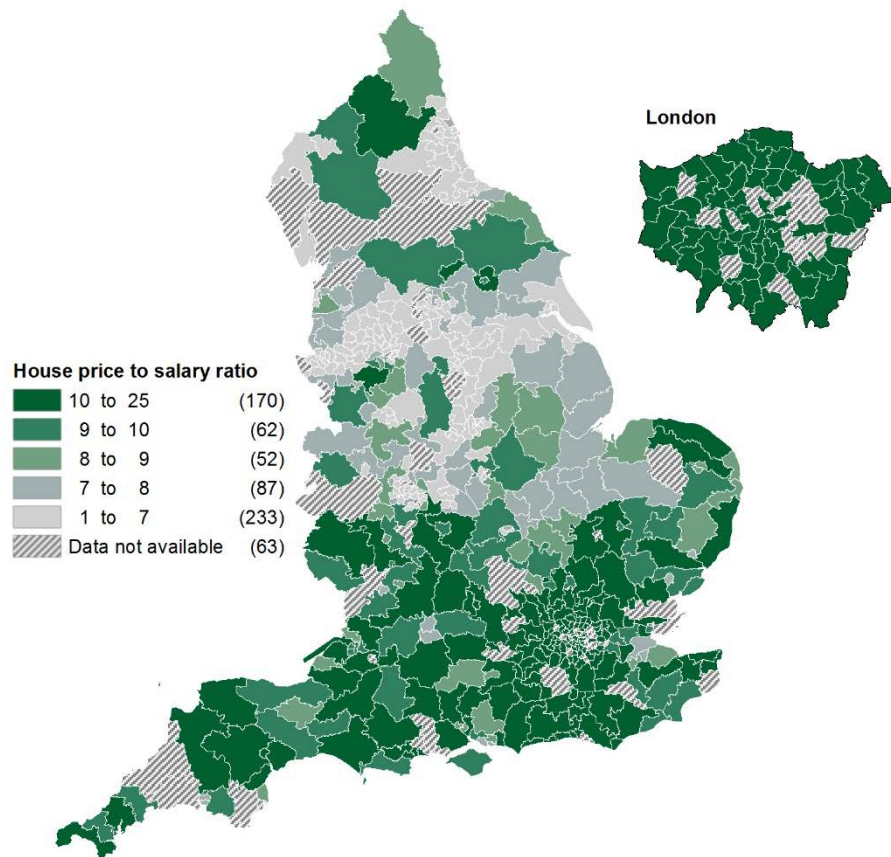
However, the map indicates how affordability varies across the country. The most expensive constituency with data available was Cities of London and Westminster, where median house prices were 24.5 times the median salary. All of the constituencies with house prices more than sixteen times the median salary were in Greater London.

The lowest ratio was in Easington, in the North East, where median house prices were 3.7 times the median salary.



## Ratio of median house prices to median gross annual salary<sup>30</sup>

Parliamentary constituencies in England, April 2016



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## Affordability for buyers: lending multiples

The UK Finance (UKF) produce data on income multiples for new mortgage lending: the ratio of the average house price to the average total recorded income of borrowers.<sup>31</sup> The ratio tracks changes in affordability for home-owning households and first-time buyers.

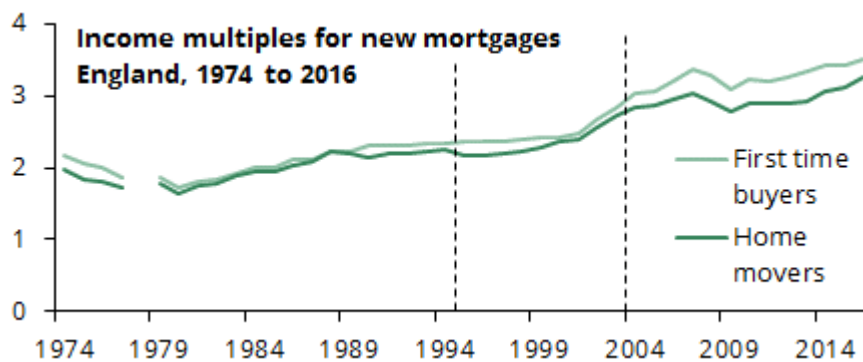
Income multiples in England have grown since the 1970s (see chart below). Following an early period of decline (down to 1.7 for both first-time buyers and home movers in 1980), income multiples were relatively stable in the 1980s and 1990s. The early 2000s saw a period of steeper increase before dropping off slightly after 2008. Income multiples for 2016 were at their highest recorded level: 3.5 for first-time buyers and 3.3 for home movers.

<sup>30</sup> Sources: Earnings data from the Annual Survey of Hours and Earnings (ASHE) – median gross annual salary for all employees resident in the constituency, April 2016. House price data from ONS, [House price statistics for small areas dataset 9, table 4a](#), prices at end of April 2016.

House of Commons Library calculations based on the methodology used by the ONS for local authority data in [Housing summary measures analysis](#).

<sup>31</sup> UK Finance is a trade association for financial services firms. It was created in July 2017 from several other associations, including the Council of Mortgage Lenders which used to produce these statistics.

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**Notes:** There were changes in methodology in 1995 and 2004.

**Source:** UK Finance, Industry Data Tables ML2 and ML3

Shelter published an analysis of [Housing affordability for first time buyers](#) in March 2015. This compared changes in affordability for first-time buyers between 1969 and 2013 and highlighted the fact that income was failing to keep pace with house price increases:

- Since 1969 house prices for first time buyers have increased by 48 times.
- In comparison income has only grown by 29 times.
- In 1969 the average first time buyer house price was £4,136. By 2013 this had grown to £198,039. Over the same period first time buyers' incomes have grown from £1,624 to £47,574.
- This trend can be seen across England but London is the most extreme example. House prices are 59 times higher while incomes are only 34 times higher.
- If house prices and income had increased at the same rate the average first time buyer would be paying £76,873 less than they are spending. On average, first-time buyers would be spending 30-40% less to own their home. <sup>32</sup>

This trend is only expected to continue with house prices expected to grow at a faster rate than incomes, increasing by 28.4% by the first quarter of 2021. When compared with 2007 (pre-crisis peak) real house prices are expected to be 11.2 percent higher by the end of the forecast period.<sup>33</sup>

To better understand the current state of affordability, Shelter analysed the asking price for properties listed for sale on a property search website on a single day in March 2015. The results showed that, in reality, few were affordable:

- For families earning the median income of £30,748 only 42,185 homes (16.9%) were affordable.
- For single people only 7.5% of the market was priced affordably.
- For couples without children, 32.3% of homes listed were at an affordable price.

<sup>32</sup> [Housing affordability for first time buyers](#), Shelter, March 2015, Summary

<sup>33</sup> [Treasury Select Committee, Spending Review and Autumn Statement 2015](#), HC 638, 12 February 2016, para 91

## Affordability of Starter Homes

Starter Homes are new-build homes sold at a minimum of 20% off the market price. Sales prices are capped at £250,000 (£450,000 in London).

Analysis by Shelter (2015) looked at three typical households (earning a range of salaries) in local authorities within England to assess whether they are likely to be able to afford to buy a Starter Home. The research assumed the cost of a starter home would be 80% of the median house price in the area. It concluded that:

- Starter Homes for families earning average wages will be unaffordable in over half (58%) of local authorities across the country in 2020.
- Families on the National Living Wage will only be able to afford a Starter Home in 2% of local authorities.
- Single people on low or average wages will struggle to afford a Starter Home in 2020 in the majority of local authorities. Even those on a higher than average salary would be restricted from affording to buy in three quarters of local authorities.<sup>34</sup>

According to Shelter, Starter Homes would be unaffordable for average working families across all of London and most of the South of England, the areas where housing is most unaffordable. Those on very high salaries, or couples without children, would benefit from the policy, but Starter Homes would not help the majority of people on average wages (they would not currently be affordable to most families on low and middle incomes). Shelter concluded that Starter Homes should be built in addition to and not in place of existing affordable housing.<sup>35</sup>

The then Minister for Housing and Planning, Brandon Lewis, dismissed Shelter's research, arguing that it was based on median prices in each local authority while the Government expected first-time buyers to join the market at below the average house price for the local area:

The average market price for homes bought by first-time buyers in 2014 was £173,000 in England, excluding London. That compares with an average house price for England last year of £243,000. In London, first-time buyers paid £364,000 on average compared with an average house price for London of £470,000...

If they were to buy in the lower quartile of the first-time buyer market, outside of London, up to 64% of households currently renting privately would be able to secure a mortgage on a typical starter home, compared with just 50% who could buy a similar property now at full market value.

Within London, up to 55% of households currently renting privately would be able to secure a mortgage on a starter home in the lower quartile of the first-time buyer market, compared with 43% who could buy a similar property now priced at full market value.<sup>36</sup>

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<sup>34</sup> Shelter, [Starter Homes: Will they be affordable?](#), August 2015, Summary

<sup>35</sup> Ibid., Conclusion

<sup>36</sup> [PCB 19 November 2015 cc165-6](#)

## 18 What is affordable housing?

As section 1 of this paper explains, the Government has decided that planning authorities should apply income restrictions to Starter Home applicants.

The Government's commitment to increase housing supply has been widely welcomed. However, concerns have been expressed by a variety of organisations about Starter Homes including the importance of providing a mix of housing tenures for people on lower incomes, the potential reduction in the delivery of other types of affordable housing and the impact of Starter Homes on local housing markets.<sup>37</sup> The Local Government Association predicted that for every 100 starter homes built through section 106 agreements, between 56 and 71 affordable or social rented homes will not be built.<sup>38</sup>

Brandon Lewis emphasised that the Government still expected a mix of types of affordable housing to be delivered:

We are very clear that we think an affordable home does not need to be limited to a home that is to rent. It is as important to have affordable homes to purchase, and we are very consciously making that statement to people: that we will make sure homes are affordable for purchase as well as rent. I think we will see a good mix coming through, because the way housing developments have worked, particularly when you get to the larger scale sites, there is a very good track record and history of joint working between housing associations, particularly, and the larger developers.<sup>39</sup>

Ministers rejected the charge that they were solely focusing on home ownership and reiterated that they were helping people to access homes in a number of ways. Local authorities are still expected to provide other forms of affordable housing, such as home for social rent, and should be exploring options with developers to ensure they are delivering housing of all tenures.<sup>40</sup>

### Affordability of shared ownership

Shared ownership is a product that lets buyers purchase a share of a property (25% to 75%) and pay rent on the remaining share. It is intended as an intermediate tenancy for households which would not otherwise be able to afford home ownership.

Shared ownership has been identified by some sources as one of the more affordable housing options available. For example, a 2013 Resolution Foundation report<sup>41</sup> found that shared ownership is more affordable than private rent or full ownership for many households, assuming that the household spends 35% of its income on housing costs. For example, a couple with one child and £19,000 per year in income could afford shared ownership in 78% of local authorities,

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<sup>37</sup> [Starter Homes for First-Time Buyers \(England\)](#), Commons Library Research Paper 07643, 5 July 2016, Summary

<sup>38</sup> *Ibid.*, para 7.4

<sup>39</sup> House of Commons Communities and Local Government Committee, [Housing and Planning Bill one-off evidence session](#), HC 529, 12 November 2015, Question 1

<sup>40</sup> [HL Deb 3 March 2016 c954](#)

<sup>41</sup> Resolution Foundation, [One foot on the ladder: How shared ownership can bring owning a home into reach](#), November 2013

compared with 38% of local authorities if privately renting and 27% if owning with a mortgage.

However, other reports suggest that shared ownership is growing less affordable. A 2015 report by Viridian Housing, a housing association, analysed data from the DCLG.<sup>42</sup> They found that the average income of a shared ownership buyer has increased from around £26,000 in 2003 to around £35,500 in 2014. Buyers also became less likely to have social housing as their previous tenure – 13% were in this group in 2003 compared with 5% in 2014.

Shared ownership buyers can progressively buy more of their property until they 'staircase' to owning 100% of the equity. In a given year, a small proportion of shared owners will staircase to 100%.

The chart on the right shows the proportion who staircased in each year as a proportion of all shared ownership households. In 2014-15, the number who staircased represented 3.1% of all shared owners – a smaller proportion than at the start of the 2000s, but an upward trend from a low point of 0.9% in 2008-09.

**Staircasing to 100% as a proportion of all shared owners**



Source: Savills, *Spotlight: Shared Ownership, April 2016*, Figure 1

## 2.2 Renting and affordability

### The private rented sector

The decline in the affordability of home ownership together with pressure on the social rented sector has prompted a growth in the private rented sector. Private renting is at its highest rate in over thirty years: 20% of English households are private renters (around 4.5 million households).<sup>43</sup> The Office for Budget Responsibility (OBR) assumes that this trend will continue.<sup>44</sup> The Office for National Statistics (ONS) private housing rental index indicates that private rents grew by 1.6% over the year to September 2017 in Great Britain.<sup>45</sup>

### Income to rent ratios

The ONS have compared median private rents with individual salary data as a way of comparing affordability in local authorities across England (see map below).

Across much of England, median rents are around 30-40% of median monthly earnings. However, the proportion can be considerably higher, particularly in London and parts of the South East. The 15 areas with the highest proportions were in Greater London (the highest was in Westminster at 73%).

<sup>42</sup> Viridian Housing, [A fair share? Understanding residents' experiences of shared ownership](#), September 2015

<sup>43</sup> DCLG, [English Housing Survey Headline Report, 2015-16](#)

<sup>44</sup> [Treasury Select Committee, Spending Review and Autumn Statement 2015](#), HC 638, 12 February 2016, para 92

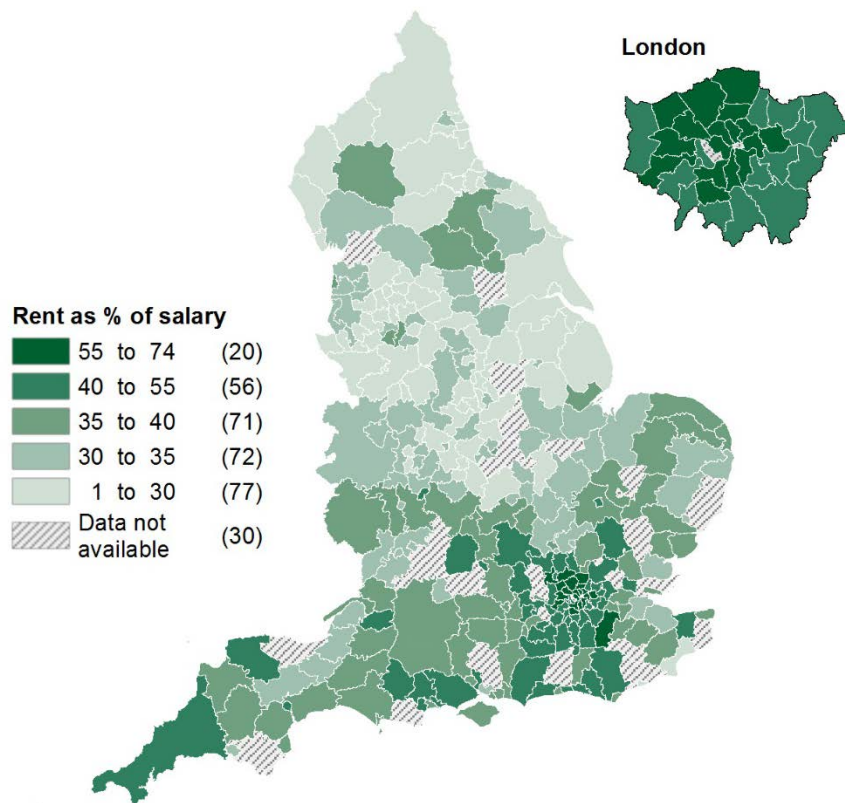
<sup>45</sup> Office for National Statistics, [Index of private housing rental prices in Great Britain](#), September 2017

## 20 What is affordable housing?

There were 71 areas with rents of less than 30% of median earnings, mainly concentrated in the North and Midlands. The 'most affordable' area by this measure was Copeland (19%).

### Median private monthly rents as a proportion of gross monthly salary<sup>46</sup>

Local authorities in England, 2015



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

<sup>46</sup> Source: Office for National Statistics, [Housing summary measures analysis](#) dataset



## Affordability in the social rented sector

Using rents data released by the DCLG (now the MHCLG) and the Homes & Communities Agency (now Homes England), it is possible to investigate affordability in the social rented sector at the regional level.

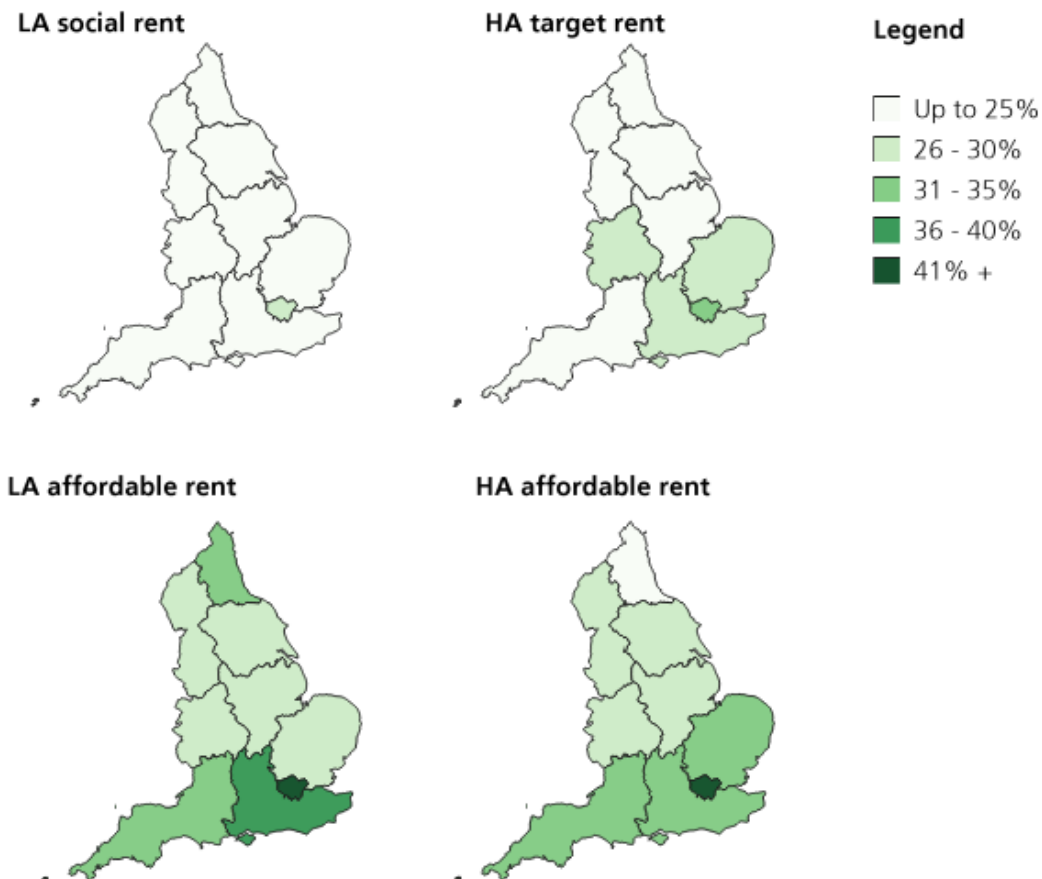
The analyses for owner-occupiers and private renters above use earnings data to measure affordability. This measure does not account for the effect of benefits income. When looking at the social rented sector, it is more useful to look at household incomes after taxes and benefits, even though less geographical detail is available.

The maps below and table overleaf compare the affordability of social sector properties at social and affordable rents. They look at the median income of local-authority (LA) and housing-association (HA) tenants, compared to average social and affordable rents in each sector.

Social rents and their HA equivalent ('target' rents) tend to be more affordable, although less so in London and some other parts of the south. Average affordable rents were more than 40% of median incomes in London for both tenure groups.

This analysis uses median incomes for each tenure group, which means it doesn't account for any income differences that might exist for tenants on affordable compared to social/target rents.

### Mean weekly rents as a proportion of median weekly household income, by housing tenure



### Mean weekly rents as a proportion of median weekly disposable household income, by tenure

	Median income	Mean social rent	Mean affordable rent	Social rent as % of income	Affordable rent as % of income
<b>Local authorities</b>					
North East	£336	£76	£118	23%	35%
North West	£338	£75	£100	22%	30%
Yorks & the Humber	£337	£75	£91	22%	27%
East Midlands	£347	£76	£95	22%	27%
West Midlands	£337	£81	£101	24%	30%
East of England	£366	£92	£94	25%	26%
London	£368	£108	£162	29%	44%
South East	£372	£92	£143	25%	39%
South West	£361	£82	£111	23%	31%
	Median income	Mean target rent	Mean affordable rent	Target rent as % of income	Affordable rent as % of income
<b>Housing associations</b>					
North East	£351	£81	£83	23%	24%
North West	£349	£84	£100	24%	29%
Yorks & the Humber	£344	£83	£91	24%	26%
East Midlands	£350	£89	£95	25%	27%
West Midlands	£340	£90	£95	27%	28%
East of England	£379	£101	£127	27%	33%
London	£385	£127	£173	33%	45%
South East	£388	£109	£137	28%	35%
South West	£368	£92	£115	25%	31%

#### Sources

Income: Department for Work and Pensions. (2017). Households Below Average Income, 1994/95-2015/16. [data collection]. 10th Edition. UK Data Service. SN: 5828, <http://doi.org/10.5255/UKDA-SN-5828-8>

Local authority rents: DCLG, [Local authority housing statistics data returns 2015/16](#), Sections A and H

Housing association rents: Homes & Communities Agency, [Statistical data return 2015/16](#), Data release.

#### Notes

Median incomes are for households living in local-authority or housing-association homes, regardless of their rent type. They are based on a three-year average for 2013/14 to 2015/16 expressed in 2015/16 prices. Figures are based on three years of data to improve their reliability. They are however still subject to some survey sampling uncertainty.

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

Incomes are disposable - measured after taxes and benefits. They are however measured before housing costs have been deducted.

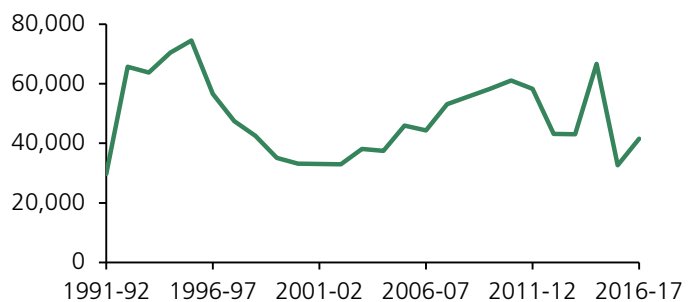
Analysis is based on rounded data – this may mean that the results are a little different to any equivalent figures published by the Government.

## 3. The supply of affordable housing

### 3.1 An overview

The definition of affordable homes for planning purposes as set out in the NPPF and explained in section 1 of this paper, currently covers homes let at social, affordable and intermediate rents and affordable home ownership homes. The chart on the right shows trends in the number of new homes in these categories supplied since 1991-92 (including new builds and acquisitions).

**Additional affordable homes provided**  
England, 1991-92 to 2016-17



Source: DCLG, Live Table 1000

New supply of affordable homes peaked in 1995-96 at 74,530 before declining to a low of 32,920 in 2002-03. Delivery increased again up until 2010-11, followed by a decline. 2014-15 saw a 55% increase in delivery as the 2011-15 Affordable Homes Programme ended. In 2015-16 there was a 51% decrease in delivery. In 2016-17, 41,530 homes were delivered.

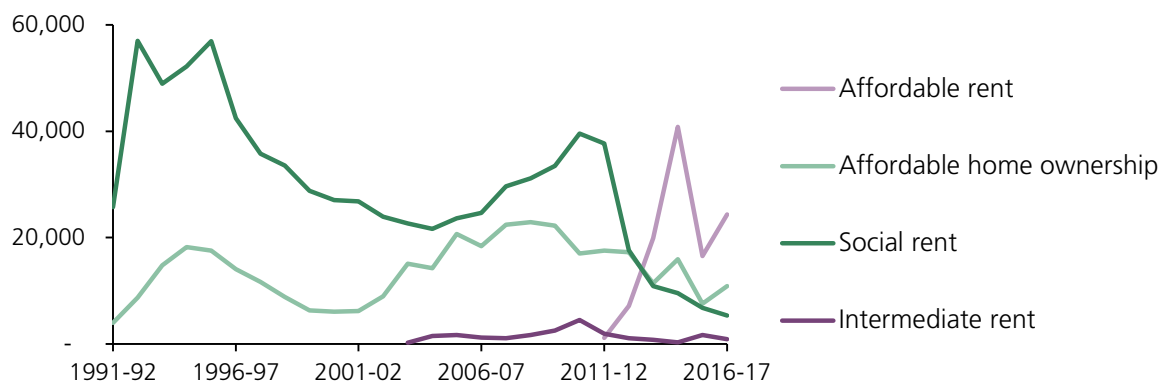
The chart overleaf shows trends in the number of new affordable homes of each type provided. Definitions of the different types are as follows:

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

In the chart overleaf, shared ownership homes are counted as part of affordable home ownership. In 2016-17, 8,810 shared ownership units were delivered out of 10,870 affordable home ownership units overall.

### Additional affordable homes provided by type

England, 1991-92 to 2015-16



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

## 3.2 The demise of social rented housing?

Historically, homes for social rent and affordable home ownership have been the main source of new affordable homes. However, the number of homes let at affordable rents (which can be up to 80% of market rents) initially increased rapidly after their introduction in 2011-12. Delivery of affordable rent homes peaked in 2014-15, when they made up 61% of the total new supply. The number of new affordable homes declined sharply in 2015-16, but in 2016-17 still made up 59% of new supply.

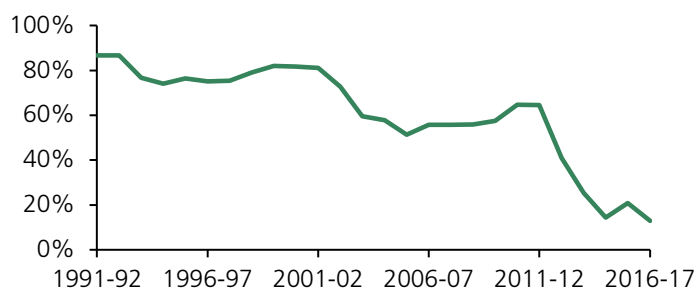
The introduction of affordable rents has coincided with a decline in the number of new homes for social rent (see chart, right).

For the decade 2002-2012 social rented housing stock had been stable at around 4 million homes but in recent years has begun to decline, the number of social rented homes fell by more than 2% (a loss of 95,755 dwellings) between 2012 and 2015.<sup>47</sup> These pressures on social rented housing look set to continue as the Government prioritises increasing home ownership and helping those who have the potential to buy through a variety of schemes (Starter Homes, Right to Buy extended to housing association tenants, Help to Buy: Equity loan scheme, London Help to Buy scheme and Help to Buy ISA).

The supply of social rented homes is under pressure due to a number of factors, including:

- Higher levels of Right to Buy sales following the introduction of increased discounts in 2012. There is no requirement to replace these homes on a like-for-like basis.

### New homes for social rent as a proportion of total affordable housing supply England, 1991-92 to 2016-17



Source: DCLG, Live Table 1000

<sup>47</sup> Steve Wilcox, John Perry, Mark Stephens and Peter Williams, UK Housing Review 2016 Briefing Paper, 30 June 2016, p12

- The switch of new-build output under the Affordable Homes Programme towards affordable rent lettings.
- The conversion of social rented homes to affordable rents when re-let. By April 2015 76,259 conversions had taken place.<sup>48</sup>
- Demolitions are running at around 3,000 per year.<sup>49</sup>
- The requirement on local authorities and housing associations to reduce rents by 1% every year from April 2016 up to 2020<sup>50</sup> is reducing landlords' investment capacity.
- The 'voluntary' extension of the Right to Buy to assured housing association tenants. No implementation date has been announced yet.
- The requirement on local authorities to sell 'higher value stock' in order to compensate housing associations for selling their housing assets at a discount under the extended Right to Buy.<sup>51</sup>
- The replacement of higher value homes sold by local authorities, and also those sold under the extended Right to Buy for housing association tenants, is promised but provision is unlikely to be at social rents.

The Office for Budget Responsibility predicted that the number of Housing Associations new builds would reduce by 80,000 over the forecast period (from 220,000 to 140,000).<sup>52</sup>

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<sup>48</sup> Steve Wilcox, John Perry, Mark Stephens and Peter Williams, UK Housing Review 2016 Briefing Paper, 30 June 2016, p12

<sup>49</sup> Ibid.

<sup>50</sup> The relevant provisions are contained in the *Welfare Reform and Work Act 2016*.

<sup>51</sup> This policy is still under development.

<sup>52</sup> [Office for Budget Responsibility, Economic and Fiscal Outlook – November 2015](#), Cm 9153, Para B.45

## 4. The role of Housing Benefit

Housing Benefit is a personal subsidy which enables non-working households and those on a low income to pay for rented accommodation. When the *Housing Act 1988* deregulated<sup>53</sup> private sector rents for new tenancies created after 15 January 1989, a likely outcome was identified as an increase in expenditure on Housing Benefit. The then Minister for Housing, Sir George Young, responded to concerns saying that Housing Benefit ‘would take the strain’:

**Sir George Young:** I do not accept the premise on which the hon. Gentleman based his question. Housing benefit will underpin market rents-- we have made that absolutely clear. If people cannot afford to pay that market rent, housing benefit will take the strain.<sup>54</sup>

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

The key changes include:

- Since April 2011, Local Housing Allowance rates (Housing Benefit for claimants living in the private rented sector) have been calculated with reference to the 30<sup>th</sup> percentile of market rents within a Broad Market Rental Area. Prior to this date LHA rates were based on median rent levels. National LHA caps were introduced at the same time.
- The uprating of LHA rates has been subject to restrictions since 2012. LHA rates are currently frozen for four years from April 2016 with some exceptions for the most expensive areas.
- The Shared Accommodation Rate, which limited Housing Benefit for single people aged under 25 to the LHA rate for a room in a shared house or flat, was extended to the under 35s from January 2012.
- Since April 2013 under-occupying households of non-working age in social rented housing have experienced a reduction in Housing Benefit entitlement.
- From September 2013, total household benefit entitlement was capped at £500 per week for a family and £350 for a single person (exemptions apply in some cases). Households with benefit entitlement above these levels experienced a reduction in their Housing Benefit entitlement. The caps were reduced from 7 November 2016 to £20,000 per year outside of London and £23,000 within London for a family (a lower cap applies to single people).

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<sup>53</sup> Removed rent controls.

<sup>54</sup> HC Deb 30 January 1991 cc939-40



- Since April 2017, those out of work aged 18 to 21 making new Universal Credit claims, with some exceptions, are no longer automatically entitled to the housing element.

Commentators have argued that the freezing of LHA rates is making access to private rented housing, particularly in London, increasingly unaffordable for people on a low income:

- In nearly 70% of England LHA rates have fallen behind actual rates. This means families are having to make up the difference themselves or are competing for the smaller number of properties at the bottom of the market that are covered by LHA.
- The freeze will only worsen the situation. Shelter's modelling suggests that after two years nearly all of the country will be unaffordable. The bottom third of the market will be affordable in just 20 local authorities.
- Cuts will become deeper as rents continue to rise whilst benefits remain frozen. Shelter consider an area to have become very unaffordable when LHA rates fall below the 10th percentile. By 2019 60 local authorities will be at this position. This will limit access to most of London, Manchester and large parts of the Home Counties for those that need support.<sup>55</sup>

Commons Library briefing paper 05638, [Housing Benefit measures announced since 2010](#), contains a detailed assessment of Housing Benefit measures and some modelling of the impact of these changes on Housing Benefit claimants, particularly the freezing of LHA rates.

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<sup>55</sup> Kate Webb, [Shelter policy blog](#), 9 July 2015

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