

General election 2017:

The case for living rent homes

1. INTRODUCTION

There is consensus across all parties that England's housing market is broken. For too many people, this is frustrating their understandable desire for somewhere decent, secure and affordable to live. Rising rents and house prices have made it harder for people to achieve their most basic needs and expectations.

This is particularly true for a growing group of people trapped in the private rented sector. As an advice provider, Shelter sees the impact in our services every day: families working but unable to afford the rent, forced to move at short notice and in the worst cases becoming homeless as a result.

New research from Shelter has identified 1.3 million hard pressed renters who are unable to meet their basic costs after paying the rent each month. The majority are working households but part of the growing army of those in low paid, part-time or insecure work. They are bus drivers, cleaners, teaching assistants or shop workers.

They are the forgotten middle of our housing market: not earning enough to be able to afford home ownership, or schemes like shared ownership or Help to Buy, but unlikely to qualify for the ever dwindling supply of social housing.

At the moment these hard pressed private renters are getting by, but only just – scraping money together in order to make ends meet; paying rent by dipping into what little savings they have or borrowing money. Working to pay the rent rather than to live.

This is a problem that has been many decades in the making and political rhetoric has been slow to reflect the huge shifts in the way in which people are living. Young working families are not worried about paying the mortgage and the threat of rising interest rates. They are worried about scraping by each month to pay the rent, and the threat that their landlord may choose to sell up at short notice. They

are worried that saving is impossible, regardless of interest rates or government-backed ISAs, because renting absorbs too much of their income.

The general election provides the opportunity for the bold steps needed to change this. Shelter is calling on the next government to fund the building of a new generation of homes at 'living rents'. Genuinely affordable rents would allow people to live a decent life, not just manage each month. Rents would be based on what local people on lower earnings could actually afford to pay, equating to around a third of a typical tenant's salary, with secure ten-year contracts.

A new generation of half a million living rent homes would be a lifeline for hard pressed private renters, giving them a sense of hope for the future and breathing space for today. Low rents would enable them to cover their bills more easily, while also helping them build up savings. If they build up enough savings, or their incomes increase, they would be able to buy the home or use it as a springboard to buy elsewhere.

This group of hard pressed private renters make up about 15% of the government's 'just about managing' group, and are among those struggling the most in that demographic. If the government is serious about helping those in work but who are struggling to make ends meet, they must deliver on this idea.

2. THE PRIVATE RENTED SECTOR IS NOT WORKING FOR FAMILIES

The number of households living in the private rented sector has exploded: one in four families are now raising children in a private rented home, compared to just one in ten a decade previously.¹ For many households, private renting is the tenure of last resort rather than the tenure of choice. Younger generations have been priced out of homeownership, with the result that the proportion of households who own their own home is at its lowest level for 30 years.²

At the same time social housing no longer offers a viable alternative for households unable to buy, due to the failure of successive governments to invest in new development. In the mid-1980s nearly three-quarters of non-home owners lived in a social home. Today that proportion has fallen to less than half.

The private rented sector is increasingly unable to meet people's basic needs and expectations. Shelter's Living Home Standard is the British public's definition of what makes a good home, covering measures such as decent conditions, affordability and security. Private renters were most likely to fall short: only three in ten private renters could claim to meet the Living Home Standard.³

- Half of private renters could not afford their housing costs
- A quarter did not feel they had a stable home
- Nearly three in ten did not meet the benchmark for decent conditions

Financial strain

Shelter analysed the government's Family Resources Survey to more fully understand the struggles facing private renters. This revealed that 1.3 million working-age private renting households are left with incomes below the minimum income standard after housing costs. This equates to one in ten of all households.⁴ This means that after paying their rent they will struggle to afford a decent standard of living and will be only just managing to get by each month. Polling for Shelter found that one in three low earning private renters have had to borrow money to pay the rent in the past year.⁵

High housing costs are also reducing their financial resilience: 800,000 'just managing' private renters were unable to save even £10 a month. Over two-thirds of private renters unable to afford shared ownership have no savings, leaving them vulnerable to financial shocks and unlikely to access homeownership in the short to medium term.⁶

The majority of such hard pressed renters are in work. They are suffering from a combination of low earnings and high rents. The median income of a private renting household unable to meet the minimum income standard after paying housing costs is £16,000 a year in England.⁷ In London and the South East this rises to £22,000, reflecting higher housing costs. This compares to average rents across England of £7,965 pa (rising to £15,600 in London).⁸

1. DCLG, English Housing Survey 2015/16, headline report, 2017

2. Ibid

3. Shelter, Living Home Standard, 2016

4. Based on analysis of Family Resources Survey 2014/15

5. You Gov for Shelter. Sample size of 2208 18+ GB private renters, telephone interview conducted April 2017

6. Ibid

7. Shelter analysis of Family Resources 2014/15

8. DCLG, English Housing Survey 2015/16, headline report, 2017

Unstable futures

Unaffordable rents are compounded by a lack of stability. The majority of private tenants are on 6 to 12-month assured shorthold tenancies and can be asked to leave by their landlord for any or no reason. This is despite many needing long-term accommodation in the tenure.

Repeated moves are also detrimental to families. Just over a quarter of renters with children have moved three or more

times in the past five years.⁹ This can cause financial strain for the household as well as the knock-on effects to children's education and well-being. And all families on short contracts will live against the backdrop of insecurity and an uncertain future. The rapid growth in households dependent on short-term tenancies has contributed to the steep rise in homelessness. The loss of an assured shorthold tenancy is now the single leading trigger of homelessness.¹⁰

Why we need living rent homes

Help the forgotten millions of hard-pressed renters



1.3m renting households struggle to make ends meet after paying rent



One in three low earning renters have had to borrow money to pay the rent over the last 12 months.

Hard-pressed renters need to know that the next government is on their side.

Build a new generation of living rent homes



500,000 genuinely affordable homes



Let at living rents based on what people can afford, not on runaway market rates



10 year tenancies giving renters stability and the chance to put down roots

Registered charity in England (and Wales) 603170 and in Scotland (SC020287) OBR 1655

shelter.org.uk

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9. Shelter, The need for stable renting in England, 2016

10. DCLG, Live tables on homelessness, July to September 2016

3. THE PROSPECTS FOR CHANGE

For the growing number of households trapped between unaffordable homeownership and dwindling supplies of social housing, there is little prospect of escape. This is despite welcome recent efforts by the government to acknowledge that the housing market is broken and in need of reform.

Barriers to homeownership

Homeownership remains grossly unaffordable across much of the country. A household on an income of £16,000 would be able to borrow a maximum of £72,000 and would likely be restricted to considerably less when unearned income such as tax credits and child benefit is taken into account. This compares to the average UK house price of £217,502.¹¹

The government has recognised the fall in first time buyers and has put a number of initiatives in place to boost home ownership. However, these are unlikely to benefit hard pressed renters.

- The Lifetime ISA pays a bonus of 25% on savings, up to a maximum of £4,000. However, as seen above, half of low to middle income renters are unable to save even £10 a month.
- The Help to Buy equity loan scheme benefits households with a small deposit. However, analysis by Shelter found that new build Help to Buy homes were unaffordable to working renting households in 83% of England.
- Shared ownership is increasingly out of reach to hard pressed renters, even though they only have to purchase a share of a home. Shelter analysis found that 1.5 million private renting households under 55 years old are unable to afford shared ownership on their incomes.¹²

Lack of social housing

Traditionally it has been assumed that social housing will provide an affordable and secure home for those priced out by the market. However, this is no longer the case. Decades of under investment mean that social housing is now tightly rationed to households in the highest need. Despite moves by some local authorities to afford higher priority to working households, overall shortages mean the majority of just managing lower earning renters are unlikely to secure a social tenancy.

Shelter analysed the number of trapped private renters and the number of new general needs social tenancies becoming available each year. This found a shortfall of 700,000 social homes over a five-year period, even assuming that all new tenancies went to hard pressed renters.¹³ This is itself a hugely optimistic projection, as hard pressed renters compete with other groups in need of social housing and would be joining a waiting list 1.2 million households strong.

Since 2011, government investment in new affordable rented homes has switched to Affordable Rent. This is a form of tenure whereby the government provides a reduced grant subsidy compared to social rent, compensated for by housing associations being able to charge up to 80% of local market rents.

This approach suffers from a major shortcoming, in that affordable rents are not affordable to people on lower incomes because of the link to high market rents. The problem is most acute for families with children, who require larger properties. Two-thirds of the country is unaffordable to families requiring a two-bedroom property. Affordable rent is unaffordable to families in the vast majority of areas in the south.¹⁴

11. Land Registry data for February 2017

12. Family Resources Survey 2014/15

13. Based on CORE 2014/15

14. Shelter analysis of Private rental market summary statistics, England, 2014-15, Valuation Office Agency

The next government needs to provide an alternative

Hard pressed renters need a viable alternative. Homeownership, even shared ownership, is unaffordable in our dysfunctional housing market and if social housing is not forthcoming other solutions are needed.

The current government has acknowledged that the housing market is broken, a welcome and overdue judgement which should pave the way for long-term reform. However, progress is slow - as it has been for decades - and as yet government plans are not on track to produce the 250,000 homes England needs each year. The current government has rightly recognised the scale of new supply needed, but while ambition for overall supply is important, there has been a lack of focus on making homes cheaper. Without a sharp correction in house prices there is little prospect of the long-term

decline in home ownership being reversed.

All political parties have now recognised the growth in the private rented sector and there have been welcome improvements for private renters, most notably to improve conditions at the bottom end of the market. However, the legal default for tenancies remains just six months' security of tenure and no party has proposed a credible path to improving affordability. Indeed, the freeze to Local Housing Allowance until 2020 will worsen affordability for low income private renters, including those in work.

The next government needs to rise to the challenge and provide England's 1.3 million hard pressed renters with living rent homes to provide genuinely affordable, secure and decent housing. Previous governments' attempts to downplay their responsibility towards England's housing pressures has led to an affordability crisis underpinning the £25 billion housing benefit bill and rising homelessness.

4. LIVING RENT HOMES FOR HARD PRESSED PRIVATE RENTERS

The next government should commit to an ambitious target of building half a million living rent homes over the next parliament. This would meet the needs of a large proportion of private renters who are unable to afford shared ownership and unlikely to secure a social tenancy.

A new generation of homes at living rents has the potential to lift renters' living standards and offer them greater stability. For some this will be a spring board to ownership, including shared ownership. Others will make their home in the tenure for the long-term.

It would help meet the overall target of 250,000 new homes a year, without compromising market delivery of homes and by leveraging community support for affordable and well-designed homes that meet a tangible local need.

Genuinely affordable living rents

Rents set by our broken housing market are unaffordable for low income renters. Living rents provide a mechanism to correct this. Just as the living wage is calculated to acknowledge living costs, living rents would be calculated to acknowledge what renters can actually afford to pay. The concept has attracted growing interest from across the political

spectrum, including from the Joseph Rowntree Foundation, the Conservative think tank Renewal, and the Mayor of London.

Shelter proposes that a living rent for low earning renters would be set with at a level which is affordable to low income households. To achieve this rents should be benchmarked to the 30th percentile of local earnings: a genuinely affordable rent would be set at a third of this level, meaning that a typical low income household would pay around a third of their income on rent.

This would reduce households' exposure to debt and arrears, and lower demand for housing benefit, offsetting some of the investment costs and mitigating the adverse impacts of means-testing for individuals.

More security

Institutional landlords would be able to offer long-term stable rental contracts, ending the reliance on short-term tenancies. Shelter recommends ten-year tenancies to provide long-term security for those raising families, as well as a reasonable period in which someone may attempt to increase their earnings or savings in order to access homeownership.

Working with the next government fix the broken housing market

Hard pressed renters are being badly let down by the current broken housing market. The next government urgently needs to commit to building 500,000 living rent homes to give a hand-up to working renters. Genuinely affordable living rents backed by long-term security would boost living standards to give renters breathing space for today, and hope for the future.

Shelter will publish a full report setting out the case for living rent homes in the autumn. We look forward to working with the next government to explore how these can be delivered. Achieving genuinely affordable rents will require government investment - we need to face up to the fact that there is simply no cost-free way to help low income renters to afford a decent, secure place to live.

Delivery of these homes could be facilitated via Shelter's New Civic Housebuilding model, which offers a way forward for building homes that are more affordable and higher quality through reducing the cost of land and ensuring it is invested for the long term benefit of communities. Here we have an opportunity to build homes – including living rent homes – for those let down by existing market and social provision, ensuring that new development works for all.

Shelter helps millions of people every year struggling with bad housing or homelessness through our advice, support and legal services. And we campaign to make sure that, one day, no one will have to turn to us for help.

We're here so no one has to fight bad housing or homelessness on their own.

Please support us at shelter.org.uk

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