The cost of unaffordable rents in the private rental sector

The private rental sector (PRS) is the least affordable tenure in England; causing financial pressure on some of the households it houses. Presently, households in the PRS spend, on average, 41% of their income on rents, whereas owner occupiers spend 18% of their income on mortgage payments[1]. If a household is spending more than 30% of its gross income on housing costs, then their housing is generally considered to be unaffordable[2]. In this analysis we use this measure to estimate the total expenditure above this affordability benchmark by tenants in the PRS.

Data and Methodology

We have used data on rents and housing expenditure from the English Housing Survey (EHS) – an annual report on the state of housing across the country.

The survey data reports household incomes in a number of ways; for consistency we use the head of the household and partner's income[3], plus any income from benefits or savings. This value is then used to derive a benchmark for an affordable level of rent. For example, if a household's total weekly income is £250 then their *affordable rent* level would be £75. For rents we use the reported rental value (plus service charges)[4].

Using our derived benchmark of affordability, we can determine which households are spending in excess of this benchmark, and by how much. If rents are lower than the benchmark, a household is classed as living in affordable accommodation. If rents are higher than the benchmark, then this will be classed as an overspend.

In our final step, we count the number of households that have are overspending (are living in unaffordable accommodation) and sum the value of this overspend.

The results

Our analysis shows that during 2017-18 there were 2.2 million households in the PRS that spend more than the affordable level of income on rent. On average, households pay £98

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[1] English Housing Survey 2017-18; HRP & Partner, plus benefits compared with weekly market rents
[2] While there is no official measure of affordability, in England it is common to use the 30% measure, details of this and other measures can be found here - http://housingevidence.ac.uk/wp-content/uploads/2018/09/R2018_02_01_How_to_measure_affordability.pdf
[3] Household income is measured in the EHS either as the sum of the income of the household reference person ('head of household') and partner, or all adults. We have used HRP + partner income for the sake of consistency with other analysis. This selection could be distortionary when looking at households with multiple adults (like flat shares) however sensitivity analysis on this data shows a similar profile of households impacted by an overspend when including all household income.
[4] Both these measures include housing benefit payments, which means there is no under-reporting of income or rental cost.

per week more than their benchmark. However, the distribution is highly skewed, so the median value is much lower, at £62 a week.

From this simple calculation it is possible to quantify the total overspend in the PRS; the value of the overspend is almost £218 million a week, or £11.4 billion annually.

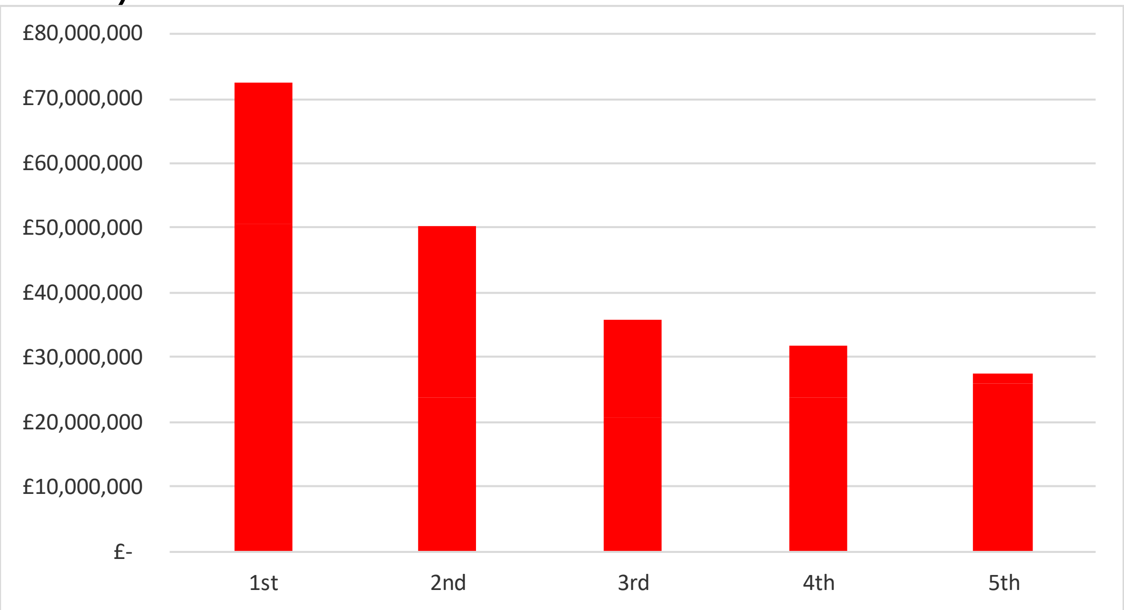
Table 1 Overspend totals

Total weekly overspend	£ 217,705,562
Total annual overspend	£ 11,351,167,995

Source; EHS 2017-18 and Shelter analysis

This approach also allows us to look at the distribution of this overspend; presented in the following chart.

Chart 1 Total overspend by household income by quintile (using equivalised incomes)[5]



Source; EHS 2017-18 and shelter analysis

Over a third (37%) of the £11 billion, is paid by the poorest fifth of households by income.

The average household overspend and number of households by quintile for the chart above is shown in the table below for clarity.

[5] Equivalisation is a method to make it easier to compare incomes across different household sizes. Actual incomes are weighted against the size of a household to account for when the same amount of cash has to sustain a larger number of people.

Table 2 Average overspend by income quintile (using equivalised incomes)

	1st quintile (lowest)	2nd quintile	3rd quintile	4th quintile	5th quintile (highest)
Overspend (weekly)	£99.75	£77.66	£91.35	£111.30	£164.45
No. Households	726,196	646,855	393,323	284,557	166,796

Source; EHS 2017-18 and shelter analysis

There are more low earners overspending in the PRS and their typical overspend is higher than the average for all households in the PRS.

We have also analysed the data by household type, and again some of the highest average overspends fall on families with dependent children. Multi-person households also make a significant contribution, and this primarily results from most of this group being located in high cost London[6].

Table 3 Average overspend by household composition

	couple, no dependents	Couple, dependent child(ren)	lone parent, dependent child(ren)	multi-person household	under 60 adult	60 or over adult
Overspend (weekly)	£78.15	£91.83	£97.22	£136.44	£77.58	£67.85
No. Households	358,235	330,487	400,868	540,032	448,248	139,856

Conclusion

Our analysis shows that the high cost of the PRS often falls on those who are least able to afford it. In theory, the size and flexibility of private renting sector should mean households have suitable options and choice in where they live. Households should be able to live in the right location for them, by renting, even if the barriers to home ownership in the same location are too large (i.e. the sizable deposits needed to secure a mortgage). But this analysis shows this simply is not the case.

The housing needs of individual households are dependent on their pesonal circumstances; families may need to be close to support networks to assist with childcare, or close to good schools. Less costly options these may simply impractical or unworkable.

This analysis again underlines the fact that the private sector is not able to provide housing that is both affordable and meets the needs of households. And this is why Shelter will continue to call for more Social Housing to meet this need.

[6] This result is robust to changes in the measure of income.