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# Housing Benefit reform and the spatial segregation of low-income households in London



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# **Housing Benefit reform and the spatial segregation of low-income households in London**

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## Summary

Local Housing Allowance (LHA) is a welfare benefit which helps low-income private tenants to pay their rent. The maximum financial help that a tenant may receive is set by reference to the range of local market rents. In June 2010, the new UK government proposed a suite of changes to the way LHA will be calculated. These changes mean reductions in payments to almost all present claimants, and make the maximum rates paid lower relative to market rents.

It is common knowledge that rents and prices of residential property are determined by location as well as by dwelling characteristics. In this paper we evaluate what the government's changes to LHA rates imply about the kind of neighbourhoods that claimants will be able to afford to rent in London in the future. London is of particular interest for several reasons. It has high average housing costs with wide variation around those averages, extremes of income poverty and wealth, and a buoyant rental market which meets demand from diverse groups aside from LHA claimants.

To assess the measures, we estimate current and future local rents for a large number of small neighbourhoods in the city. These rents are compared to the LHA rates that apply now in 2010 under the current system, and those that will apply in 2011 and 2016 after the government's changes have been enacted. Where the local LHA rate is below the lower quartile (bottom 25%) of rents, the neighbourhood is considered to be 'largely unaffordable' to LHA claimants. This means that someone seeking accommodation will find it hard to find a property that is available, affordable, in adequate condition and offered by a landlord who is willing to let to LHA claimants.

We find that the changes to be introduced in 2011 will immediately reduce the proportion of London neighbourhoods affordable to LHA claimants from 75% to 51%. This falls further to 36% by 2016 as a result of the measures' longer-term effects. Our estimates of current neighbourhood affordability are strongly correlated with current observed concentrations of LHA claimants, giving credence to the predictive value of the approach. The estimates for 2016 are highly sensitive to the future relationship between CPI inflation and nominal rent inflation, emphasising that this is a key uncertainty about the long-term effects of the proposed reforms.

Most inner London boroughs are likely to become almost entirely unaffordable to low-income tenants on LHA by 2016. The large clusters of neighbourhoods in outer East, South and West London which our model finds to remain affordable in 2016 are likely to house increasing numbers of low-income tenants as a result of the reforms. The areas which remain affordable are characterised by high rates of multiple deprivation and unemployment among the existing population. We conclude that the reforms will intensify the spatial concentration of disadvantage in the city, and increase the segregation of poor and better-off households within London.

## Introduction

It is a commonplace that how much one must pay for housing depends on where that housing is located. A dwelling in a sought-after suburb will command a higher rent than an equally spacious and well appointed property in a less desirable neighbourhood. Thus, government policies which set levels of welfare support for housing costs are also implicitly policy statements of where those who are eligible for such support should, and should not, be able to live. The potential for spatial polarisation by income is greatest where housing costs are high, and where the gap between rich and poor is wide. Both circumstances pertain eminently to London. In this paper, we address the question of where private tenants receiving state help with their rent are likely to be able to afford to live in London after the UK government's changes to Housing Benefit take effect.

## Background: Local Housing Allowance

Housing Benefit (HB) is a welfare scheme that assists tenants who cannot afford their rent. In its current form it was introduced in the early 1980s, and has been modified several times by subsequent governments. It is available, subject to a means test, to tenants of both private and social (public and not-for-profit) landlords. The rules and administration of HB differ between these two broad types of landlord, and this paper will look only at private tenants. As of August 2010, 1.47 million private tenants in Britain were receiving financial support with their rent under the HB regime<sup>1</sup>. This is approximately 35% of all private tenant households<sup>2</sup>. Since HB is means-tested, these claimants include low-paid workers, unemployed job-seekers, low-income pensioners and economically inactive adults such as the long-term sick, the disabled and full-time unpaid carers.

In 2008, the previous government made extensive changes to the way in which HB was calculated and administered for private tenants. All new and renewed claims for rent assistance are now assessed on this new basis, called Local Housing Allowance (LHA). LHA is still administered by local authorities, to whom a tenant must apply for support. Central to the new system are 'LHA rates', which are the maximum amount of benefit that will be paid in different local rental markets. These rates are published so that those seeking rented accommodation know in advance what support they can receive based on the broad area they reside in and the size of dwelling they are entitled to. These LHA rates are currently the median average (middle value) of a sample of rents in a local area. The rents data are gathered by the Valuation Office Agency (VOA), who also publicise the current rates for each size of dwelling in each area<sup>3</sup>.

1 DWP Single Housing Benefit Extract, Table 3. [http://statistics.dwp.gov.uk/asd/asd1/hb\\_ctb/hbctb\\_release\\_nov10.xls](http://statistics.dwp.gov.uk/asd/asd1/hb_ctb/hbctb_release_nov10.xls)

2 This proportion is the total private tenant HB count from the Single Housing Benefit Extract September 2009, against the Quarterly Labour Force Household data on the number of private renting households. Household counts cannot be exactly compared with claimant-based figures, so this is necessarily an estimate.

3 See <https://lha-direct.voa.gov.uk/>

The actual benefit amount in a given case is worked out from detailed information that applicants provide about their rent, the property, the composition of their household, and their own income and savings and that of others in the household. The number of bedrooms for which a household is entitled to claim benefit is based on the number and age of its members. LHA is normally paid direct to the claimant, not the landlord, unless the claimant is regarded as a 'vulnerable' person.

## The 2010 reforms

In its first 'emergency' budget after coming to power in May 2010, the new coalition government proposed a suite of changes to the way that Housing Benefit will work. In justifying the reforms, the government drew attention to the increasing costs of LHA to the state<sup>4</sup>. Reflecting this, the most important changes apply specifically to LHA paid to low-income private tenants, and the proposals will mean reductions in payments to almost all such claimants. The changes affect existing claimants and tenancies and so, in a previous paper, we looked primarily at the short-term effects of implementing the proposals<sup>5</sup>. Using household survey data, we estimated the numbers of existing claimants who might find themselves in severe financial difficulty as a result of their payments being reduced by the changes, and then provided forecasts of the numbers who might be evicted or forced to move.

**Table 1: Summary of measures affecting private tenants' LHA, as set out in the June 2010 Budget**

What is changing	Effective from	Current claimants affected	Discussed here?
Setting maximum LHA at the 30 <sup>th</sup> percentile of the range of local rents, instead of the median	October 2011	Claimants whose rent is above the 30 <sup>th</sup> percentile of rents in their area	Yes
Introducing absolute caps on the maximum rates that can be paid for each size of property	April 2011	Claimants in very high-cost areas, initially mainly inner London	Yes
Increasing LHA rates over time by the Consumer Prices Index (CPI) inflation, rather than by reference to actual market rents	April 2013	In the future, all	Yes
Ending of the 5-bedroom rate, LHA restricted to 4-bedroom rate	April 2011	All households eligible for the 5 bedroom rate	No
Stopping claimants being entitled to keep up to a £15 'excess' above their actual rent if that rent was below the LHA rate	April 2011	Claimants whose rent is below the current median rent for their property size	No
Reducing LHA by 10% for those claiming Job Seeker's Allowance for over a year	April 2013	Long-term JSA claimants	No
Increasing deductions for non-dependants living with HB claimants	April 2011	Households with other related adults in them, such as grown-up children or elderly parents	No

4 See <http://www.dwp.gov.uk/local-authority-staff/housing-benefit/claims-processing/local-housing-allowance/impact-of-changes.shtml>

5 Fenton, A (2010) **How will changes to Local Housing Allowance affect low-income tenants in private rented housing?** Cambridge: CCHPR Working Paper.

In the latter part of the previous working paper, we also took a preliminary view of the possible longer-term effects of the measures on the accessibility of private rented accommodation to low-income households in Britain. In the analysis which follows, we explore these longer-term effects of some of the changes in more detail. The measures that will be considered in this paper are noted in the final column of Table 1, above, which summarises the whole package of proposals affecting LHA claimants as they were laid out in the June 2010 budget<sup>6</sup>. These changes are looked at in the specific context of LHA claimants in the private rental market in London, and the paper assesses where in the capital low-income private tenants are likely to be able to afford to live in the future.

### **The spatial implications of the cuts in London**

Much of the recent political and media debate on the merits and dangers of the cuts to LHA has concerned only their effects on private tenants and expensive rents in London. The government has focussed even more narrowly on the caps on high rents in inner London in its justification of the proposals. For example, in response to a parliamentary question on 27 October 2010, the Prime Minister asserted that “[t]he key change that we are looking at is the £20,000 cap on maximum housing benefit claims ...[t]he point that everyone in this House must consider is whether we are happy to go on paying housing benefit of £30,000, £40,000 or £50,000”<sup>7</sup>.

In evaluating the package of reforms as a whole, such a focus on London and on the caps in particular is not justified by the evidence on who and where will be most affected. The government's impact assessment shows that the measures will affect almost all LHA claimants in private rented housing, in every region and every district, with each losing an average of £12/week. It is true that the typical losses that tenants in London will suffer are larger than this, at £22/week<sup>8</sup>. However, the caps on the very highest rents which have received most attention will affect less than 2% of existing claimants, and the capping at around £20,000 a year for the largest properties less than 0.2%<sup>9</sup>. The caps can be said to account for 10%, at the most, of the savings to be achieved by the changes that the Department for Work and Pensions has assessed, and no more than 30% of the future savings come from reductions in payments to tenants in London. Since the measures mean losses for claimants everywhere, why should we focus on London neighbourhoods in this working paper?

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6 As this paper was in final preparation, the government put the new regulations into force with some minor changes to the implementation dates. These mean that the immediate impacts of the caps and 30<sup>th</sup> percentile will be delayed by a matter of months. However, these recent changes have little or no bearing on longer-term implications and effects assessed in this current paper, even though it is based on the original June 2010 proposals.

7 HC Deb 27 October 2010 c306

8 DWP Impact Assessment, Table 5. <http://www.dwp.gov.uk/docs/impacts-of-hb-proposals.pdf>

9 DWP Impact Assessment, author's calculation from Table 5 and Table 20.

London's housing system is in many ways unlike that of the rest of the UK, and its peculiarities press the question of where low-income tenants will find affordable and accessible accommodation after the government's reforms are enacted. Firstly, London has by some way the highest housing costs in the country; average house purchase prices are more than double the average for England and Wales<sup>10</sup>, and rents have more than a 50% premium on the rest of England<sup>11</sup>. Private renting is a much commoner tenure in London than elsewhere. A corollary is that the ranges of actual market rents for similar properties within and between neighbourhoods across the city are much wider. The absolute differences in weekly rents between the cheapest and most expensive districts are huge. This means that setting LHA rates at a given level in relation to the range of market rents across a broad swathe of the urban area decisively 'prices out' certain households from certain neighbourhoods, because of the size of the gap between LHA rates and rents.

Secondly, long-run demand for housing in the city is very strong. The city's population has been growing steadily – and living at increasing density – since the late 1980s<sup>12</sup>. House prices have been resilient during the recent slump and ongoing slackness in the national residential property market. This, together with a weak supply of mortgage credit means that there are large numbers of relatively well-off households who live in the city but cannot afford to buy and so must rent their home instead. Much more than any other region or city, its housing meets international demand, some of which is strengthened by the recent weakness of sterling. Taken together, these factors suggest that overall, future demand for private rented housing in London from the general non-LHA claimant market will remain strong. Demand for rented housing in London reflects the city's sharply polarised income distribution, ranging from very low-income to very wealthy households. If effective demand from the sub-market of low-income households in the city is reduced by cutting LHA rates, there will likely be others willing to take up the slack. Compared to other parts of the country, landlords in London will have fewer incentives to reduce rents in response to the reforms, which is what the government hopes will happen.

Thirdly, its contiguous urban area contains a population size of a different order to other UK cities; it is, by international standards, the nation's only mega-city. Relatively well integrated by public transport, it comprises a single huge housing and labour market in the understandings of economic and geographic science. In its political administration, and even more in the meanings which inhabitants invest in and derive from its neighbourhoods, it is made up of highly distinctive parts. Hence, London offers a unique site to examine the interactions between neighbourhoods, local housing sub-markets, political boundaries such as boroughs and constituencies, and the peculiar

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10 Land Registry (2010) **House Price Index October 2010**

11 Dataspring (2009) **Rents Guide 2008, Table A2**

12 Office of National Statistics (2009) **Mid-Year Population Estimates, 1981-2009**.

geographies used to administer LHA, called Broad Rental Market Areas (BRMAs). For instance, the reforms will limit LHA to the cheapest 30% of rents within BRMAs that span several boroughs and hundreds of thousands of dwellings. It is thus likely that the cheapest tenancies in each BRMA will lie within some boroughs more than others.

These considerations taken together raise questions of both policy and sociological interest about where in London low-income private tenants claiming LHA will be able to afford to live in the future. The way in which LHA system operates suggests a map of relative exclusion of low-income tenants from some neighbourhoods, and positive pressures for them to take housing in others. The reforms will change this map; by cutting LHA rates relative to market rents it will extend the areas of exclusion, and over time alter where claimants are likely to be living. As a starting point, we want to know whereabouts in London rented accommodation will be affordable to LHA claimants once the reforms take effect. Are these neighbourhoods central or suburban, and are they dispersed across the city, or concentrated in particular boroughs? We also want to know the social and economic composition of the areas that LHA claimants will be able to afford. Do the changes mean that in the future they will tend to live in neighbourhoods that are more deprived than elsewhere, implying, since LHA claimants are by definition on low incomes, an increasing concentration of poorer households in parts of the city?

## Research Methods

In overview, our method entails treating London as comprised of a large number of much smaller neighbourhoods, and making estimates of the range of local private rents for each of them. These local rents are then compared to the maximum LHA rates that a low-income private tenant could claim in that neighbourhood. This comparison is made under the current LHA rules in 2010, under the incoming LHA rules in 2011, and again in 2016 under the incoming rules and given some assumptions about future housing market and wider economic trends. Where the LHA rate for two-bedroom properties is below the rent price of the cheapest quarter of properties of that size in a neighbourhood, that neighbourhood is deemed to be 'largely unaffordable' to LHA claimants. From this, we map and describe the neighbourhoods that are currently 'largely unaffordable' to LHA claimants, and estimate which neighbourhoods are likely to become so in the future as the measures take effect.

Some general comments need to be made. As discussed in detail in our previous paper, the circumstances of individual tenants and landlords vary widely, and they will respond in many different ways to the reforms. The methods described here do not purport to identify neighbourhoods where all LHA claimants will be 'forced out' when the changes are enacted, or where no claimants at all can live. Although the findings may indicate some areas where some existing LHA claimants will find themselves in financial difficulty and needing to move, they are mainly intended to show where in London low-income tenants seeking accommodation in the future are likely to continue to find it with relative ease, and where they will find it difficult. Secondly, the data available on the circumstances of claimants, on rents, and on private rented housing are imperfect. Where the data give cause for doubt, a conservative approach is adopted which assumes that neighbourhoods do remain affordable to LHA claimants. Thirdly, the longer-term effects of the reforms depend upon future trends in the London housing market and the wider economy, and we test the effects of varying some of these trends.

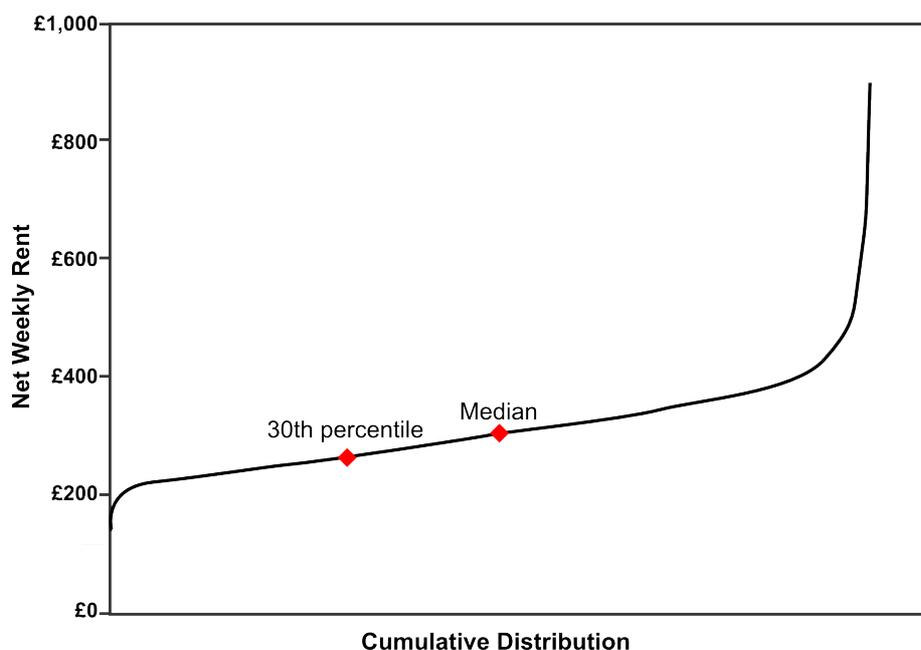
### Estimating local rents and LHA rates

For the study, London is taken to be the area covered by the fourteen London Broad Rental Market Areas (BRMAs). This covers all areas administered by the 32 London boroughs and the City of London, plus small parts of the Home Counties adjoining the outer boroughs. The boundaries of BRMAs are defined by the government's Valuation Office Agency (VOA) for the administration of LHA. The legislation defines them as areas with a variety of residential premises and a range of rental prices, within which someone is entitled to seek accommodation within reach of commercial,

community and public services<sup>13</sup>. Notably, the legislation does not require that a BRMA is within transport reach of employment opportunities.

The VOA has, since 2008, continuously collected a large number of data on actual private rents for dwellings of different sizes across England. It publishes very limited summaries of the data, sufficient for the administration of LHA. Until recently these were only the median of rents for properties of each size within each BRMA, which is currently the LHA rate. Since the 2010 changes were announced, the VOA has also supplied the 30<sup>th</sup> percentile as the 'shadow' incoming rate<sup>14</sup>. It also provides graphs showing the distribution of individual property rents within BRMAs. A typical example is given in Figure 1. It shows that most two-bedroom properties fall in a fairly smooth range between just over £200 and somewhat under £400 a week, with a small number of cheaper properties at the left, and a few much more expensive properties on the right.

**Figure 1: Distribution of private rents for 2-bedroom properties in the Inner East London Broad Rental Market Area, October 2010**



Source: Redrawn and annotated from VOA's LHA Direct "List of Rents" at <https://lha-direct.voa.gov.uk/Secure/ListOfRents.aspx>

13 The legislative definition defines a Broad Rental Market Area as an area 'within which a person could reasonably be expected to live having regard to facilities and services for the purposes of health, education, recreation, personal banking and shopping, taking account of the distance of travel, by public and private transport, to and from those facilities and services.' A BRMA must contain 'residential premises of a variety of types, including such premises held on a variety of tenures', plus 'sufficient privately rented residential premises, to ensure that, in the rent officer's opinion, the LHA for the area is representative of the rents that a landlord might reasonably be expected to obtain in that area'.

14 See <http://www.voa.gov.uk/lhadirect/lha-rates-england.htm>

The London BRMAs are very large, spanning a large number of distinct districts and neighbourhoods. Part of the variation in rents within each BRMA is attributable to property characteristics – the difference between more and less luxurious dwellings – and part can be attributed to neighbourhood characteristics – the difference between the price of similar dwellings in more or less popular areas within the BRMA. We assume that the distribution of neighbourhood average rents within a BRMA follows a similar overall slope to that of the distribution of individual property rents. Each neighbourhood's average rent is then derived by placing them all on that slope ranked in order of their average house sale price, from cheapest to most expensive. Finally, the lower quartile (cheapest 25%) of rents within each neighbourhood is derived as a fixed proportion of the neighbourhood average rent. Further information on the procedures and sources used are provided in the technical appendix.

### **The definition of 'largely unaffordable'**

This lower quartile neighbourhood rent was used as the cut-off point to determine when a neighbourhood is 'largely unaffordable' at LHA rates. In a largely unaffordable neighbourhood, the maximum benefit paid will be sufficient to meet *at most* the current rent of the cheapest 25% of properties in that area; it will often meet the rent of a much smaller proportion of properties. This criterion is applied to rents and LHA rates for two-bedroom properties. The two-bedroom size was used for the final analysis because it is the commonest property size recorded by the VOA, and is one of the commonest property sizes rented by LHA tenants, shortly behind one-bedroom units. Two-bedroom properties are found in most neighbourhoods regardless of the prevailing built form. It is also a size that meets the needs of small families with one or two children.

There are several reasons for using the lower quartile as the cut-off point to define 'largely unaffordable'. Importantly, the criterion is applied *from the perspective of an LHA claimant seeking accommodation*. At any given time, only a fraction of the total rented stock in an area will be vacant and on offer on the open market to potential tenants. Some landlords are unwilling to let to LHA claimants, further reducing the stock available to them<sup>15</sup>. Lastly, a proportion of the stock, especially at the bottom end of the private rented market, will be unfit, unsafe or inadequate. Therefore, when at most 25% of current rents can be met by LHA, it will be extremely hard for an LHA claimant to find a property that is available, affordable and in adequate condition with a landlord that is willing to have the rent met by LHA. Reiterating the caveats at the start of this section, 'largely unaffordable' does not mean that there are no benefit claimants living in that neighbourhood, or that all LHA tenants currently there will have to move away.

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<sup>15</sup> Reynolds, L (2009) **A postcode lottery? Part 1 of a study monitoring the implementation of Local Housing Allowance**. Shelter: London. In our previous LHA paper, we reported a survey of over 500 landlords which found that 45% expect to scale back letting to LHA claimants as a result of the proposed reforms.

## The effects of rent inflation and the reforms

The first assessment of which neighbourhoods are largely unaffordable is made for October 2010 by comparing each neighbourhood's lower quartile rent, estimated as above, to the current LHA rate set at the median of BRMA rents. In the future rents will increase and LHA rates will change as a consequence of the government's changes. The model took these into account, and repeated the comparison between lower quartile rents and LHA rents for the years 2011 and 2016 as described below.

### LHA Rates

Turning first to future LHA rates, the analysis looked at the effects of three of the proposed reforms. These are only a part of the package of changes outlined in the introduction, but they are those with the biggest effect on the average amount claimants will receive, and thus the broadest and most general implications for overall future affordability of neighbourhoods<sup>16</sup>. The measures that were included in the model are:

1. From 2011, using the 30<sup>th</sup> percentile of the range of local rents as the maximum LHA paid, instead of the median average.
2. From 2011, applying absolute caps on the maximum LHA paid for a given size of property in any area. The cap is £290/week for a two-bedroom dwelling, and equivalent rates for other sizes of property.
3. From 2013, increasing LHA rates by CPI inflation, instead of by reference to actual local rents.

The effect of the first of these is to lower all LHA rates within every BRMA. This makes a group of mid-priced neighbourhoods 'largely unaffordable' in the model. The effects of the second, the caps, are to reduce LHA rates further in central and Inner West London, where current rents are highest. Additional neighbourhoods in this part of London become 'largely unaffordable' as a result. The third measure does not take effect until 2013, so only affects the estimation for 2016. It is expected to increase the number of 'largely unaffordable' neighbourhoods because CPI inflation has consistently been lower than nominal growth in private rents<sup>17</sup>. If this continues, the linking of LHA rates to CPI rather than to actual market rents will decrease the real buying power of LHA and thus the range of affordable properties. In the model, this means that in more and more neighbourhoods

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<sup>16</sup> The effects of the other measures are more tightly dependent on the individual circumstances of the claimant and their tenancy, and so cannot be assessed using the data available

<sup>17</sup> See Fenton, A (2010) **How will changes to Local Housing Allowance affect low-income tenants in private rented housing?** p32ff

the lower quartile rent moves above either the 30<sup>th</sup> percentile or the absolute cap, so making the neighbourhood 'largely unaffordable'.

## **Basis for CPI and rent inflation assumptions**

In the model, the median CPI estimate of HM Treasury's collation of the views of independent economic forecasters is used to increase LHA rates from 2013 to 2016<sup>18</sup>. There are no such authoritative sources for future rents. Data derived from the Survey of English Housing show that nominal rent inflation in London averaged 5% a year from 1997 to 2007<sup>19</sup>. This source was used to set 'average Housing Benefit rates' in the past, and so is a good source to use to compare against CPI. Data from the former Private Rents Service is more accurate for regional level, but covers a shorter period from 2001/02 to 2007/08. It shows rent inflation in the London region averaging 7% a year<sup>20</sup>.

Past trends give an indication of the scale of future growth, but in the face of uncertainty there are grounds for a more conservative view of rent inflation in London to 2016. First, the government expects that reducing LHA rates will bring rents down, as landlords reduce prices to meet the maximum amounts paid. Any such effect will vary between districts, depending on the extent of alternate sources of demand for rented housing not paid for by LHA. As argued above, in London there is considerable demand for rented housing from households not claiming LHA. This, and the fact that landlords in the LHA pathfinders tended to reduce rents only when the shortfall between LHA and the prior price was relatively small<sup>21</sup>, suggests that in London at least, this brake on rent inflation may not be as great as the government expects. The possibility is however, it is taken into account in our assumptions about future rents.

Secondly, the inflation of private rents has been shown to be closely linked to real earnings growth. The national economic prospects for coming years are generally agreed to be dimmer than the conditions of the decade to 2007/08. Higher unemployment rates and lower growth<sup>22</sup> are likely to depress wage growth and thus rent inflation. With all these considered, the assumption used in the main estimates presented below is of 3.5% nominal rent inflation per year to 2016 – half the annual rate of increase seen in the years 2001/02 to 2007/08. We also look at the effects of assuming of higher (5% per annum) and lower (2.5% per annum) rent inflation over the period to 2016.

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18 HM Treasury (2010) **August 2010 forecast for the UK economy: a comparison of independent forecasts** . Table M3.

19 Author's calculation from CLG Live Table 715

20 Author's calculation from Dataspring Guide to Local Rents Part 1: Cross Tenure Rents, 2001/02, 2007/08.

21 Rhodes, D & Rugg, J (2004) **Landlords and Agents in the private rented sector: the baseline experience in the LHA Pathfinders**. London: DWP.

22 HM Treasury (2010) **August 2010 forecast for the UK economy: a comparison of independent forecasts** . Tables M1, M5.

Table 2 summarises how estimated future rents and LHA rates for each local rental area are derived.

**Table 2: Summary of effects of measures and inflation on rents and LHA rates in 2011 and 2016**

	LHA rates	Actual rents
2010	Median of local rents	Current local rent
2011	30 <sup>th</sup> percentile + 1 years rent inflation	Current local rent +1 years rent inflation
2016	30 <sup>th</sup> percentile + 3 years rent inflation + 3 years CPI indexation	Current local rent + 6 years rent inflation

### **Assumption about claimants making up a 'shortfall'**

After future rent growth, the second key assumption concerns whether LHA claimants will meet a shortfall between their housing benefit amount and their actual rent. Tenants who claim LHA are not obliged to rent properties at or below the applicable LHA rate. Housing Benefit, including LHA for private tenants, is means-tested against the claimants' total income, be that from earnings, a pension or welfare benefits. Housing Benefit will, in principle and subject to means-testing, meet all of the rent on the required size of dwelling within the lower end of the market, defined at present as the median rent. This principle will remain true after the reforms are enacted but the lower end of the market will now be defined as the 30<sup>th</sup> percentile of local rents. LHA represented a move to a more market-oriented approach: a reasonable rate is defined, and then low-income tenants enter the local rental market and make their 'choice' with this rate of support in mind. If they keep within these rules, LHA will continue to meet all of the net rent a claimant pays, leaving them with sufficient income, as defined by social security regulations, for all other living expenses: utility bills, food, clothing, transport and so forth.

In practice, we know that a considerable proportion of tenants supported by LHA rent a property whose rent is above the maximum benefit rate payable. In response to a parliamentary question, DWP provided a figure of 48% of LHA claimants who had a 'shortfall' because their net rent was more than the maximum LHA rate that applied<sup>23,24</sup>. Such tenants may make up the difference out of other income, such as welfare payments not intended for housing. They may take loans, or receive similar help from family. On the one hand, this suggests that some tenants may be experiencing considerable financial hardship, since they are dipping into a low income that is deemed minimally sufficient for subsistence in order to pay their rent. On the other, it implies that LHA claimants can

23 HC Deb 5 March 2010 c1422w

24 Author's calculations from Table 12 of DWP's impact assessment indicate that only 47% of current LHA claimants are renting **below** the applicable LHA rate and so currently receiving up to £15 'excess' payments. Some of the remainder will be renting at the LHA rate, or will be receiving partial HB, but this nonetheless suggests that many do make up some degree of shortfall. The Pathfinders study (Rhodes & Rugg op. cit.) corroborates this.

extend the range of neighbourhoods in which property is available to them by making up a shortfall in some way.

For the main estimates below, we look at which London neighbourhoods will be affordable without assuming that tenants should draw upon any of the minimal income meant for their non-housing costs. As described above, affordable neighbourhoods are those where the LHA rate in the BRMA the it lies in has a value at or above the lower quartile of rents in the neighbourhood. However, we also give alternative estimates which take into account the fact that the LHA system permits claimants to choose to – or be forced to resort to – drawing on other income to find suitable private rented accommodation within their local housing market. Such gaps between actual LHA payments and actual net rents are sometimes termed a 'shortfall'. Our alternate model assumes that at least some claimants are willing to make up a 'shortfall' of up to £10/week in order to extend the range of neighbourhoods within which they might find a rented property. A shortfall of £10 a week is taken to be a level beyond which the non-housing expenditure of a person already on a minimally sufficiently income would be unacceptably compromised.

## Where will be affordable?

The results of the main estimate from the model described above is shown in Figure 2. Each of over 5,000 neighbourhoods in the greater London rental area is shaded according to whether or not it is currently largely unaffordable to LHA claimants in 2010, and then whether it is likely to become so in the future as a result of the government's proposals. The first map in the top-left shows the position in 2010. The areas shaded in dark grey are those in which a tenant would currently find it difficult to secure a two-bedroom property to rent at or below the current LHA rates. The second, top-right, map shows, shaded in red, those neighbourhoods which are likely to become largely unaffordable as an immediate result of the measures being brought in in 2011: the cap and the 30<sup>th</sup> percentile. The third map in the bottom-left shades in red those neighbourhoods which, whilst still being affordable from 2011, are likely to have become largely unaffordable by 2016. This reflects the erosion of the value of LHA relative to market rents as a consequence of increasing LHA rates by CPI inflation from 2013. In each of the three maps, the light grey areas are those in which we estimate that a reasonable range of property will still be affordable to low-income tenants at that point in time. Overlaid on the map are the administrative boundaries of the London boroughs, and the key to these is given in the bottom-right.

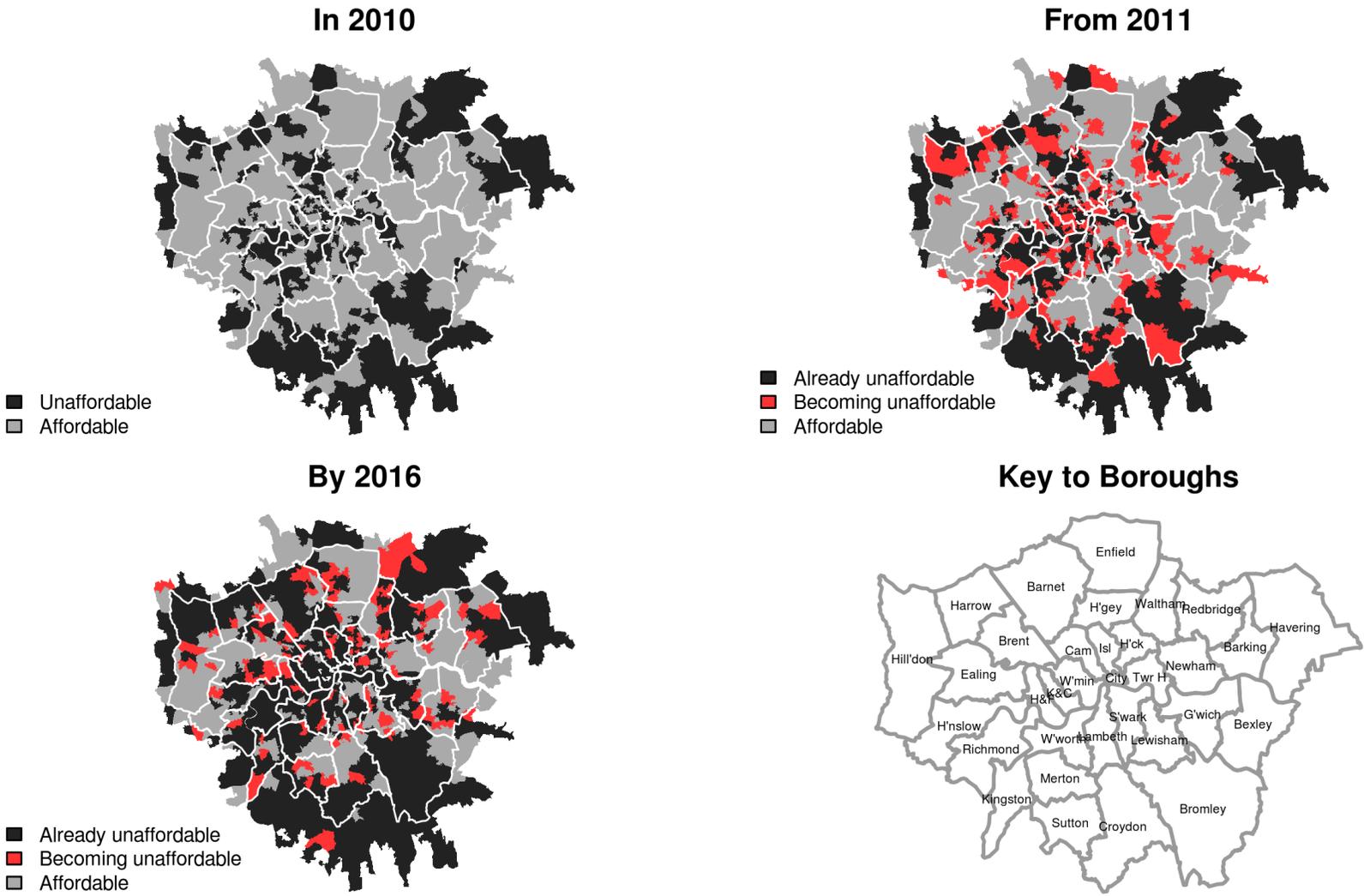
### What the main estimate shows

First, from 2011, and certainly by 2016, almost the whole area of the traditional Inner London boroughs will be unaffordable to tenants claiming LHA. The main exceptions to this are the borough of Lewisham in the South East, where large areas remain affordable, and parts of north Southwark, roughly corresponding to the Bermondsey district.

Secondly, the light grey areas that are likely to remain affordable are clumped into four distinct blocks in the third map. The largest of these is spread along both sides of the eastern reaches of the Thames. Almost all of the boroughs of Barking and Dagenham and Newham, as well as large parts of Bexley, Greenwich and Havering are likely to offer accommodation within the means of LHA claimants. In the south, there is another block covering the Wandle Valley, spanning parts of Merton, Sutton and Croydon. In the west another block covers the south of Hillingdon, and the west of Ealing and Hounslow boroughs. Finally, in the north, there is a segment of light grey running through the east of Enfield and Haringey and into the western edges of Waltham Forest.

Thirdly, in many other boroughs, including Hammersmith and Fulham, Wandsworth, Kensington and Chelsea, Westminster, Islington and Camden, as well as the outer boroughs of Richmond, Barnet and Bromley, there are few or no neighbourhoods which will offer rented accommodation affordable to benefit claimants.

Figure 2: Map of main estimate of London neighbourhoods that will be largely unaffordable to LHA claimants in 2010, 2011 and 2016



Source: Author's calculations as described above, based on 2-bedroom rents and LHA rates, rental inflation 3.5% per annum

By plotting the geographic position of the neighbourhoods, the map shows the clustering of those which are likely to remain more affordable to LHA claimants, and the concentration of these clusters in some of the outer boroughs of the city. What this kind of map does not show so well is the proportion of neighbourhoods that will become largely unaffordable at different points. The neighbourhoods contain similar amounts of housing, but cover widely varying amounts of physical space. Generally, the nearer the centre of London, the more densely built-up the neighbourhood, and so the smaller amount of space it is given on the map.

For this reason, Table 3 shows the results of the model as the number of neighbourhoods which remain largely affordable, and the change between different time points. There are a total of 5,159 neighbourhoods, which each have broadly the same amount of total housing of all tenures; three neighbourhoods for which no estimate could be made are excluded altogether from the table. The second row shows the current position, which is that around three-quarters of neighbourhoods have a reasonable range of property that is affordable to LHA claimants. This proportion is estimated to fall to just over half on initial implementation of the changes in 2011. After the measures have been in place for five years in 2016, just over a third (36%) of neighbourhoods are likely to remain affordable, with the other two-thirds now largely unaffordable to low-income tenants supported by LHA.

**Table 3: Main estimate of number and percent of neighbourhoods remaining affordable in 2010, 2011 and 2016**

	Number	%
<b>All neighbourhoods in model</b>	<b>5,159</b>	
Affordable in 2010	3,863	75
Affordable in 2011	2,656	51
Affordable in 2016	1,866	36

*Source: Author's calculation as described above, based on 3.5% rent inflation per annum*

It is important to note that these proportions are not the amount of rented dwelling stock that will be affordable. Only a fraction of the housing in each neighbourhood will be privately rented, and only a smaller fraction of this will be available, accessible and affordable to LHA claimants.

### **The separate effects of the measures**

As we observed in the introduction, the amount of public discussion of each of the measures within the whole package has not necessarily reflected the scope and severity of their individual effects.

The separate effects of applying absolute caps, and of moving to use the 30<sup>th</sup> percentile of rents as the LHA rate are given in Table 4, with the main estimate for comparison.

**Table 4: Number and percentage of neighbourhoods that are affordable in 2010, 2011 and 2016, showing the separate effects of the caps and the change to the 30<sup>th</sup> percentile**

	Main estimate		30th percentile only		Caps only	
Rent growth	+3.5% per annum		+3.5% per annum		+3.5% per annum	
Caps	Yes		No		Yes	
30th percentile	Yes		Yes		No	
CPI indexation	Yes		Yes		Yes	
	<b>Number</b>	<b>%</b>	<b>Number</b>	<b>%</b>	<b>Number</b>	<b>%</b>
<b>All neighbourhoods</b>	<b>5,159</b>	<b>100</b>	<b>5,159</b>	<b>100</b>	<b>5,159</b>	<b>100</b>
Affordable in 2010	3,863	75	3,863	75	3,863	75
Affordable in 2011	2,656	51	2,765	54	3,549	69
Affordable in 2016	1,866	36	2,146	42	2,740	53

*Source: Author's calculations as described above, based on 2-bedroom rents and LHA rates and rental inflation of 3.5% per annum*

This shows that if the cap on two-bedroom rates was introduced in isolation, the proportion of affordable neighbourhoods would fall from 75% to 69% in 2011, and further to 53% by 2016. Conversely, if LHA rates were changed to be the 30<sup>th</sup> percentile instead of the median, but no absolute cap applied, the proportion would fall to 54% in 2011 and 42% by 2016. Across the city, it is the move to setting LHA rates at the 30<sup>th</sup> percentile that will have the more powerful effect of making neighbourhoods unaffordable to LHA claimants, rather than the caps. The measures affect different parts of the city, however. The caps initially apply predominantly in central and inner west London, spreading to some parts of the suburbs by 2016, whereas the move to the 30<sup>th</sup> percentile has a more diffuse effect across the city.

## Analysis by borough

Tables 5 and 6 for Inner and Outer London respectively break down the main estimate by London borough. It confirms the visual impression given by the map, that almost all of inner London will have become largely unaffordable by 2016. The table indicates that by that point, only 20% of neighbourhoods in inner London will still be affordable on LHA rates, compared to 67% at present.

**Table 5: Proportion of Inner London neighbourhoods largely unaffordable in 2010, 2011 and 2016, by borough/council area. Outer London and all London figures shown for comparison.**

	Total number of neighbourhoods	% affordable in 2010	% affordable in 2011	% affordable in 2016
City of London	5	80	0	0
Camden	133	61	23	11
Greenwich	143	83	48	38
Hackney	137	79	50	19
Hammersmith & Fulham	111	66	40	6
Islington	118	79	21	3
Kensington & Chelsea	103	49	0	0
Lambeth	177	62	37	26
Lewisham	166	98	77	49
Southwark	165	65	37	36
Tower Hamlets	130	51	37	17
Wandsworth	174	58	26	11
Westminster	117	43	9	3
<b>All Inner London</b>	<b>1,679</b>	<b>67</b>	<b>35</b>	<b>20</b>
<i>All Outer London &amp; periphery</i>	<i>3,480</i>	<i>79</i>	<i>59</i>	<i>44</i>
<b>All London Rental Area</b>	<b>5,159</b>	<b>75</b>	<b>51</b>	<b>36</b>

*Source: Author's calculations as described above, based on 2-bedroom rents and LHA rates and rental inflation of 3.5% per annum*

The implications for many of the inner London boroughs, especially those north of the river like Islington, Camden and Hackney, seem likely to be stark. Many of these change from having half or more of their neighbourhoods affordable at present to having few or none by 2016. By contrast, in the outer London boroughs and the periphery of the London rental market area, 44% of neighbourhoods will still be affordable by 2016. These inner boroughs may well experience considerable transformations in their rental markets and social composition as a result of the reforms. Of the inner London neighbourhoods which will remain affordable, a large proportion are located south of the Thames, especially in the boroughs of Lewisham, Greenwich and Southwark.

**Table 6: Proportion of Outer London and peripheral neighbourhoods largely unaffordable in 2010, 2011 and 2016, by borough/council area. Inner London and all London figures shown for comparison.**

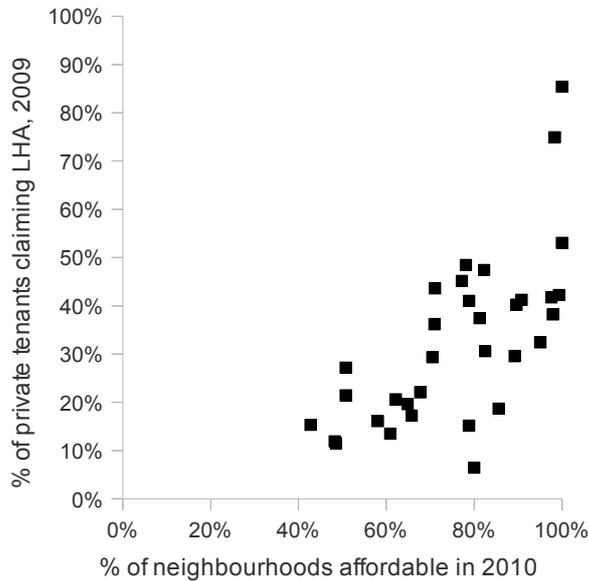
	Total number of n'hoods	% affordable in 2010	% affordable in 2011	% affordable in 2016
Barking & Dagenham	109	100	100	91
Barnet	210	71	50	30
Bexley	146	99	86	64
Brent	174	90	64	38
Bromley	197	51	27	25
Croydon	220	82	64	55
Ealing	195	89	74	47
Enfield	181	98	90	73
Haringey	144	81	56	49
Harrow	137	78	54	39
Havering	149	77	70	49
Hillingdon	163	91	69	48
Hounslow	139	71	57	50
Kingston upon Thames	97	86	48	29
Merton	124	68	48	40
Newham	159	100	88	76
Redbridge	159	71	42	28
Richmond upon Thames	114	48	24	18
Sutton	121	95	71	42
Waltham Forest	145	98	58	27
London periphery	397	53	38	29
<b>All Outer London &amp; periphery</b>	<b>3,480</b>	<b>79</b>	<b>59</b>	<b>44</b>
<i>All Inner London</i>	<i>1,679</i>	<i>67</i>	<i>35</i>	<i>20</i>
<b>All London Rental Area</b>	<b>5,159</b>	<b>75</b>	<b>51</b>	<b>36</b>

*Source: Author's calculations as described above, based on 2-bedroom rents and LHA rates and rental inflation of 3.5% per annum. "London periphery" are those neighbourhoods in districts outside the 32 London boroughs, but inside the London rental market as defined by the VOA's Broad Rental Market Areas.*

## Verifying the predictive value of the approach

The estimates of the proportion of neighbourhoods that are currently affordable in each borough also allow us to verify another aspect of the overall argument. So far we have assumed that our affordability criterion has some bearing on where claimants are likely to live in the future. We can test this by seeing if the distribution of neighbourhoods that are currently largely unaffordable has some bearing on where LHA claimants actually live at the present time.

**Figure 3: Scatter-plot of London boroughs, percent of private rented dwellings 2009 tenanted by LHA claimants, by percent of neighbourhoods affordable in that borough, 2010**

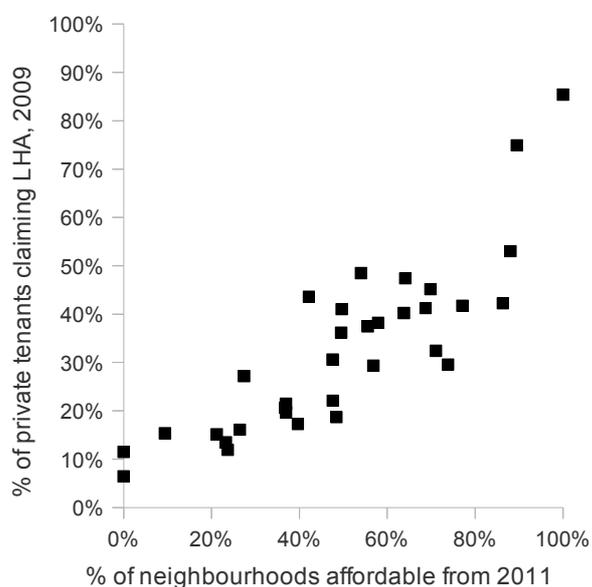


*Source: Model results, main estimate, as given in Tables 5 and 6; percentage of tenancies supported by LHA estimated from Census, Labour Force Survey and Housing Benefit data. See appendix for details.*

In Figure 3, the percentage of all private tenancies that are currently supported by LHA in each borough is plotted against the percentage of neighbourhoods in that borough that are estimated to be affordable in 2010. There is a clear correlation between the two – the higher the proportion of affordable neighbourhoods within a borough affordable to LHA claimants, the greater the proportion of private tenancies taken by LHA claimants. The relationship is even clearer when we take out the neighbourhoods which become largely unaffordable from 2011, and which are by implication currently more marginally affordable to low-income tenants supported by LHA (Figure 4).

This correlation between the current spatial distribution of unaffordable and marginally affordable neighbourhoods and present concentrations of LHA claimants in boroughs gives empirical support to the overall approach. It suggests that the estimates of where will be affordable in the future, after the reforms, are a good indication of where low-income tenants will be most likely to end up living. It confirms that the government's changes are likely to lead to a gradual spatial redistribution of low-income private tenants out of inner London and into clusters of neighbourhoods in certain parts of the outer suburbs.

**Figure 4: Scatter-plot of London boroughs, percent of private rented dwellings 2009 tenanted by LHA claimants, by percent of neighbourhoods affordable in that borough from 2011**



*Source: Model results, main estimate, as given in Tables 5 and 6; percentage of tenancies supported by LHA estimated from Census, Labour Force Survey and Housing Benefit data. See appendix for details.*

## **Variant assumptions about rental inflation to 2016**

As described in the previous section, the results of the model depend on several assumptions. The first of these involves the view taken of the rate at which private rents in the London housing market will increase to 2016. This matters because from 2013 LHA rates will increase by the CPI measure of inflation rather than being tied to actual market rents. The faster rents increase relative to CPI, the more quickly the range of properties affordable to LHA claimants will be diminished. It also matters because the government has not indicated whether and how the absolute caps will be uprated over time. If they are not, as assumed here, the faster rents increase, the more swiftly those in relatively expensive areas will approach and exceed caps on LHA rates. For the main estimate above, we took future rent inflation to be 3.5% a year. This was a conservative estimate compared to the 5% to 7% average annual increases in the decade preceding the reforms. From an LHA claimant's point of view, a more pessimistic assumption would be that rents increase faster, and so the model was re-run assuming 5%. A more optimistic assumption would be that rents increase more slowly at a rate only slightly higher than CPI, such as 2.5%. The third-party estimates about future CPI inflation that were used in the main estimate are used again here.

**Table 7: Results of varying assumptions about rental inflation: number and percentage of neighbourhoods remaining affordable at 3.5%, 5.0% and 2.5% per annum**

	Main estimate		Faster rent inflation		Slower rent inflation	
Rent growth	+3.5% per annum		+5.0% per annum		+2.5% per annum	
	Number	%	Number	%	Number	%
<b>All n'hoods</b>	<b>5,159</b>	<b>100</b>	<b>5,159</b>	<b>100</b>	<b>5,159</b>	<b>100</b>
Affordable in 2010	3,863	75	3,863	75	3,863	75
Affordable in 2011	2,656	51	2,632	51	2,671	52
Affordable in 2016	1,866	36	1,229	24	2,371	46

*Source: Author's calculations, as described in text*

The effects of varying the assumption about future rental inflation are given in Table 7. The important differences between these scenarios is shown in the final row, which is the proportion of neighbourhoods which will remain affordable by 2016, after three years of LHA rates being linked to CPI rather than actual rents. We see that rent inflation in line with recent trends of around 5% per annum would leave fewer than a quarter (24%) of neighbourhoods affordable to LHA claimants by 2016. Slower rent inflation of 2.5% a year would leave 46% of neighbourhoods affordable. The outcomes vary widely as a result of making relatively small changes in this assumption. This underlines the degree of uncertainty about the effects of this seemingly rather technical part of the government's proposals on the proportion of rented accommodation affordable to LHA claimants in the future. The change to CPI indexation of LHA rates from 2013 requires close monitoring as part of the ongoing evaluation of the package of measures.

### **Variant assumptions about 'shortfalls'**

The second assumption concerns the extent to which LHA claimants will, or should, rent accommodation priced above the applicable LHA rate, making up the shortfall between the actual rent and LHA payments out of their other income. So far, we took LHA as a benefit which in principle should meet all the claimant's rent, and the rules that determine LHA rates as policy statements of where claimants should live. Therefore no capacity for making up a shortfall between rent and LHA was assumed in the main estimate. An alternate view which more closely resembles the way that LHA has come to work in practice is that some tenants do in fact rent at a price above the LHA rates they receive and pay the difference. The model was re-run assuming that LHA claimants are able and willing to draw on up to £10 a week of their other income in order to widen the range of neighbourhoods affordable to them.

**Table 8: Main and variant assumptions tested, with number and percentage of neighbourhoods remaining affordable under each alternative**

	Main estimate		£10 shortfall	
Rent growth	+3.5% per annum		+3.5% per annum	
Maximum shortfall of LHA rate below lower quartile rent	£0/week		Up to £10/week	
	<b>Number</b>	<b>%</b>	<b>Number</b>	<b>%</b>
<b>All n'hoods</b>	<b>5,159</b>	<b>100</b>	<b>5,159</b>	<b>100</b>
Affordable in 2010	3,863	75	4,623	90
Affordable in 2011	2,656	51	3,381	66
Affordable in 2016	1,866	36	2,498	48

*Source: Author's calculations, as described in text*

The final two columns of Table 8 confirm that assuming that tenants may make up a shortfall of up to £10 per week extends the number of affordable neighbourhoods at all points in time. Under these conditions, just under half (48%) of neighbourhoods would still offer a reasonable range of property in 2016. Still, the rate at which the number of largely unaffordable areas increases even allowing for a shortfall shows that this flexibility may postpone the exclusionary effects of the reforms, but will not negate them. Low-income tenants will nonetheless find themselves increasingly constrained to accommodation in specific parts of the city shown in the maps above.

## Deprivation measures of affordable neighbourhoods

The findings above indicate that the reforms will make additional swathes of London largely unaffordable to LHA claimants, and suggests that the areas which remain affordable are likely to see increasing demand for private rented stock from low-income tenants on LHA. Having established broadly where will and will not be affordable, we now evaluate how much difference there is between the two in socio-economic indicators.

LHA is a means-tested benefit, and the tenants it supports are thus by definition living at or close to minimum income levels. Our previous analysis found that 75% of claimants currently have incomes below the standard poverty line of 60% of median national income, with this rising to 80% after the government's changes are implemented<sup>25</sup>. The reasons that they are in poverty and claim LHA imply that many are in positions of wider material and social disadvantage: low-paid insecure work or ill health, for example. Thus, if the neighbourhoods in which LHA claimants are most likely to be able to find accommodation in the future already have relatively high rates of disadvantage, the reforms will entail an intensification of existing concentrations of poverty and deprivation in London.

### Multiple deprivation

The Index of Multiple Deprivation (IMD) is a synthetic measure which seeks to gauge the relative prevalence of various forms of socio-economic disadvantage in neighbourhoods in England. It draws on multiple data sources to incorporate different dimensions of social deprivation, including income poverty, worklessness, ill health and low educational attainment. Each of over 32,000 neighbourhood in England is given a single summary score which combines these different aspects of deprivation, and this gives a ranking of neighbourhoods from least to most deprived.

**Table 9: Range of London rankings on the Index of Multiple Deprivation for neighbourhoods affordable to claimants in 2010, 2011 and 2016, using main estimate**

	Number of n'hoods	Lower quartile rank	Median ranking	Upper quartile rank
<b>All neighbourhoods</b>	<b>5,159</b>	<b>25.0%</b>	<b>50.0%</b>	<b>75.0%</b>
Affordable in 2010	3,863	31.8%	55.9%	78.4%
Affordable in 2011	2,656	37.1%	59.5%	79.8%
Affordable in 2016	1,866	40.2%	62.8%	80.6%

*Source: Neighbourhood affordability to LHA claimants from main estimate as above; IMD rankings within London rental area from the Indices of Multiple Deprivation 2007. 0% is least deprived, 100% is most deprived.*

<sup>25</sup> Fenton, A (2010) **How will changes to Local Housing Allowance affect low-income tenants in private rented housing?** Cambridge: CCHPR Working Paper. Table 6.

The range of London deprivation ranks among the sets of neighbourhoods which are estimated to be affordable now and after the reforms are presented in Table 9. The specific numbers in the table are of less consequence than the consistent trend it demonstrates. As the effects of the reforms unfold, the neighbourhoods which remain affordable to LHA claimants are those in which increasingly large proportions of the current resident population experience multiple forms of social and economic disadvantage. At the same time, the neighbourhoods which low-income tenants will find largely unaffordable are disproportionately those with the lowest rates of deprivation. The reforms are likely to encourage LHA claimants with low incomes and a high incidence of other forms of deprivation to settle in neighbourhoods where many existing residents are also poor and disadvantaged.

The point is made more directly by mapping neighbourhood deprivation (Figure 5) and comparing this to the main map of the neighbourhoods that will be affordable to LHA claimants now and in the future (Figure 2, on page 18). There is considerable correspondence between the darker-shaded – more deprived – locations on the map below and the neighbourhoods estimated to remain affordable to LHA claimants after the measures take effect.

**Figure 5: Map of quintiles of Index of Multiple Deprivation 2007 scores for neighbourhoods within the London rental area; darkest areas are most deprived**



## Unemployment

Unemployment is one element within the IMD's basket of measures, but it merits separate treatment in assessing the likely effects of the LHA changes due to the high priority that has been given to moving benefit claimants in to work. One of the government's proposed measures will dock 10% from the housing benefit of unemployed job-seekers who have not found work within twelve months of signing on. The government intends this to be a (negative) incentive to work. Table 10 provides a comparison of current rates of claimant unemployment between the neighbourhoods that are currently affordable and those that are likely to cease to be as a result of the reforms.

**Table 10: Average Job-Seekers Allowance claimant rate (% of working-age resident population), by affordability group of neighbourhoods**

	Number of n'hoods	Lower quartile JSA claim rate	Median JSA claim rate	Upper quartile JSA claim rate
<b>All n'hoods</b>	<b>5,159</b>	<b>2.2%</b>	<b>3.7%</b>	<b>5.5%</b>
Affordable in 2010	3,863	2.7%	4.1%	5.9%
Affordable in 2011	2,656	3.0%	4.5%	6.2%
Affordable in 2016	1,866	3.3%	4.7%	6.4%

*Sources: JSA claimant count for LSOAs from NOMIS; working-age population denominators from ONS Small-Area Population Estimates with Broad Age Groups, 2008/09.*

It is perhaps unsurprising given the findings from the IMD that the neighbourhoods where LHA tenants are likely to live in the future are those with higher existing rates of claimant unemployment. If some of the current rates of employment are explained by poor connections to employment opportunities, this suggests that increasing proportions of LHA claimants will be exposed to the same area-based labour-market disadvantage in the future.

## Discussion

We started by suggesting that policies which set rates of support for low-income private tenants' housing costs are also implicit statements about where those low-income tenants ought to live. Modelling the effects of three of the government's proposed changes to LHA rates in London suggests there will be a decisive reduction in the number of neighbourhoods in which low-income private tenants are likely to be able to secure accommodation in the future. The correlation between the existing areas which are affordable to LHA claimants and the prevalence of such claimants within local rental markets confirms that the levels at which LHA rates are set affects where LHA claimants reside.

Over time, as a result of the changes, low-income private tenants are increasingly likely to end up living within the shrinking set of neighbourhoods in which there remains property affordable to them. The proportion of neighbourhoods which will become unaffordable to LHA claimants by 2016 is especially sensitive to the future relationship between CPI inflation and nominal rent inflation. This underlines that among the whole suite of reforms, the change to link LHA rates to CPI from 2013 needs close ongoing monitoring.

Regardless of the assumptions made about rent inflation and other parts of the model, the broad spatial pattern is consistent. The neighbourhoods remaining affordable to low-income private tenants are concentrated in specific parts of the outer and peripheral areas of London. They have relatively high rates of deprivation and unemployment. Since LHA tenants are on low incomes themselves, their settling in those already deprived neighbourhoods will mean increasing concentration of poverty (and an increasing concentration of wealth elsewhere, if they have moved from a more affluent part of the city that has become unaffordable). On the horizon, other political decisions and broader circumstances may well accelerate this spatial polarisation of rich and poor.

Moral claims of individual's 'rights' to live in particular places are nigh-on impossible to adjudicate, as is the inherent value of socially mixed residential neighbourhoods. Even so, the idea that a good society is one in which people of different means and social classes do not live wholly apart from one another is widely, if vaguely held. Similarly, there may be seen to be some value in permitting people to live closely with those whom they know and who know them, and whom they support and are supported by. What is harder is to come to is a consensus on what we are prepared to pay for these intangible goods, and especially, what we are now willing to pay for others to benefit from them.

# Technical Appendix

## Geographies

The total geographic scope of the research – the “London rental market area” - is defined as the extent of the fourteen Broad Rental Market Areas which together cover all of the 32 London Boroughs. This area incidentally extends into adjoining parts of the Home Counties. These BRMAs are:

- Central London
- Inner East London
- Inner North London
- Inner South East London
- Inner South West London
- Inner West London
- North West London
- Outer East London
- Outer North East London
- Outer North London
- Outer South East London
- Outer South London
- Outer South West London
- Outer West London

The BRMAs defined by the VOA are not apparently composed of or comparable to any other standard statistical geography used in Britain, nor does the VOA supply any boundary definitions for BRMAs. The boundaries of BRMAs were approximated by extracting from the LHA Direct website a set of around 17,000 correspondences between postcode sectors (eg CB3 9\*\*) and BRMAs. These postcode sectors (1,433 within the London BRMAs) provided the initial small-area geography for the estimation of local rents and comparison of these with LHA rates.

Postcodes are defined primarily for the efficient delivery of mail rather than effective statistical analysis. Few official statistics are available for postcode sectors, and they vary widely in residential population and dwelling stock. The final “neighbourhood” geography used in reporting throughout the study is therefore Lower-level Super Output Areas (LSOAs). Each LSOA was assigned to a single postcode sector, and thus to a set of rent and affordability estimates, based on largest common area.

## Estimating neighbourhood rents

Visual inspection of the individual property rent distribution curves published by the VOA consistently found an S-shaped curve, with a large, relatively flat and evenly sloped middle, a short (bottom 1-3%) tail of very cheap dwellings, and a longer accelerating range of top-end (upper 10-15%) rents. The distribution of postcode sector average rents within each BRMA was taken to be approximated by the slope of the large central part of the individual property rents distribution. This slope was specified for each BRMA by extending the line between the two known percentiles – the 30<sup>th</sup> and the median – across the distribution. Since there is a more pronounced upturn at the top end of individual property rents, this method is likely to underestimate the very highest rents. However, these were assumed to be of little relevance to the current study, which concerns the middle and bottom end of rent prices within each BRMA.

To derive the final average postcode sector rents, every postcode sector within each BRMA was ranked according to its average house sales price, using Land Registry data. This sales price ranking (2009 average, not mix adjusted) was taken to be a proxy for the ranking along the distribution of small-area rents within each BRMA. The spacing of postcode sectors according to this ranking was weighted according to an estimate of the amount of the private rented stock in that sector. The estimate of private rented stock in each postcode sector is based on 2001 Census Output Area counts of private rented households, uprated by 2001 to 2009 sub-regional growth factors of private renting from the Labour Force Survey and then converted to postcode sectors based on simple areal communality<sup>26</sup>.

A very small number of postcode sectors were comprised almost entirely of industrial or commercial premises, and had too small a volume of residential sales to be ranked. These, and the LSOA neighbourhoods associated with them, were excluded from further analysis (3 LSOAs out of a total of 5,162). Some postcode sectors straddle the boundaries of more than one BRMA. Where such conflicts arose, the postcode sector was assigned to the BRMA which gave the lowest rent and LHA rate.

The final stage was the estimation of lower quartile rents for each postcode sector. The London Assembly (GLA) provides web-based information derived from VOA data on the median and quartile values of private rents for postcode districts in London<sup>27</sup>. A random sample of 50 of these postcode districts was drawn, and the relevant rents data extracted from the GLA website. This sample found that, with little deviation, the lower quartile of rents for two-bedroom properties had a

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26 See <http://geoconvert.mimas.ac.uk/>

27 See <http://www.london.gov.uk/rents/>

ratio of 0.92 to the median. Each postcode sector's estimated lower quartile rent is therefore 92% of its median average rent.

The comparison between LHA rates and lower-quartile rents to determine affordability was made using postcode sectors under the various different assumptions described in the main report. These results were then converted into LSOA geography for further analysis and mapping as reported above.

### **Proportion of private tenancies supported by LHA**

The estimated proportions are the number of HB claimant households in the PRS from the figures provided by DWP for 2009, divided by the estimated number of privately renting households in that year. The latter come from the 2001 Census private renting figures for boroughs, multiplied by the growth in the private rented sector in the relevant region, with inner and outer London treated separately. These growth factors are derived from comparison of the Labour Force Survey, Household counts in 2001 to 2009. The Single Housing Benefit Extract is benefit-unit based, so may overstate the actual proportions against the household-based measure from the Census and LFS.