What is the "Affordable Rent Model"?

*"Affordable rent is a new funding model, which involves three main changes: housing providers can charge higher rents for affordable housing than previously (up to 80 per cent of market rates), both for new homes and for some new tenancies of existing homes; housing providers finance a greater proportion of the cost of new homes themselves, through increased borrowing; and the Department pays less grant for each new home provided." (**National Audit Office**)*

Swindon Council is proposing to introduce "affordable rent" for the regeneration of Sussex Square[1]. Exactly what is this creature? You might naively assume that "affordable rent" would be, what else, but a rent which was affordable. But not with this coalition government. The statement above from the NAO neatly sums up 'social housing' element of the coalition government's "affordable homes programme". Housing providers applying to the Homes and Communities Agency for government grant had to agree to "affordable rent" and to take on a higher level of debt than they had to under the previous government's "National Affordable Housing Programme" programme (NAHP). The grant available was only one third of the NAHP level: around £20,000 per home instead of £60,000.(**National Audit Office**: *Financial viability of the social housing sector: Introducing the Affordable Homes Programme*).

The coalition government's building programme under this scheme was £12 billion on new homes, funded by a combination of government grant (£1.8 billion), rents on the new properties (estimated to be around £6 billion by the NAO) and funding of £4 billion from other sources (including commercial borrowing, converting social housing properties to "affordable rent" and property sales).

Ironically, considering the government's attempt to drive down the housing benefit bill, one of the consequences of "affordable rent" is a significant increase in that bill on what is a fairly small programme. The NAO estimated that this programme alone would increase housing benefit payments by around £1.4 billion over 30 years.

With great fanfare the government presented its "affordable homes" programme as providing 170,000 homes over 4 years. However, they neglected to mention that 72,000 of them were part of the programme of the previous government. (See "Behind the spin on the "affordable homes" programme") [2]

"Affordable rent" round 2

Until recently there was some doubt over exactly what would follow the "affordable homes" programme after 2015. We now have an indication of the dimensions of 'round two' of "affordable homes". The Housing Minister Mark Prisk revealed that landlords taking part in the next round will have to enter into "efficiency deals". Prisk told a recent CIH conference that landlords participating in what is said to be an 165,000 home programme would have to "find efficiencies, carry out conversions and disposals".

1 http://keepourcouncilhomes.wordpress.com/2013/07/22/council-rents-for-council-homes/

2 http://keepourcouncilhomes.wordpress.com/2012/07/08/a-miserable-substitute-for-tackling-the-housing-crisis-behind-the-spin-on-the-affordable-homes-programme/

What this means is that in order to be able to produce “affordable rent” homes (charging up to 80% of private market rents) landlords will have to agree to pay for this 'privilege' by converting 'social rent' homes to “affordable rents” and selling off some of their homes when they become vacant. In other words the programme will reduce the number of existing 'social rent' homes despite the new building. The subsidy per home under this new round would fall to as little as £18,000.

The experience of round one illustrates the negative impact of “affordable rent”. In a report this June by “Future of London” (*The affordable rent model in London – Delivery, Viability, Potential*) we find that by Quarter 3 in 2012-13 there were 3,104 Affordable Rent Model (ARM) homes in London. However, of these only 543 were new build whilst 2,571 were conversions of social rent homes to the higher “affordable rent”.

Driving up the housing benefit bill

As expected one result of the higher rent is that even more tenants than in social housing qualify for housing benefit: 87% compared to 83%. This is despite the fact that rent levels are far below the 80% that can be charged. Landlords in London have been forced to set rents way below the 80% of market rate level because of the poverty of their tenants and the much higher rent levels in London. So, for instance, in Innner London median ARM rents are 53% of market rates, in Outer London 65%, and in London overall 59%. One bed homes are are 61% of market rates, 57% for 2 beds, and 51% for 3 beds. The higher they are the higher the housing benefit bill will be. The lower the rent that is charged then the more debt that the landlord has to take on. In the case of London the average subsidy per home was reduced by the coalition government from £90,000 to £26,000.

The report says:

“The impact of ARM on the housing benefit bill will be very significant. A largely benefit-dependent clientele is being placed in ARM homes at rents over 40% higher than the rents of traditional social housing.”

The House of Commons Committee of Public Accounts, in September 2012, in its deliberations on “affordable rent”, said that:

“Where higher rents are paid through increased housing benefit, tenants may find themselves caught in an even stronger benefit trap where it has become even harder to find sufficiently well paid employment to make working worthwhile, countering the Government’s objective of ensuring that the benefit system makes work pay. However, the Department does not hold information on the rent levels being charged for individual properties and it has not considered the impact on tenants or prospective tenants of these rent levels or the interaction with wider Housing Benefit reforms.”

The “Future London” report shows that the ‘affordable rent’ homes are being let to tenants who are “on average, in greater poverty than existing social tenants”. This is in total contradiction to the words of Iain Duncan Smith about ending 'benefit dependency' and ‘making work pay’. It adds:

“Since ARM residents are overwhelmingly dependent on housing benefit to meet their rents, it seems inevitable that the national housing benefit bill will rise under the new system, despite government intentions.”

Whilst much higher rents in London may well mean that the ratio of conversions to new build is lower elsewhere, the message from Prisk is that providers need to increase the funding of round two schemes by conversion and sales because the government is going to cut the subsidy further. Fundamentally, instead of addressing the housing crisis by new build of homes with genuinely affordable rents, this strategy will cut the number of available homes at 'social rent' level and mean that it will largely be tenants on housing benefit who can afford the higher rent levels.

As the House of Commons Committee on Public Accounts pointed out cutting subsidy whilst introducing "affordable rents", and hence increasing housing benefit, was simply shifting the cost from one department to another.

A key feature of the housing crisis in Britain is the "acute shortage of social housing" (to quote the words of Swindon MP Robert Buckland). A policy which worsens this shortage by conversion of 'social rent' homes to 'affordable rent' guarantees can only ensure that the waiting list numbers will continue to rise. As reported by BBC Radio an "affordable home" as defined by the coalition government is not necessarily affordable, not necessarily new.[3] My favourite is the £705,000 "affordable home"[4] in London (based on a 25% part-ownership).

So far as "affordable rent" is concerned it is unaffordable for many people and will drive up the housing benefit bill. The "affordable rent model" is one which should be opposed and abandoned at the earliest opportunity. To refuse to subsidise social housing new build whilst following a policy which drives up the housing benefit bill is remarkable since it is promulgated by a government which demonises people on benefit and professes to aim to drive down the housing benefit bill.

Wiping out 'social rent'?

It is arguable that the goverenment is attempting to progressively wipe out housing with 'social rent'. In a report by DTZ we read that:

"At present, providers will be able to convert vacant properties to affordable rent where they have reached an investment agreement with the HCA about how the additional rental income will be reinvested in the supply of new affordable housing. In these associations, around 5% of the social rented stock becomes available for re-let each year so if it were possible to convert all of thisd to affordable rent the vast majority of affordable housing stock could be affordable rent in 20 years time. In theory there is a significant incentive to convert to affordable rent, increase rents and improve revenues but providers wil need to balance the greater benefit of higher rens against possible increases in arrears and voids."

3 http://keepourcouncilhomes.wordpress.com/2011/12/20/affordable-homes-not-necessarily-new-homes-and-not-affordable/

4 http://keepourcouncilhomes.wordpress.com/2012/06/23/the-705000-affordable-home-#more-476

Logically, those people on the waiting list who are deemed to be in lower priority need, and in work would be better able to afford the higher rents. But as th experience of London shows these homes are going to the same people who would get a 'social rent' home. Whilst the criteria for qualifying for a tenancy still include

- people who are homeless, or owed a housing duty
- people living in overcrowded, insanitary or unsatisfactory housing
- people who need to move on medical or welfare grounds

Then people who are in better paid jobs are unlikely to be given tenancies, especially since government policy is leading Councils to set earnings limits for households, some of which are not very high if there are two tenants at work.

Note

In 2011/12 the average weekly social rent was £76, for RSLs £81. In comparison the average weekly rent under the "affordable rent model" was £110 a week, equating to 68% of average market rent (DCLG, Social Housing Lettings & Sales in England, 2011/12).

The DCLG information was based on 4,612 "affordable general needs lettings". Around a third of these were the first lets of new build, converted or aquired properties. Discussion with individual providers "confirmed that many of these were in new build properties" which were intended for use as 'social rent' and later assigned to "affordable rent".

"Affordable rent" was, on average 36% higher than 'social rents' for these 2011/12 lets.

Martin Wicks
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