

Briefing note

The impact of housing benefit changes

Housing benefit caps and changes in the way allowances are calculated are set to have an impact on private rented sector

Overview

- Housing benefit caps remain a London issue, the reduction in housing benefit levels have a far wider impact nationally.
- Reduced spending power will force households into lower value areas.
- Benefit caps will exclude claimants from large areas of central London.
- Housing benefit cuts in areas without strong rental demand could result in rental falls.
- Rental markets will be strong in lower value areas where rents align themselves with housing benefit payments.

Recent announcements to changes in housing benefit form part of the coalition pledge to curb public spending in the light of record national debt.

While there are a number of reforms to benefit payment and the provision for affordable housing currently on the table, including welfare benefit caps and new affordable rent initiatives, this document focuses on the impact of two recent announcements; housing benefit caps, and changes in the way allowances for housing benefit are calculated.

In the private rented sector 19% of tenants are in receipt of housing benefit. It is these households who will be impacted most heavily by changes in the payment of housing benefit.

In this document we also assess the potential impact of the changes in Local Housing Allowance (LHA) on tenants receiving housing benefit within the private rented sector, as well as the impact on landlords, investors and housing providers.

Graph 1.
Housing tenure by region (England)



Source: English Housing Survey

► **Housing benefit**

Across England 14.2% of households are living within the private rented sector. The highest proportions are in London, where privately let accommodation houses 22% of all households.

Within the private rented sector 19% receive housing benefit, compared with 59% of households in the social rented sector. This means private landlords are an important intermediate housing provider for those who do not qualify for social housing and cannot afford to buy.

Housing Benefit Caps

In order to reduce expenditure on housing benefit, recent government announcements include the introduction of new payment caps by property size, ranging from £250 per week for a one bedroom property to £400 per week for a four bedroom home.

Comparing these rental caps with average market rents across the UK, our analysis suggests that only London exceeds these cap levels. Our focus on London later in this document outlines the potential impact of these caps on the London rental market.

Calculating Local Housing Allowance

In contrast to the cap on benefit, is the actual level of housing benefit that will be paid in different locations. This is determined by government and sets the amount paid to tenants as housing benefit.

At present the LHA payable to the tenant is calculated according to market rents in a defined Broad Rental Market Area (BRMA), of which there are 193 in Great Britain. LHA is linked to the median rent for each property type within the BRMA.

Proposals put forward by the coalition government involve reducing the level at which LHA is set. This change in calculation will reduce the LHA from a median level (50th percentile) to the 30th percentile.

“Private landlords are an important intermediate housing provider for those who do not qualify for social housing and cannot afford to buy.”

Put simply, this equates to the level of housing benefit being calculated at the highest value in the bottom 30% of the rental market (for that particular property size) rather than the bottom 50%. Households unwilling or unable to supplement their housing benefit with personal income will therefore have their choice limited to the bottom 30% of the market rather than the bottom 50%.

These calculations are based on defined catchments, many of which take in both higher and lower value postcodes. With lower levels of spending power, households may be forced out of higher value areas, becoming more concentrated in lower value markets where properties are available within the lower 30% of rental price bands. This has implications for landlords and investors within both high and low value markets.

Where will the affect be felt?

Graph 2 below looks at the potential impact of the new 30th percentile measure compared with the current housing allowance. The impact is most pronounced for 4 bedroom properties with over 20% of claimants expected to receive less than 85% of their current allowance.

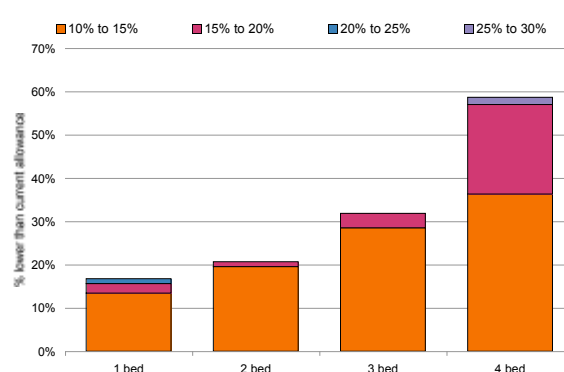
In markets where rental demand from non-housing benefit claimants is strong we expect that the displaced households will be replaced by other sources of demand with little or no impact on rents. However, those markets which do not have a sufficient depth of demand may experience falls in rents, as occupiers receiving LHA have reduced spending power and volumes of demand from non claiming households is not high enough to stabilise rental levels.

Areas close to high demand rental markets will probably be able to resist rental falls and could see LHA claimants moving out to more affordable neighbouring areas where LHA is sufficient to rent a suitable property. ►

Table 1.
Housing Benefit Caps

| Beds | Cap per week | Cap per month |
|------|--------------|---------------|
| 1 | £250 | £1,083 |
| 2 | £290 | £1,257 |
| 3 | £340 | £1,473 |
| 4 | £400 | £1,733 |

Graph 2.
Households losing more than 10%



Source: Department for Work and Pensions using VOA data



► **What is the effect on London?**

The effect of the benefit cap, rather than the shift to the 30th percentile, will have a far greater impact in London. For current LHA calculations, London is split into 14 Broad Rental Market Areas (BRMA). Even the cheapest 30% of properties in four of the BRMA still exceed housing benefit cap levels. This could well mean that housing benefit tenants will effectively be excluded from these higher value London areas (unless they are already housed in subsidised accommodation).

In addition to the BRMA, we have looked into the impact of housing benefit caps on each London borough, illustrated in the table overleaf. It is not just the high value central London boroughs where households may be excluded from the local housing market.

Of the 33 London Boroughs, 22 have average rents for four bedroom houses over the benefit cap level of £400 per week. The problem is less acute for smaller properties, although nine London Boroughs still have average rents for one bedroom properties over the £250 per week cap.

Eight of the 33 London Borough have average rents at every level, i.e. one to four bedroom properties which exceed the benefit cap levels. This could mean that unless households are able to supplement housing benefit to make up the difference, they may have to look at more affordable areas of the capital in order to secure appropriately sized properties at or below cap levels.

This problem will be particularly acute for larger properties not only in established central London areas but also in what would be considered as relatively affordable London Boroughs such as Bromley.

Implications for London

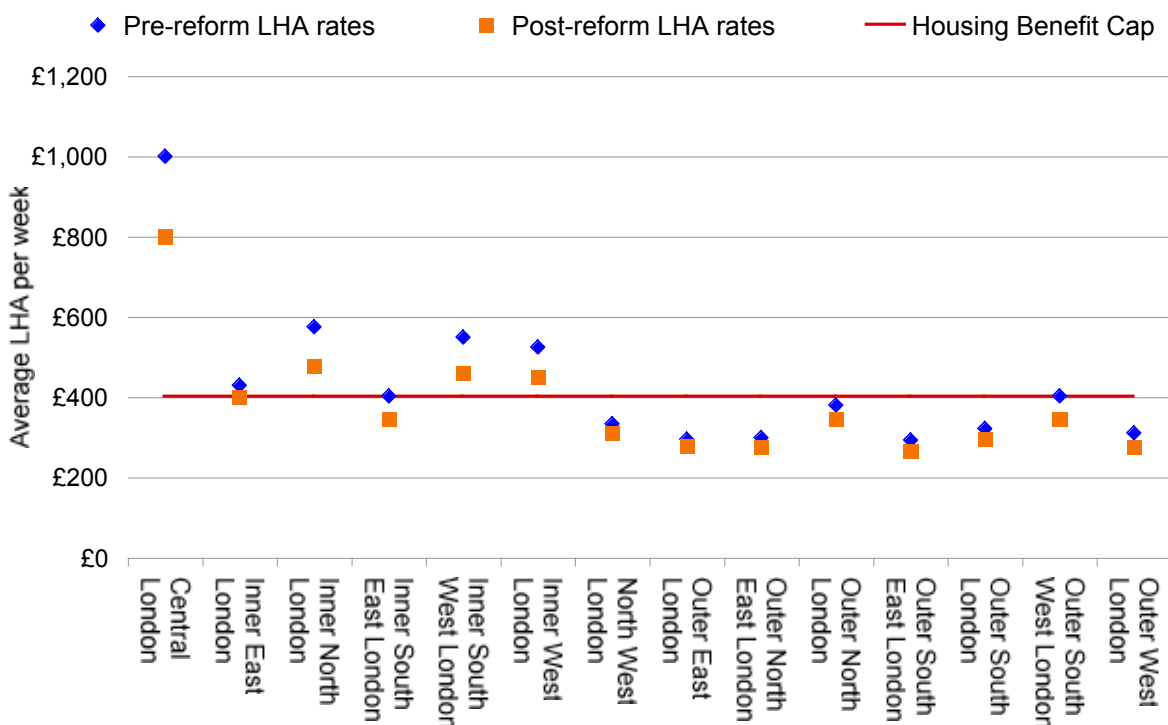
With demand for rental property in central London remaining strong from both domestic and overseas tenants, we do not expect the movement of housing benefit tenants from central London into lower value boroughs to have a significant impact on rents in these central areas.

The recalculation of LHA may cause rental growth in some of the more affordable London boroughs, particularly for three and four bedroom properties, due to increased competition from the existing local market, as well as from those relocating.

For housing benefit tenants, particularly those in central London boroughs, these changes could have a major impact on where they can live in future. Joining social housing waiting lists and/or a move to outer London will be the only option for many. ►

“The effect of the benefit cap, rather than the shift to the 30th percentile, will have a far greater impact in London.”

Graph 3.
Impact of reforms and housing benefit cap on London (4 bedroom houses)



Source: Department for Work and Pensions using VOA data



► National Implications

At a UK level, we expect rental demand to continue to increase, (in response to the difficulties in accessing owner occupation). Landlords who hold properties which fall foul of the reduced LHA, and where there is insufficient demand outside the housing benefit sector to fall back on, could be forced to reduce rents to retain or attract tenants.

Conversely, we expect that demand for property in lower value rental markets could increase, particularly in locations where high and low value neighbourhoods sit in close proximity to one another.

Changes in demand for rental property, from both housing benefit and non housing benefit sector do challenge the current bias of the private rented sector towards smaller, one and two bedroom properties. With issues of choice and affordability being more acute for larger three and four bedroom properties, it is this sector of the market where we expect the greatest impact of the housing benefit reforms to hit home.

Landlords, housing providers and policy makers will need to tackle the rise of the family tenant. It is these types of properties which we expect to see the biggest increase in demand and for whom displacement is arguably more difficult and disruptive. ■

Table 2.
Rents and benefit caps (London)

■ Average rent lower than cap
■ Average rent up to 25% higher than cap
■ Average rent over 25% above cap

| | 1 bed | 2 bed | 3 bed | 4 bed |
|----------------------|-------|-------|-------|-------|
| Kensington & Chelsea | ■ | ■ | ■ | ■ |
| City of Westminster | ■ | ■ | ■ | ■ |
| Camden | ■ | ■ | ■ | ■ |
| Islington | ■ | ■ | ■ | ■ |
| Richmond upon Thames | ■ | ■ | ■ | ■ |
| Tower Hamlets | ■ | ■ | ■ | ■ |
| Hammersmith & Fulham | ■ | ■ | ■ | ■ |
| City of London | ■ | ■ | ■ | ■ |
| Wandsworth | ■ | ■ | ■ | ■ |
| Hounslow | ■ | ■ | ■ | ■ |
| Ealing | ■ | ■ | ■ | ■ |
| Barnet | ■ | ■ | ■ | ■ |
| Merton | ■ | ■ | ■ | ■ |
| Kingston upon Thames | ■ | ■ | ■ | ■ |
| Haringey | ■ | ■ | ■ | ■ |
| Southwark | ■ | ■ | ■ | ■ |
| Bromley | ■ | ■ | ■ | ■ |
| Hackney | ■ | ■ | ■ | ■ |
| Lambeth | ■ | ■ | ■ | ■ |
| Redbridge | ■ | ■ | ■ | ■ |
| Harrow | ■ | ■ | ■ | ■ |
| Hillingdon | ■ | ■ | ■ | ■ |
| Brent | ■ | ■ | ■ | ■ |
| Enfield | ■ | ■ | ■ | ■ |
| Croydon | ■ | ■ | ■ | ■ |
| Havering | ■ | ■ | ■ | ■ |
| Lewisham | ■ | ■ | ■ | ■ |
| Greenwich | ■ | ■ | ■ | ■ |
| Sutton | ■ | ■ | ■ | ■ |
| Waltham Forest | ■ | ■ | ■ | ■ |
| Bexley | ■ | ■ | ■ | ■ |
| Newham | ■ | ■ | ■ | ■ |
| Barking & Dagenham | ■ | ■ | ■ | ■ |

Source: Savills using Globrix

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