

# The new Rent Standard



## What is the capacity for increasing general needs rents?

In April 2020, at the height of the Covid-19 pandemic and lockdown, the new Rent Standard came into force. This ended four years of rent cuts for general needs affordable housing. The new Rent Standard allows registered providers to implement rent rises, set at a maximum of CPI + 1% per year, for the first time since 2015-16.

We anticipate that registered providers will increase rents by the maximum amount. According to the Savills Housing Sector Survey 2020, 54% of housing associations will increase all rents by CPI +1% in the next 12 months whilst 41% will consider rent increases having regard to the tenants' ability to pay. Rent rises will help give providers financial capacity to fund the development of new homes, to improve existing stock, and to meet energy efficiency requirements.

However, there will be consequences if these rent rises continue over the longer term. Affordability will become more stretched, benefit caps breached and the difference between social and market rents eroded.

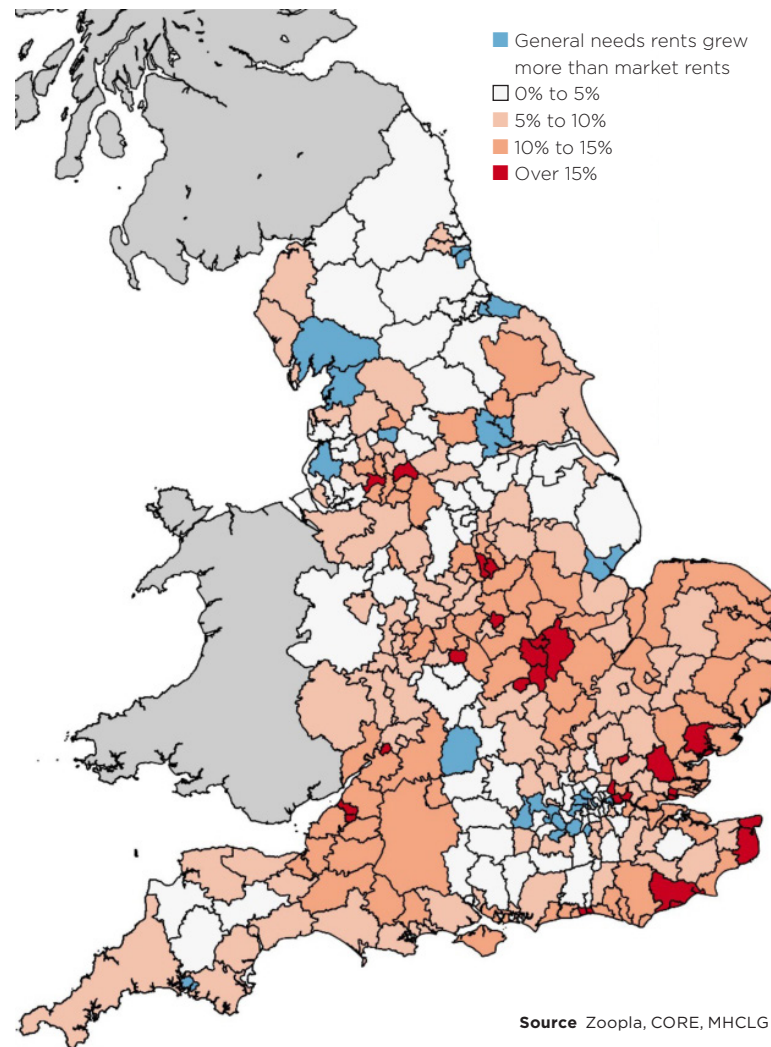
We have modelled the impact of these rent rises and compared the resulting rents against different policy caps and affordability ceilings. Increasing rents will have varying impacts across the country, with a much greater impact much sooner in some local areas, depending on the current relationship between general needs rents and the local market.

Within five years, general needs rents will be pushing up against the benefit cap in some local authorities in the South East. Assuming rents continue to rise at CPI +1%, the average general needs rent will have overtaken the average market rent in 23 local authorities by 2030.

More significantly, general needs rents will exceed the benefit cap for those out of work in 110 local authorities by 2030. This will apply to the 14% of social housing tenants' who have children, are on housing

benefit and are unemployed. This is likely to have an impact on both financial strategy and operational strategy for providers, shifting focus onto ensuring tenants' are in work so that they can avoid the benefit cap. ➤

### Market rental growth in excess of growth in average general needs rents percentage point difference over five years to March 2020



Source Zoopla, CORE, MHCLG

“ The new Rent Standard allows registered providers to implement rent rises, set at a maximum of CPI +1% per year ”

## KEY STATISTICS



### Rental growth will help...

fund building safety and decarbonisation



### Rent rises in low value...

markets risk increasing voids



### Rent rises in high value...

markets could put pressure on tenants' hitting benefit caps



### Landlord rent policies...

must recognise the nuances of local markets

## What are the potential consequences of CPI +1%?

Following four years of rent reductions, the map on page 1 shows the percentage point difference in growth over the last five years between market rents and general needs rents. There are five local authorities in the South East and East Midlands where market rental growth was more than 20 percentage points greater than the change in the average general needs rent.

But in other areas, including parts of London, market rents have fallen at a faster rate than general needs rents.

In many places, market rents have increased by less than CPI +1% per year. So if general needs rents continue to grow at the maximum level, they will overtake market rents. This will happen sooner where the starting difference is smaller.

In many parts of the north, the average

general needs rent (including both affordable and social rent) is over 60% of the average market rent. Here, some higher priced general needs housing already exceeds pricing at the bottom end of the private market. And the average general needs rent will overtake the average market rent sooner.

In London and the south, the average general needs rent is generally 60-80% lower than the average market rent: a substantial gap to fill.

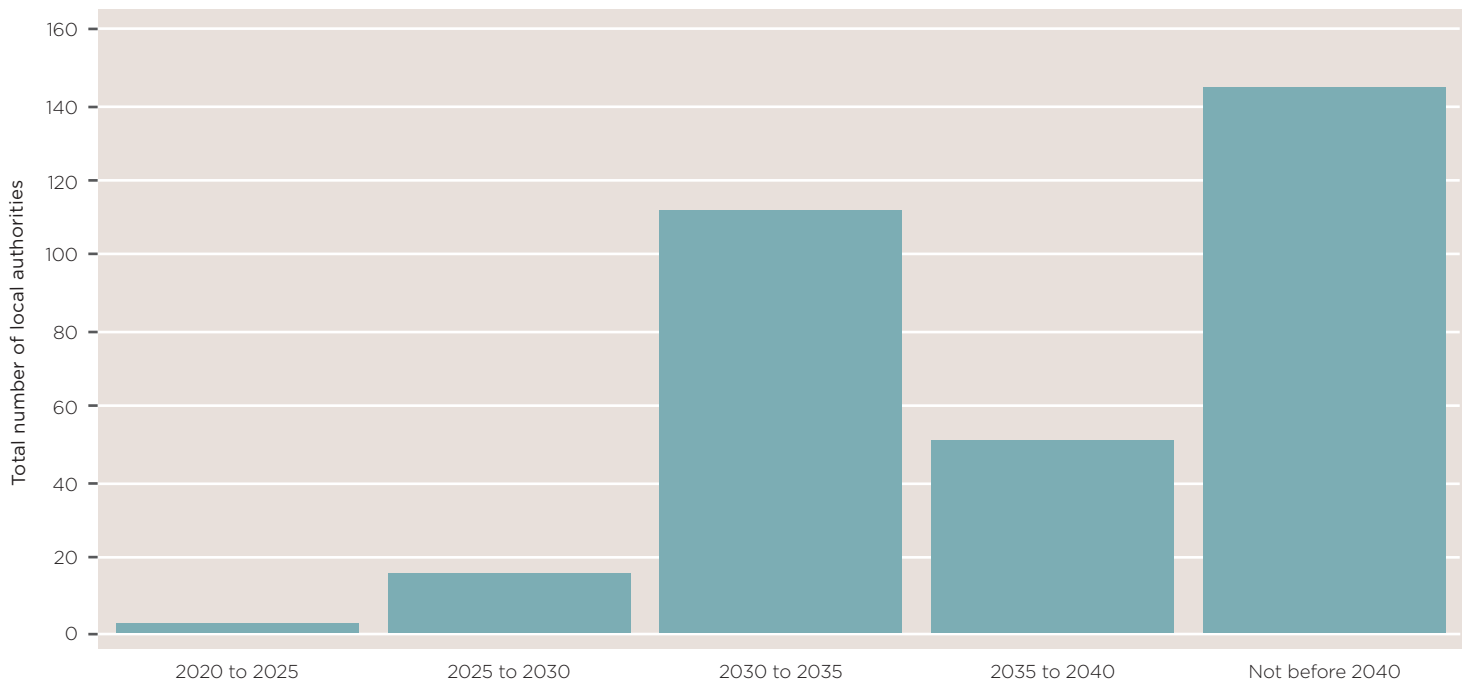
We have modelled regulated rents growing at CPI +1% and market rents growing in line with GVA (as a proxy for wage growth) to understand how long it might be before the average general needs rent overtakes the average market rent. Our analysis shows this will happen in three local authorities by 2025, increasing to 23 local

authorities by 2030, and 181 by 2040.

Rent rises of CPI +1% therefore may not be sustainable for long across many parts of the country. The gap between average regulated rents and market rents is already narrow in areas like Fylde, Kingston upon Hull and Gateshead. More unexpectedly, this will also happen quickly in East Hertfordshire and Broxbourne because current general needs rents are higher here than in surrounding areas.

Turnover of social housing stock is higher in the districts where market rents and general needs rents are the most similar (see '(Social) Home Truths'). So voids may increase as the gap reduces, unless landlords moderate rent increases in areas of greater rent competition.

When will general needs rents overtake market rents in each local authority?



Source Savills Research, CORE, MHCLG, Oxford Economics

## When do regulated rent increases hit up against the benefit cap?

Through the first two quarters of 2020 and the Covid-19 pandemic, there has been a huge increase in demand for welfare services and the number of households applying for benefits. Consequently, there have also been rising numbers of households that have hit up against the benefit cap.

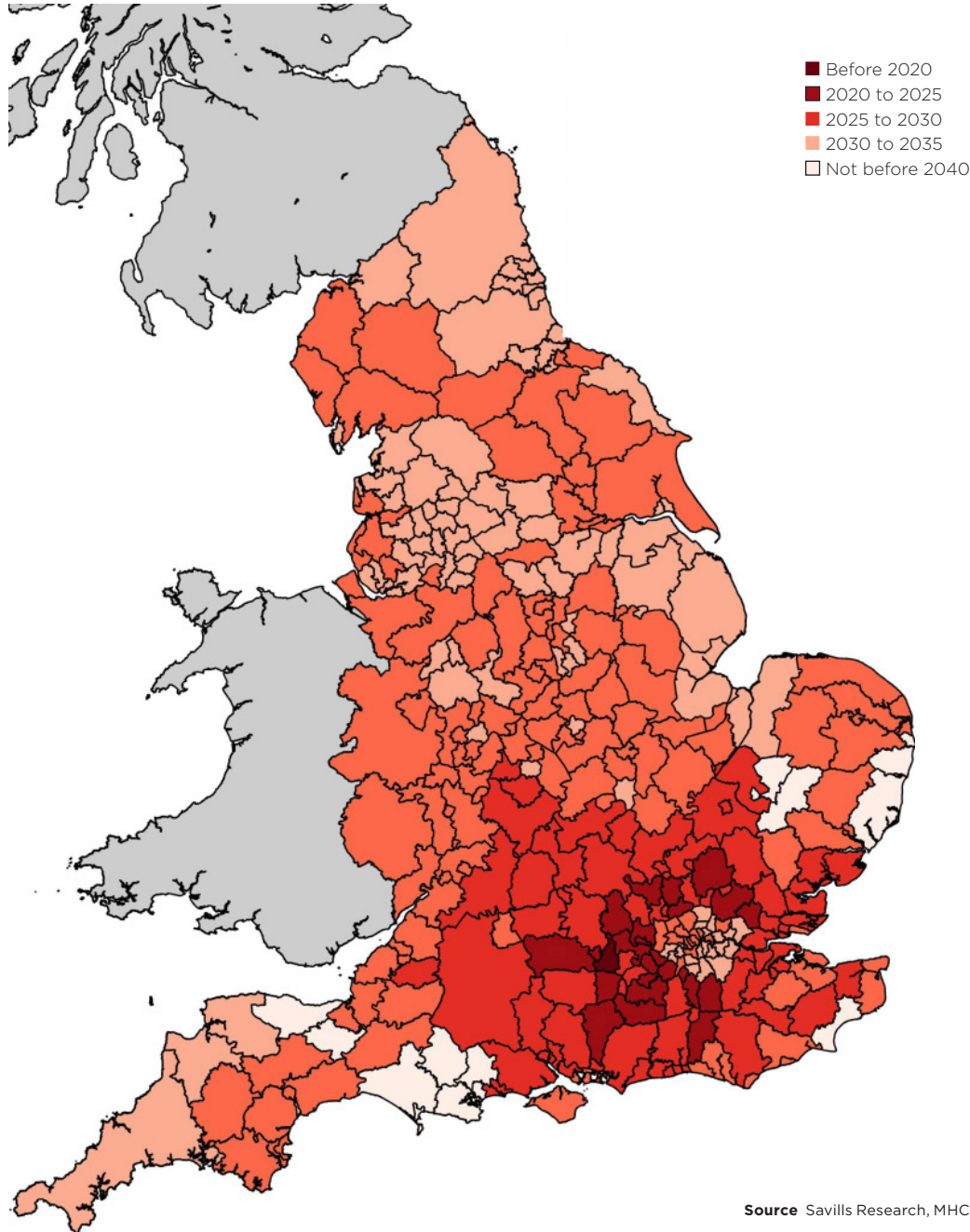
Around 150,000 households hit the benefit caps in May, a 93% increase in the c.80,000

households who had their benefits capped in February. The biggest percentage increases in total claimants between February and May were concentrated around the South East and the Midlands, with claimant counts in some districts rising over 15%, albeit from low levels.

We have calculated the amount of housing benefit available to a sample household in

London and the rest of England within the benefit caps for those out of work. This household consists of two adults and two children (at least one of the children born before 2017) claiming universal credit. 14% of social housing tenants' on housing benefit at May 2020 both have children and are either not in employment or are receiving passported benefits and are therefore subject to the benefit cap.

When do general needs rents hit up against the benefit cap?



Source Savills Research, MHCLG, CORE, DWP

We have then modelled how long it takes for general needs rents, increasing at the maximum rate of CPI + 1%, to hit up against the benefit cap in each local authority area. This assumes the benefit cap remains at current levels, as it has since 2016.

The map shows that the greatest strain will be in the areas surrounding London. For many local authorities here, general needs rents will be pushing against the benefit cap within five years. Until 2030, pressure remains concentrated in the south. After 2030, general needs rents start

to exceed the benefit cap across the rest of the country.

With a slightly higher benefit cap, it takes general needs rents longer to push up against the current cap in London than the rest of the south. The analysis highlights how inappropriate the GLA boundary is as a differentiator between housing markets.

Increasing general needs rents will therefore start to have an influence on registered providers' financial and operational strategy, especially in the Home Counties. Providers will want

to ensure tenants' are in work to avoid hitting up against the benefit cap.

In London, the Love London Working partnership of 13 housing associations managed by the GLA was started in 2016 to help the progression into work of those in long term unemployment and economic inactivity. The initiative has supported over 5,500 into employment from 2016. This kind of activity will need to become more widespread in order to help social housing tenants' to afford their rents as they increase.

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