evidence
BRIEFING

PUBLISHED FEBRUARY 2016

E·S·R·C ECONOMIC & SOCIAL RESEARCH COUNCIL

HIGHLIGHTING RESEARCH FINDINGS AND THEIR RELEVANCE IN KEY POLICY AREAS

Rents in social housing: the trade-offs

Policy implications

- There is a lack of coherent policy approach to social rent. Rent reductions for existing social tenants contrast sharply with the ongoing 'Affordable Rent' policy of allowing for substantially higher rents for new social tenancies, having different impacts on work incentives and net-of-rent incomes of social tenants; and the government had committed to ten years of above-inflation increases in rents for existing social tenants, before instead reverting to four years of rent reductions just one year into that ten-year commitment.
- Introducing a 'cliff edge' for the Pay to Stay threshold (where a mere £1 of income over the threshold means a jump straight up to market level with a drastic rent increase) would create inequities and large disincentives for social tenants to increase their income above the threshold (for example by working more hours).
- A sensible solution would be to increase rents gradually as incomes rise above the threshold – although this would still weaken work incentives. Choosing how to gradually increase rents involves delicate trade-offs over revenue, incentives and targeting of support.
- A rent increase of 50p for every pound of income over the threshold would reduce households' net-of-rent incomes by a total of around £600 million per year (£2,400 per affected household) – raising the exchequer around £200 million.

Overview

The cost of housing has risen rapidly, largely due to constrained housing supply. While this continues there are no easy answers for welfare policy: either the state spends increasingly large amounts subsidising housing costs, or it lets housing costs push increasing numbers of people into hardship.

Sub-market rents for social tenants are one of the main ways of subsidising the cost of housing and provide an alternative to the increasingly expensive housing benefit. The average social rent in England is currently an estimated 70 per cent of the average market rent. However, since 2011 the 'Affordable Rent' model has allowed rents for most new social tenancies to be much higher than previously, up to 80 per cent of market levels.

Significant changes to social rent policy have recently been introduced or are in the pipeline. These include two policies announced in the July 2015 Budget: to reduce social rents in England by one per cent per year for the next four years, and to charge market or 'near market' rents for some higher-income tenants (the 'Pay to Stay' policy).

The Institute for Fiscal Studies report *Social rents policy: choices and tradeoffs* analyses the consequences of changing the level of rent for tenants in social housing, for tenants, social housing providers and the exchequer.

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Key research points

- Cuts in social rents will be of little direct benefit to most households living in social housing in England. Most social tenants are on low income and receive housing benefit, which will typically be reduced pound-for-pound with rent cuts – leaving their income after paying rent unchanged.
- The rent reduction will save the exchequer money via lower housing benefit, while social landlords – housing associations and local authorities – will lose money.
- Tenants who gain from the rent reduction will tend to be around the middle of the income distribution; low-income tenants are the most likely to be on housing benefit and hence to be unaffected by changes in rents, while better-off households are less likely to be in social housing in the first instance.
- A reduction in housing benefit (due to the rent reduction) will strengthen tenants' work incentives, as they have less means-tested housing benefit to lose by entering work or increasing their earnings.
- The £2.3 billion reduction in social landlords' annual rental income could reduce the amount of new housing supply, with 80,000 fewer social sector properties built between now and 2020-21, according to the Office for Budget Responsibility.

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BRIEF DESCRIPTION OF THE PROJECT

The Institute for Fiscal Studies report *Social rents policy: choices and tradeoffs,* funded by Trust for London, explores the impacts of different choices of social rent policies. It also shows how these impacts are affected by welfare reforms such as the family benefit cap and the introduction of universal credit.

Stuart Adam, Daniel Chandler, Andrew Hood and Robert Joyce: *Social rents policy: choices and tradeoffs*

Web: www.ifs.org.uk/publications/8036ww

FURTHER INFORMATION

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The Institute for Fiscal Studies (IFS) is Britain's leading independent microeconomic research institute. It is core-funded by the ESRC.
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