Resolution Foundation

The Resolution Foundation Housing Outlook

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Welcome to the final Housing Outlook of 2021. Times are tough for many at present, as prices rise and Omicron puts the UK's tentative economic recovery in jeopardy. In this quarter's spotlight we assess the living standards prospects of social renters, and in particular consider what soaring inflation means for their housing costs as they head into the spring.

Social rents can currently be increased by up to CPI plus 1 percentage point each year, and as a result, those living in local authority or housing association homes could see their housing costs rise sharply in April 2022. The 4.1 per cent rent hike they may face (based on September 2021's inflation figure) will be the largest rise for a decade – inflating the average social renter family's rent by £202 per year. This increase comes on the back of a decade-long period in which social renters' housing costs have outpaced incomes, and support from the benefit system has declined.

Housing providers will no doubt want to increase social rents in full in April 2022, not least because of the unexpected rent reductions they were required to make between 2016 and 2020. But an above-inflation rent rise would be especially bad news for the 44 per cent of social renter families not in receipt of housing benefit, who will have to absorb the entire increase themselves. Social landlords may be caught between a rock (business need) and a hard place (tenant wellbeing) right now, but raising rents to the maximum in April 2022 can only worsen the acute living standards crunch that social renters face next year, risking rising housing stress and rent arrears as a result.

Spotlight | The impact of higher inflation on social renters' housing costs

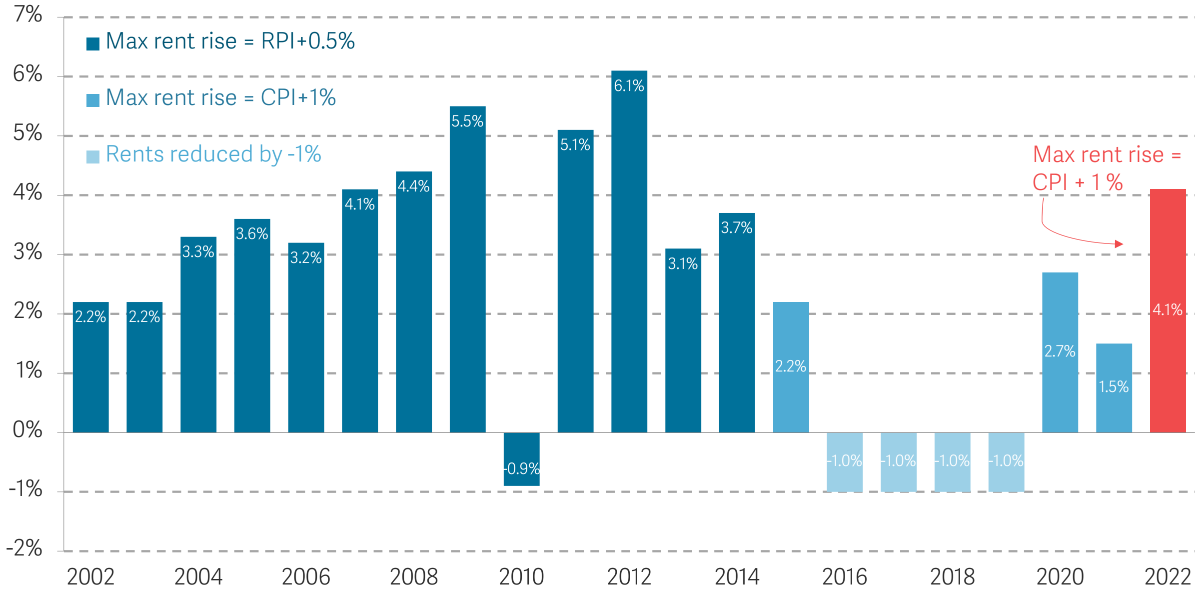
The price of goods and services has soared in recent months as the UK has cycled in and out of pandemic-related restrictions and suffered supply constraints and shortages (particularly in the oil and gas sectors). Rising inflation clearly erodes the purchasing power of all families, but a higher rate of inflation has an additional implication for the housing costs of social renters.

Since 2001, social rents in England have been based on a 'formula rent' set by the central government and based on a property's size and value as well as local income levels. In addition, there is a cap on year-to-year changes to protect tenants from large annual rent increases. From April 2002 until March 2015, annual social rent increases were capped at the Retail Price Index (RPI) plus 0.5 percentage points. In 2015-16, the system changed so that social rents could rise by up to the Consumer Prices Index (CPI) plus 1 percentage point each year. That settlement was abandoned just one year later, when the Government announced that social rents would fall by 1 percentage point for thesubsequent four years. In April 2020, however, social rents returned to being uprated by a maximum of CPI plus 1 percentage points – an arrangement due to last until April 2025.[2]

CPI inflation was 3.1 per cent in the year to September 2021 (the month used as the peg), so social rents will rise by as much as 4.1 per cent from April 2022 (equivalent to an additional £202 per year for the average social renter family).[3] Although this is a ceiling on rent increases, and not a requirement, it seems very likely that the majority of housing providers will apply the full amount given the unexpected four years of falling rents – and thus falling rental income – that the sector faced from 2016. As Figure 1 shows, this 4.1 per cent increase will be the largest nominal rise in social rents for a decade. This comes at precisely the same point that other pressures on family budgets will come to a head: average gas and electricity bills are predicted to rise by as much as 50 per cent when the energy price cap is raised in April 2022; the Bank of England anticipates that consumer price inflation will peak at 6 per cent the same month; and National Insurance contributions will rise in the new financial year. Rising social rents on top of these increases will be very damaging for living standards indeed.

FIGURE 1: **Social rents are set to increase by up to 4.1 per cent from April 2022**

Limits on annual rent increases for social housing: England



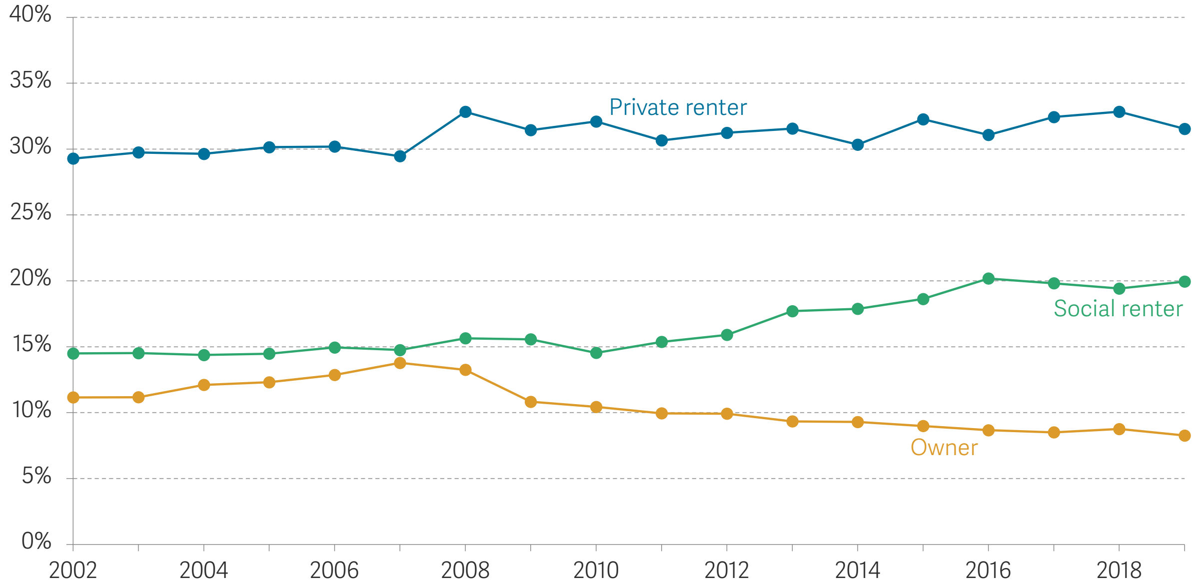
NOTES: Year labels refer to the financial year beginning in April of each year.

SOURCE: RF analysis of House of Commons Library, Rent setting: Social housing (England), March 2019 and relevant government announcements.

This high cap on social rents is particularly worrying given that housing costs have become increasingly burdensome for social renters over the last decade. In Figure 2, we show the average housing cost (net of housing benefit) as a proportion of income for owner occupiers, private renters and social renters.[4] As this makes clear, social renters spent an average of around 15 per cent of their income on housing costs between 2002 and 2012 even after housing benefit is taken into account, a figure that rose to 19 per cent by 2019-20 (equivalent to £786 per year extra rent for the average social renter family). By contrast, owner occupiers have seen their housing costs decline as a proportion of income over this period (they have falling interest rates to thank for that), and, although private renters spend significantly more of their income on housing than social renters, this has remained steady at around 31 per cent. The rent rise for social renters in April 2022 will continue this trend: 4.1 per cent outstrips the OBR's estimate for 3.6 per cent growth in household disposable income per capita over the same period, as well as expectations for private sector rents, meaning that further pressure will be put on both the absolute and relative living standards of social renters.[5]

FIGURE 2: **Social renters' housing costs have increased significantly relative to incomes over the past decade**

Average housing costs to income ratio (net of housing benefit) per family unit, by tenure: England



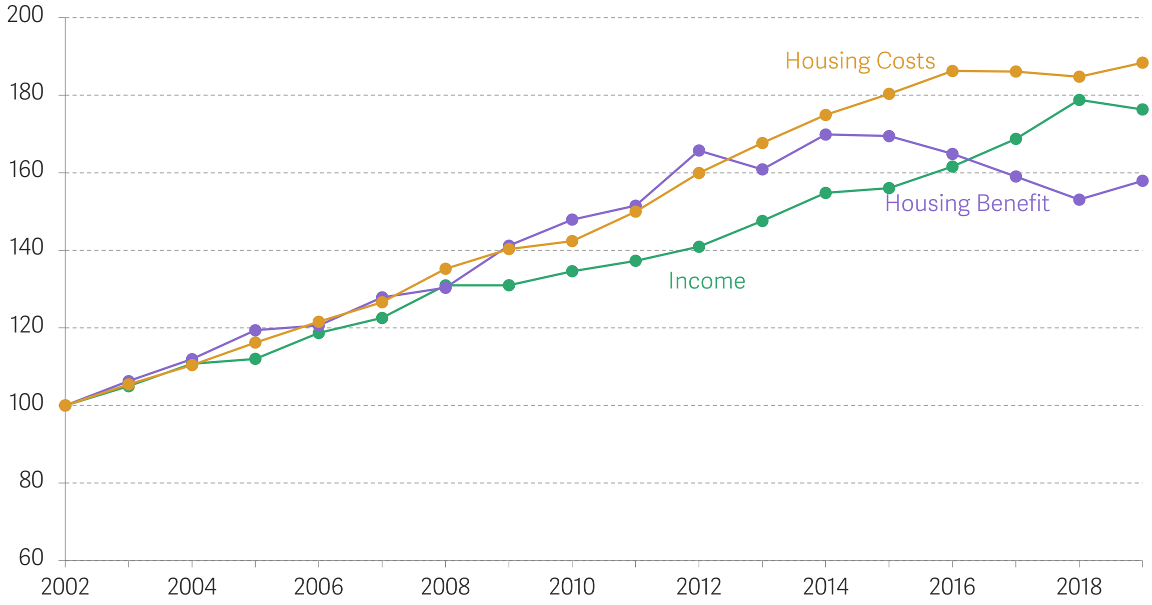
NOTES: Year labels refer to the financial year beginning in April of each year. 2019 figure for social renters has been re-weighted to account for households that have moved onto Universal Credit and so are no longer recorded as receiving housing benefit in the Family Resources Survey, but who continue to receive housing support via the housing element of UC. A family unit is a single adult or a couple living together (plus any dependent children).
SOURCE: RF analysis of Department for Work and Pensions, Family Resources Survey.

The rising share of income that social renters have to spend on their housing costs is curious when we remember the rate at which social rents increased shown in Figure 1. Why, for example, did housing costs not become more burdensome for social renters in the noughties when nominal rents were increasing at a fast clip? And why did the share of social renters' income spent on housing costs remain flat in the four-year period between 2016 and 2020 when their housing costs were falling in real terms?

Figure 3 provides the answer to both these questions. Here, we show the growth over time of (separately) social renters' incomes net of housing support, the housing benefit component of their income, and how their rents have changed. As this makes clear, increases in social rents during the early 2000s were matched by the growth in net incomes and housing benefit. A wedge between social renters' housing costs and incomes began to emerge in 2009 in the wake of the financial crisis, but housing benefit rose commensurately until 2014 when the level of state support began to fall. In 2002, average housing benefit covered 52 per cent of average housing costs for social renters; by 2019, this has fallen to 43 per cent. As a result, social renters today need to use more of their non-housing benefit income to cover their rent than in the past, with obvious downward pressure on their living standards.

FIGURE 3: **Social rents have grown faster than incomes over time, exacerbated by declining levels of housing support**

Index of average housing costs, incomes (net of housing benefit), and housing benefit for social renters (2002=100): England



NOTES: Year labels refer to the financial year beginning in April of each year. 2019 figuresfor social renters has been re-weighted to account households that have moved onto Universal Credit and so are no longer recorded as receiving housing benefit in the Family Resources Survey, but who continue to receive housing support via the housing element of UC.

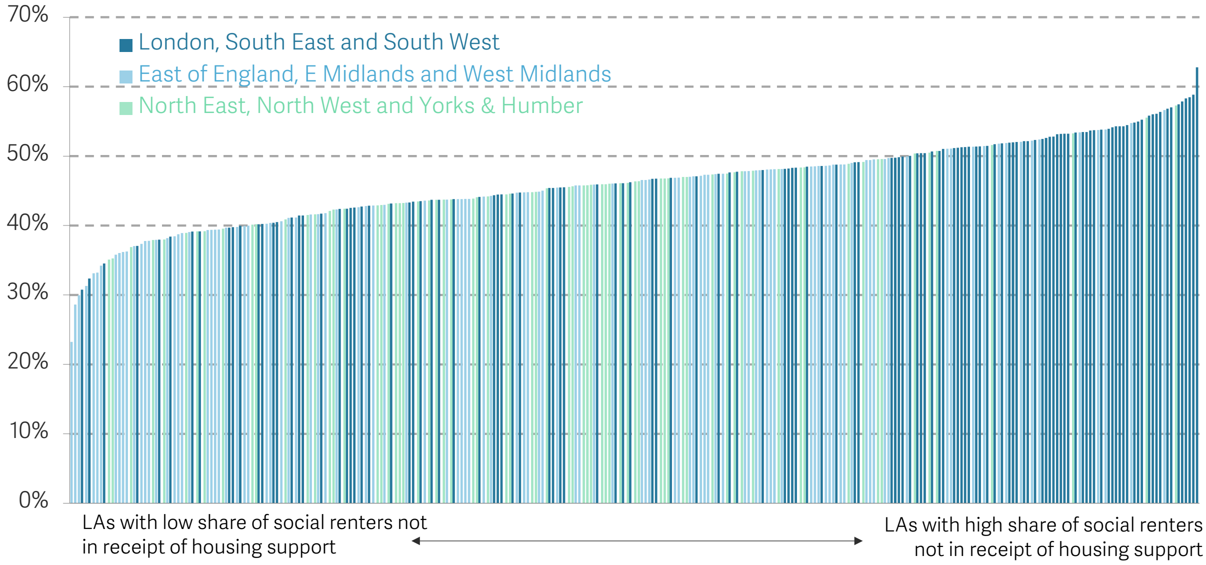
SOURCE: RF analysis of Department for Work and Pensions, Family Resources Survey.

That said, this picture is largely driven by the fact that in recent years, a growing share of social renters do not receive any state support toward their housing costs (this is more likely to be because they have sufficiently high incomes not to require help rather than because of tightening eligibility).[6] It is this group of social renters who are clearly most exposed to the above-inflation rent rise coming their way in April 2022 and, as Figure 4 shows, this is a non-negligible group. Estimates suggest that across England, 56 per cent of social renting families receive some form of benefit support with their housing costs, leaving 44 per cent paying their rent in full. But there is significant regional variation to this picture: as the chart makes plain, social renters living in London, the South East and South West are less likely to be in receipt of housing cost support than those in other parts of the country, and therefore likely to be harder-hit come April 2022.

So where does this leave social renters? The last twenty-two months have clearly been tough, but the various support temporary support measures introduced when the pandemic hit – including the Job Retention Scheme, the £20 per week uplift to Universal Credit (UC) and extra support provided via Discretionary Housing Payments (DHPs) – have cushioned the impact of the pandemic for many: data shows, for example, that housing arrears in the social rented sector have not grown significantly over the pandemic period.[7] (This is also no doubt testament to the very active outreach work that many housing providers have undertaken during the Covid-19 crisis, providing valuable lessons about how to contain arrears even in 'normal' times). But as we enter 2022, those sources of support have largely ended, just as new and acute living standards pressures emerge in the form of rising inflation (and, of course, the Omicron variant puts the tentative economic recovery in jeopardy).

FIGURE 4: **Social renters in London and the South are more likely to have to bear the April 2022 rent rise in full**

Proportion of social renter family units not in receipt of housing benefit/housing element of UC, by local authority: England, 2021



NOTES: A family unit is a single adult or a couple living together (plus any dependent children).

SOURCE: RF analysis of StatExplore benefit claims data; Department for Work and Pensions, Family Resources Survey; DLUHC, Live Table 100.

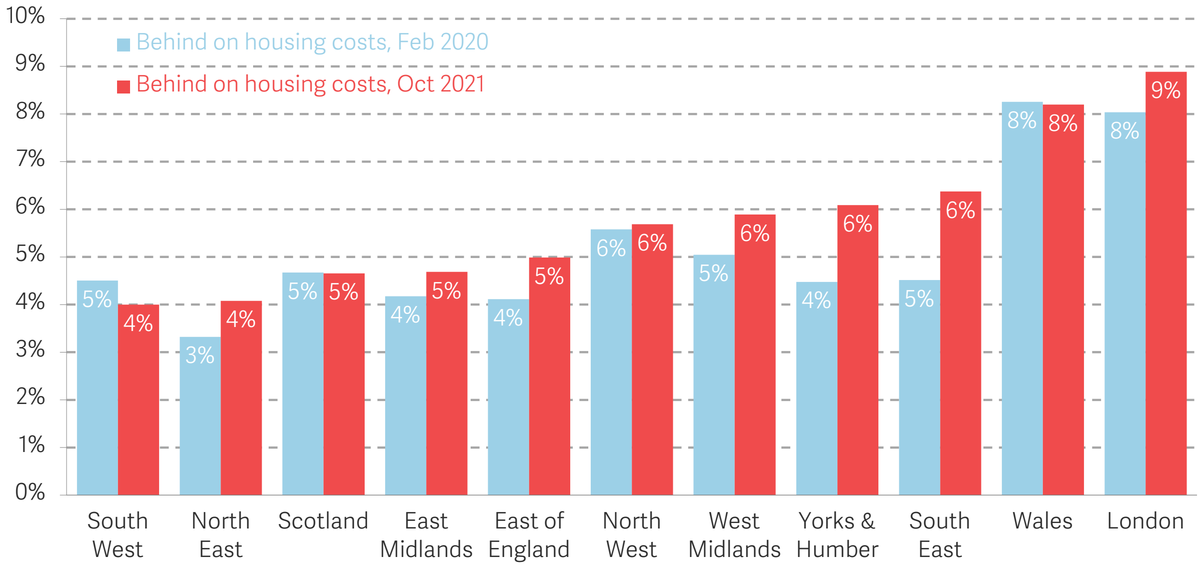
We conclude, then, that a large share of the 4.75 million social renter families in England face not just a grim winter as a result of rising costs and disruption from the new variant, but a particularly acute living standards crunch in the spring. While it is natural for social landlords to want to increase rents to the full as they try to make up the ground they lost between 2016 and 2020, if ever there was a year to soft-peddle on the maximum uprating, that year is 2022.

Regional focus | Housing arrears across the nation

This quarter's regional focus looks at how the Covid-19 crisis has affected the ability of adults aged 18-65 or families to cover housing costs in different parts of the country. For many households, housing costs represent their largest single monthly expenditure, so it comes as no surprise that many have struggled to cover these expenses during the course of the pandemic. Previous Resolution Foundation analysis has shown that at the start of the crisis (May 2020), one-in-eight private renters, and one-in-six social renters, had fallen behind with housing costs. But how did things look across the country as the economy began to normalise in recent months? As Figure 5 makes plain, there was a significant amount of regional variation in the share of working-age individuals struggling to cover housing costs across the UK in October 2021. London and Wales stand out as having the highest proportion of individuals behind on housing costs at 9 per cent and 8 per cent respectively – more than double the rate in the South West and North East, which had the lowest proportion of individuals behind on housing costs in the autumn at 4 per cent.

FIGURE 5: **There is wide variation in the level of housing arrears across Britain**

Proportion of working age adults, behind on housing costs before and after the Covid-19 outbreak, by region: Great Britain, 14-24 October 2021



NOTES: Base = all 18-65-year-olds with housing costs at the outset of the pandemic (i.e. February 2020) and October 2021 (n=4,790). Sample sizes are: North East = 189; North West = 541; Yorks & Humber = 423; E Midlands = 358; W Midlands = 382; East of England = 427; London = 626; South East = 663; South West = 413; Wales = 228; Scotland = 425. These figures have been analysed independently by the Resolution Foundation and are not the views of YouGov.
SOURCE: Analysis of YouGov, Adults aged 18-65 and the Coronavirus (Covid-19), October 2021 wave.

The chart also shows how the crisis has had longer-lasting effects on housing cost affordability: arrears in October 2021 were slightly higher than they were pre-pandemic in most regions (with the worse performing region here being Yorkshire and Humber, which has seen a rise of 2 percentage points in the fraction of people behind on housing payments). But as our spotlight shows, with CPI inflation rising at its fastest rate in 10 years, social rents increasing above inflation in April 2022 and the new threat the Omicron variant poses to the economic recovery, many families are facing increased pressures which could further impact on their ability to cover their housing costs over the coming months.

Endnotes

1 With thanks to our colleague Daniel Tomlinson for the idea for this spotlight; Sam Lister at the Chartered Institute for Housing for talking us through the intricacies of historical rent setting policy; and various housing association contacts who kindly shared front-line perspectives with us on this topic.

2 This policy was announced as part of the 2015 Summer Budget, just one year after a new long-term funding proposal was announced with the stated aim of providing social housing landlords the certainty needed to promote investment.

3 Source: RF analysis of Department for Work and Pensions, Family Resources Survey.

4 Throughout this spotlight we use the term 'housing benefit' to include the housing element of Universal Credit.

5 The OBR forecasts private and social rents together to increase by 2.3 per cent in 2022-23, reflecting a lower rate of increase for private rents compared to social rents.

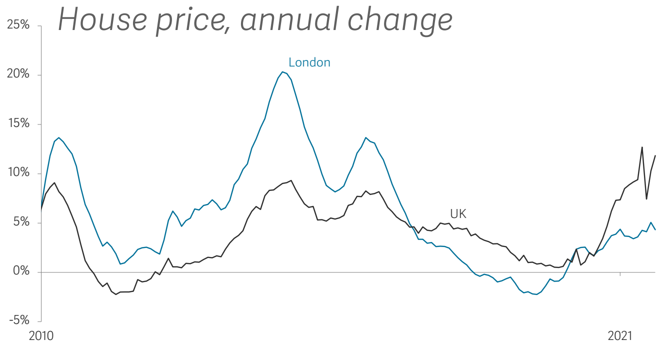
6 Between 2002 and 2019, for example, the share of social renting family units in England with at least one member in employment rose from 36 per cent to 46 per cent. Source: RF analysis of ONS, Labour Force Survey.

7 Government funding for DHPs was boosted by £40 million between 2019-20 and 2020-21 reaching a total of £180 million, and 94 per cent of the allocation was spend by local authorities. In 2021-22 £100 million was made available with a further £40 million being reserved for funding based on caseload outcomes.

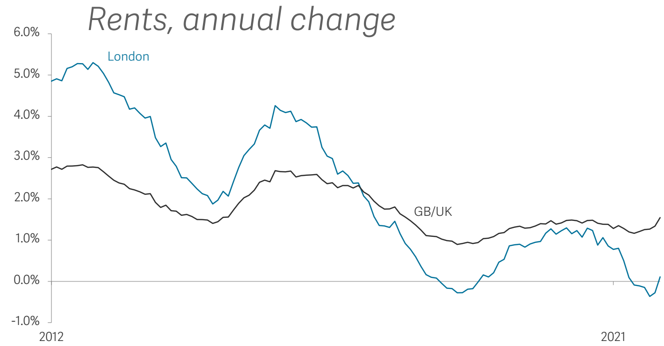
Housing indicators | Exploring key trends in the UK housing market, and what this means for households and policy makers

The charts below look at key trends in the UK housing market as a whole, as well as among regions, tenures and age groups where these trends have differed or been more pronounced. View notes, sources and the interactive data behind our indicators at resolutionfoundation.org/housingoutlook

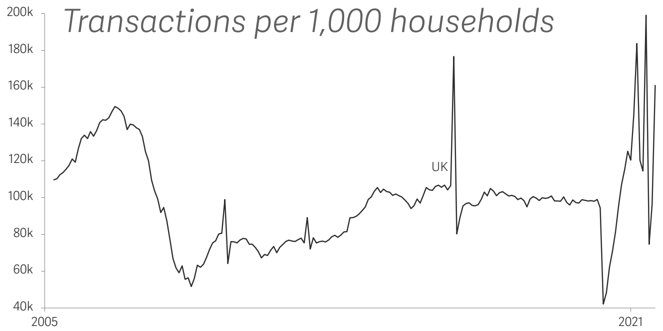
Housing market trends:



UK house price growth has boomed over the pandemic, and has continued to do so as stamp duty and transaction tax holidays have been phased out.



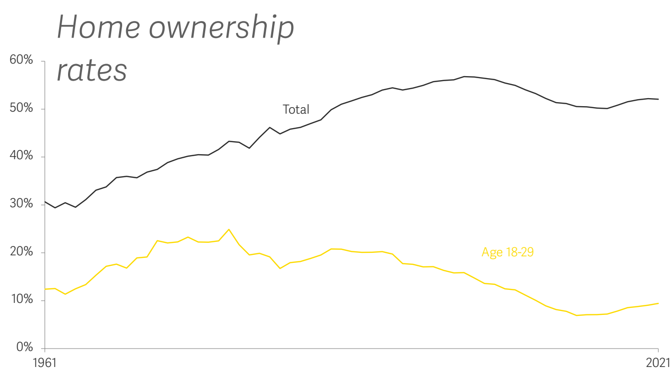
Rents were edging upwards pre-crisis, but rental price growth appears to be slowing in the most recent data. Rents in the capital have begun growing for the first time in five months.



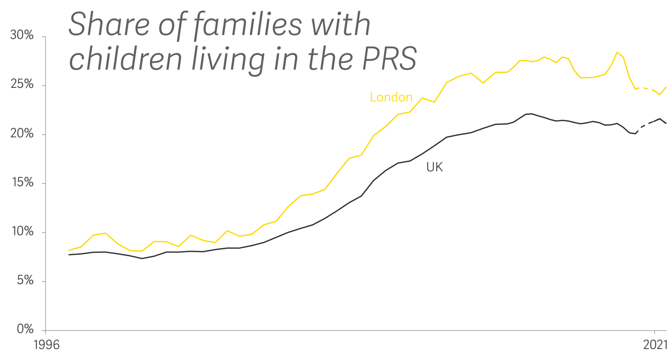
Transactions fell sharply in April and May, but reached record highs in June before the Stamp Duty holiday ended in Wales and was reduced in England. Transaction rebounded again in September the final month of Stamp Duty savings in England.

Mortgage approvals had been flat for around five years pre-crisis, but have fallen sharply - past the lowest levels of the financial crisis, rebounding partially over June.

Housing and living standards:

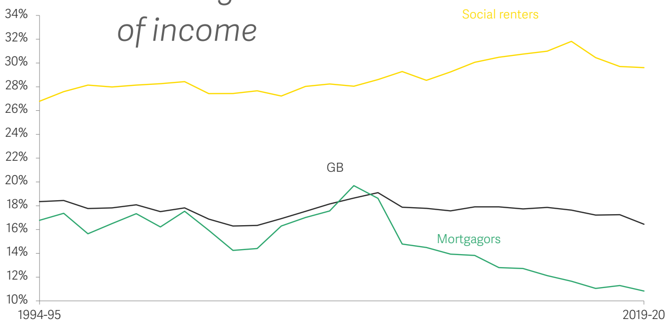


Home ownership rates have ticked up since 2016, a trend continued in the latest data.



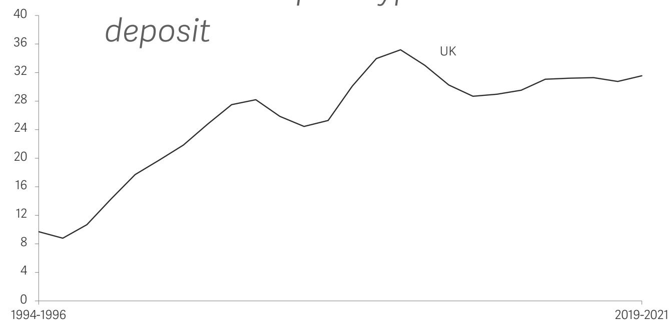
The share of families with children that live in the PRS has increased almost three-fold since the 1990s, although the latest data likely has crisis-related measurement issues.

Housing costs as a share of income



Housing costs as a share of income fell for mortgagors after the financial crisis, but have increased rapidly for social renters in more recent years.

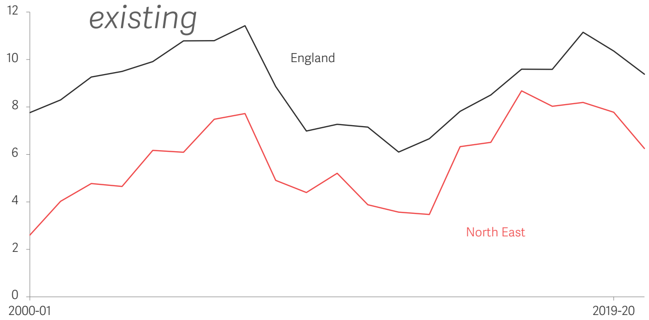
Years to save for a typical deposit



It would take 31 years for a typical young family to save for a deposit. This chart is not comparable with previous versions published given methodology changes due to data availability.

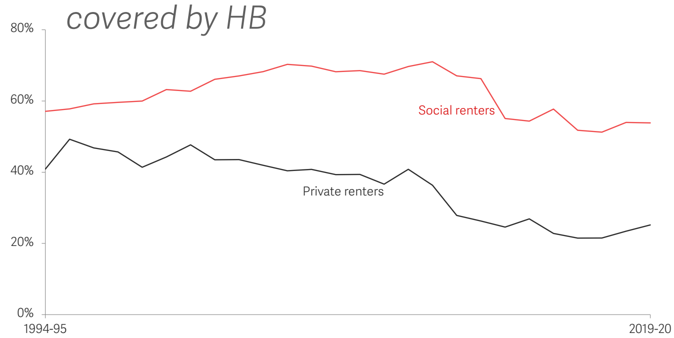
Housing and policy

Net additional dwellings per 1,000 existing



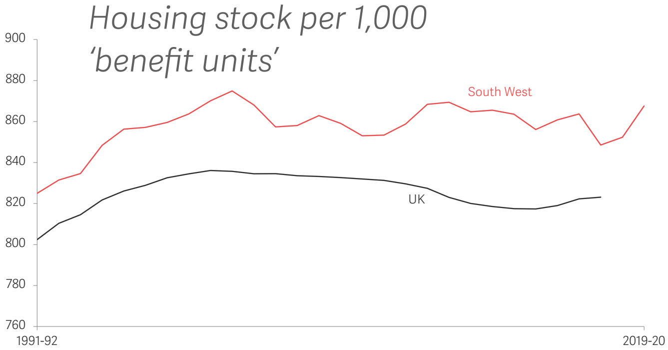
Overall net additions had recovered since the financial crisis, but not in all parts of the country - and the pandemic saw a fall in additions.

Housing benefit (HB) recipients fully covered by HB



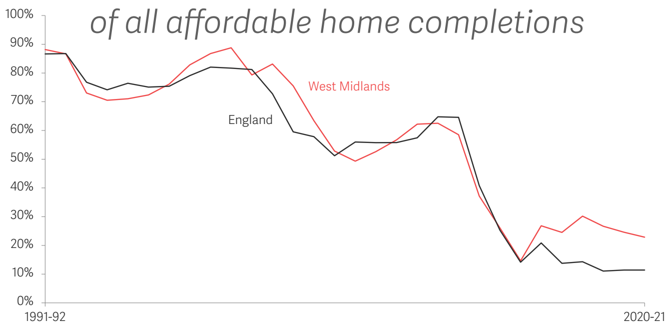
The share of families in receipt of housing benefit whose housing costs are fully covered fell throughout the 2010s - we do not yet have data reflecting the changes made to housing benefit in March 2020.

Housing stock per 1,000 'benefit units'



Relative to the number of families, the UK's housing stock has declined since the turn of the century.

Social rental properties, as a proportion of all affordable home completions



Social rental properties have fallen significantly as a proportion of the affordable housing built in England through the 2010s.

For more of our housing work and notes, sources and interactive data for this report, visit resolutionfoundation.org/housingoutlook.

The Resolution Foundation is an independent research and policy organisation. Our goal is to improve the lives of people with low to middle incomes by delivering change in areas where they are currently disadvantaged.

We do this by undertaking research and analysis to understand the challenges facing people on a low to middle income, developing practical and effective policy proposals; and engaging with policy makers and stakeholders to influence decision-making and bring about change.

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