

Research Note

How affordable are rents for National Living Wage families?

October 2016

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Shelter helps millions of people every year struggling with bad housing or homelessness. We provide specialist advice and support on the phone, face to face and online, and our legal teams can attend court to defend people at risk of losing their home.

However at Shelter we understand that helping people with their immediate problems is not a long-term solution to the housing crisis. That's why we campaign to tackle the root causes, so that one day, no one will have to turn to us for help.

We're here so no one has to fight bad housing or homelessness on their own.

We provide practical advice and support to over 4 million homeless or badly housed people a year via our website, telephone helpline and network of advice services. We employ over 200 advisers and 40 solicitors to give advice and offer representation.

Summary

The new Conservative government has shown a welcome acknowledgement of both the housing crisis¹ and the key role that new rented housing plays in helping to solve it². This research explores what levels of rent new housing should be set at in order to truly work for 'just about managing'³ families across the country.

Previous sub-market rental programmes have involved grant for homes at up to 80% of market rent. This analysis shows, however, that for a family with one full-time and one part-time worker in jobs paid at the National Living Wage, these rents would not be affordable in almost half of local authorities in England.

A better product for these low-income working families is the living rent outlined in Renewal's 'Homes for All' report. This would be affordable in all but 13% of local authorities.

What rent is affordable to National Living Wage families?

We focus on a family with one adult working full time and one adult working part time. Results are also presented for a household with only one adult working full time.

It is assumed that all workers earn the current National Living Wage of £7.20⁴ and that full-time and part-time hours are in line with current averages⁵.

Genuinely affordable rents for these hypothetical families, assumed to be 30% of gross earned income⁶, are as follows:

Family type	Gross annual earnings	Monthly rent affordable out of earnings
1 full-time, 1 part-time	£ 20,346	£ 509
1 full-time	£ 14,272	£ 357

¹ Theresa May Conservative Party Conference speech. Birmingham, 5th October 2016:

<http://www.telegraph.co.uk/news/2016/10/05/theresa-mays-conference-speech-in-full/>

² Gavin Barwell speech to NHF. Birmingham, 22nd September 2016 <https://www.gov.uk/government/speeches/national-housing-federation-september-2016>

³ Theresa May speech, 'Britain, the great meritocracy. British Academy, London, 9th September 2016

<https://www.gov.uk/government/speeches/britain-the-great-meritocracy-prime-ministers-speech>

⁴ Low Pay Commission, retrieved 20th October 2016 <https://www.gov.uk/government/organisations/low-pay-commission>

⁵ Full-time hours at 38.12 hours per week and part-time hours at 16.23 hours per week. Labour Market Survey, average for 2015/16 financial year

<http://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/earningsandworkinghours/timeseries/ybuy/lms>

⁶ This deliberately does not include housing benefit, as the analysis is concerned with what rent level would be required for low-wage working families to afford their housing without it

What levels could rents be set at?

What the families could genuinely afford out of their earnings is then compared to three different potential rent setting regimes.

- Market rent, defined as the median rent in each local authority⁷
- 80% of market rent, in line with the 'Affordable Rent' levels expected under the 2015-18 Affordable Homes Programme⁸
- Renewal's 'Conservative Living Rent'⁹, defined as a third of the gross 30th percentile earnings in each local authority

It is assumed the family has young children and therefore market rents are in relation to two bed properties.

Results

1 full-time adult, 1 part-time adult

	% LAs where market rent is unaffordable	% LAs where 80% market rent is unaffordable	% LAs where Renewal's 'Living Rent' is unaffordable
England	79%	47%	13%
North East	8%	0%	0%
North West	49%	5%	0%
Yorkshire and the Humber	38%	10%	0%
East Midlands	65%	3%	0%
West Midlands	73%	10%	0%
East	98%	68%	13%
London	100%	100%	55%
South East	100%	93%	31%
South West	100%	46%	0%

The need for a sub-market rental offer is clearly shown, with market rent unaffordable to a family with two National Living Wage earners in almost 80% of English local authorities. There are, however, more parts of the North East, Yorkshire and the North West where market rent is affordable.

Rents set at 80% of the market are still unaffordable for this type of family in almost half of local authorities. This type of sub-market rent is affordable in larger parts of the North West, Yorkshire and the Midlands. It is, however, unaffordable for these families throughout London and the South East, in the majority of the East and in almost half of the South West.

⁷ Valuation Office Agency, private rents March 2015 - April 2016. <https://www.gov.uk/government/statistics/private-rental-market-statistics-may-2016>

⁸ Affordable Homes Programme 2015 to 2018: prospectus. Homes and Communities Agency, October 2014 <https://www.gov.uk/government/publications/affordable-homes-programme-2015-to-2018-prospectus>

⁹ 'Homes for All'. D. Skelton, September 2016. Renewal. http://www.renewalgroup.org.uk/wp-content/uploads/2014/11/DSKJ4421_Homes_for_All_Report_010916.pdf

By contrast, the Conservative Living Rent would be affordable in almost 90% of local authorities. In particular, it could be a useful addition in the South West, where it would be affordable for National Living Wage families in all the region's authorities.

It is also greatly improves the number of affordable areas in the East (unaffordable in only 13% of authorities), South East (unaffordable in only 31% of authorities) and London (unaffordable in 55% of authorities).

1 full-time adult

	% LAs where market rent is unaffordable	% LAs where 80% market rent is unaffordable	% LAs where Renewal's 'Living Rent' isn't affordable
England	100%	95%	88%
North East	100%	83%	82%
North West	100%	82%	78%
Yorkshire and the Humber	100%	86%	67%
East Midlands	100%	95%	85%
West Midlands	100%	97%	85%
East	100%	100%	92%
London	100%	100%	100%
South East	100%	100%	98%
South West	100%	100%	87%

The results for families with only one adult working full-time and earning the National Living Wage show how challenging finding somewhere affordable to rent is for these households. Conservative Living Rent is still, however, affordable in more local authorities, particularly in Yorkshire and the Humber.

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