



Affordable Rent

Cost, Affordability and Implications for Policy

Prepared on behalf of

Test Valley Borough Council

Final Report August 2011

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1 Introduction

1.1 Objectives

- 1.1 Affordable rent has been designed to provide landlords, registered providers and local authorities with scope to increase rents on new lettings. Landlords will also be able to offer affordable rented properties on flexible tenancies. The Government's stated aim is to 'develop a stock of affordable homes that better reflects the ability of households to afford them and to provide providers with greater funds which can be channelled back into new development.'
- 1.2 Government guidance states that affordable rents can be set at *up to 80%* of market rents. There is very little other guidance on how affordable rents should be determined. Like social rented housing, affordable rent is intended to be for people in housing need on local authority waiting lists.
- 1.3 Test Valley Borough Council specifically wishes to explore how far affordable rent is capable of meeting need within Test Valley and the implications for the delivery of new affordable housing in the Borough. The flexibility to set higher rents raises a number of policy questions. These include:
 - Which households are able to afford higher rents?
 - How low would affordable rents need to be set in order for those in priority need to be able to afford them?
 - If affordable rents are set at a higher level and *unaffordable* to those in greatest need, how will homes be allocated and what are the implications of this for fairness?
 - What would be the implications of operating a dual system of social and affordable renting, with different tenants potentially paying different rents for similar properties?
 - Is there a risk that affordable rented properties may be close in price to entry level market properties and what are the implications of this for the wider rental market?

1.2 Approach

- 1.4 This study has involved three stages of analysis:
 - Establishing rental levels within Test Valley Borough
 - Estimating the income required to rent within Test Valley, based on rental levels
 - Modelling the extent to which households in housing need can afford rental levels, based on their incomes
- 1.5 Whilst these are relatively simple calculations, this task is made challenging by the difficulties in collating data on both rental levels and household incomes.
- 1.6 Data on market rents has been sourced from the property website Rightmove, which brings together advertised rental properties from the majority of local agents. We have cross checked these rents with local agents to ensure that they do not include further service charges etc. We have also cross checked the data with that provided by the Rent Service to determine the local housing allowance.
- 1.7 We have not adjusted these 'asking' rents on the basis that discussions with three local agents suggest that advertised rents are by and large achieved. Local agents informed us that tenants rarely negotiate with the agent or landlord to achieve a slightly lower price than that advertised. There may be some properties on the market that do not achieve the asking rent but these are usually re-advertised at a lower rent. There may be some properties in our sample where the rental value is not achieved, though we expect these to be limited in number. Unlike with house prices where the Land Registry records sales, there is no data available on *actual* rental values at the local authority level.
- 1.8 Affordable rents have been calculated using market rents as the baseline. We have calculated the mean average market rent and the median. These were used to cross check each other and ensure

that the mean was not being obscured by abnormally high or low outliers. In the vast majority of cases, the median and mean average market rents were identical or similar. We have used the mean to calculate affordable rents. There is no guidance on how affordable rents should be calculated (whether from mean or median or other market rents). An alternative would be to use lower quartile market rents as the base rent from which to determine affordable rents. This would ensure they remained below rents in the open market, but may present practical difficulties because of the challenge in collecting rental data and the sample size, particularly when looking at sub-Borough areas and different sized properties.

- 1.9 Affordable rents are initially calculated as 80% of market rents. We assume that any service charge is included in the rental value, as it is with the market rents in the properties in our sample. In practice, this might mean that providers need to reduce the headline affordable rent to ensure that, together with any service charge, this works out at less than 80% of the market rent for a particular sized property.
- 1.10 The income required to rent is based on the assumption that a household can afford to pay up to 33% of their gross income in rental costs. The CLG's Strategic Housing Market Assessment guidance suggests 25-33% is used as a threshold for rental affordability when calculating housing need. We have used 33% because we believe it better reflects the fact that households are to prepared to stretch their incomes to afford housing costs. DTZ understands that most local authorities and providers are using this benchmark to establish affordability, though the approach is different in London where Councils have used 40% of *net* incomes as the affordability threshold.
- 1.11 In order to assess the extent to which households in housing need are able to afford rental costs we have collated and analysed data from Test Valley Borough Council's waiting list (Hampshire HomeChoice and the Local HomeBuy Agent (HomesinHants). There are some limitations with these data sources, the key one being that income data is based on applicants self-reporting. It is verified when a household successfully bids for a property but this means that the data on the waiting list may be false in some cases and may be out of date in others. A further issue is that the income reported by a household is reflective of their current circumstances. Some households may be living with friends or family and not yet claiming housing benefit; their incomes will be higher when they receive the benefits to which they are entitled when they form an independent household. Others may be living in social rented housing and receiving housing benefit to pay their full rent. But social rents are much lower than affordable rents. The income of these households will increase if they to move to affordable rented homes as they will be able to claim higher levels of housing benefit to cover the corresponding increase in rent. Nevertheless, this is the case with any source of income data and despite these limitations it represents the best available information at the time.
- 1.12 Data is presented for Test Valley Borough as a whole and, where possible, is broken down into three sub-Borough areas:
- Andover
 - Romsey (southern part of the Borough which falls within the Partnership for Urban South Hampshire)
 - The rural areas (the villages and rural areas outside of Andover and the South Hampshire area)
- 1.13 The rest of this report is structured as follows:
- **Section 2** estimates what affordable rents are likely to be in Test Valley (if they are set in relation to market rents)
 - **Section 3** sets out the cost of renting and the income required for renting to be affordable to a household.
 - **Section 4** examines the extent to which households on the waiting list can afford affordable rents and what level of rent can they afford. It also examines the extent to which other households might be able to afford affordable rents including existing tenants and intermediate households.
 - **Section 5** draws out the implications for housing and planning policy.

2 Rents within Test Valley

2.1 Market Rents

- 2.1 Figure 2.1 presents average market rents for different property sizes within Test Valley and the sub-Borough areas. Rents are based on data from August 2011¹.
- 2.2 In Test Valley, average rents for a 1 bedroom property are £550 per month. There are some properties available at a cheaper rent, the lowest being £295 per month and at the other end of the spectrum rents for some 1 bedroom properties are as high as £850 per month. The range of rents for each size of property and for each sub-Borough is contained in the Appendix.
- 2.3 The data in Figure 2.1 suggests that average monthly rents rise by around £150-200 for each additional bedroom in a property in the Borough as a whole, though there is a much more significant gap between 3 and 4 bedroom properties. Rents appear to be lower in Andover while rents are highest in the rural areas of Test Valley. The average rent for a 2 bedroom property within the rural area is over £800 per month. There are properties available for lower and higher rents than the average, though even the lowest rent for a 2 bedroom property within the rural areas is £630 per month.

Figure 2.1: Average Market Rents (pcm) within Test Valley Borough, by Sub-Borough Area

	Andover	Romsey	Rural Area	Borough
1 bed	£540	£560	£610	£550
2 bed	£660	£920	£840	£750
3 bed	£780	£1,110	£1,070	£980
4 bed	<i>£1,200</i>	£1,670	£1,670	£1,670
5 bed	£1,370	£2,730	£3,200	£2,680

Source: Rightmove. Figures rounded to nearest £10. *Italic* figure indicates an estimate because of the lack of data on 4 bed properties in Andover at the time of the rental survey.

- 2.4 Rental levels in Romsey and the rural areas of the Borough appear to be higher than the average for the Borough. However, the number of properties available to rent in these areas is much lower and so caution needs to be applied when interpreting the figures. The limited availability of rental properties in these areas may be an issue for policy in itself.
- 2.5 In the Borough as a whole, only 1 bedroom market rents fall within the local housing allowance limits. Although average priced 1, 2 and 3 bedroom properties within Andover would be accessible to those on housing benefit.
- 2.6 The average market rents in Figure 2.1 have been used to estimate the level of Affordable Rent within Test Valley and each of the sub-Borough areas.

2.2 Affordable Rents

- 2.7 Figure 2.2 sets out affordable rents when these are calculated as 80% of open market rents. Affordable rents for a 1 bedroom property range from £430 per month in Andover to £490 in the rural areas. The average for the Borough is £440 per month.
- 2.8 In the Borough as a whole, 1, 2 and 3 bedroom affordable rents (at 80% of market rents) fall within the local housing allowance limits. 4 bedroom property rents are significantly above the LHA limit of £1,050 per month.

¹ Properties on the market in August 2011

- 2.9 Affordable rents set at 80% of market rents are above the lowest market rent recorded for most property sizes in the Borough as a whole and within Andover. The supply of cheaper market properties is limited in most areas but there may be localised areas where the introduction of affordable rents (at 80% market rents) will be directly competing with entry level market properties. In the rural areas, our analysis suggests that affordable rents at 80% of market levels are cheaper than the lowest prices market properties across all property sizes (see Appendix for detailed data).

Figure 2.2: Average Affordable Rents pcm (80%) within Test Valley Borough, by Sub-Borough Area

	Andover	Romsey	Rural Area	Borough
1 bed	£430	£450	£490	£440
2 bed	£530	£730	£670	£600
3 bed	£620	£890	£860	£790
4 bed	£960	£1,340	£1,340	£1,340
5 bed	£1,090	£2,180	£2,560	£2,140

Source: Rightmove. Figures rounded to nearest £10. *Italic* figure indicates an estimate because of the lack of data on 4 bed properties in Andover at the time of the rental survey.

- 2.10 Figures 2.3-2.5 set out the levels of affordable rent in Test Valley if these are set at 70%, 60% and 50% of market levels.
- 2.11 Affordable rents set at 70% of market rents broadly fall within the LHA limits. 4 bedroom properties remain marginally more expensive than the LHA rate Romsey and the rural areas of Test Valley where affordable rents of 60% might be needed to make these properties affordable to those on housing benefit.
- 2.12 At 60% of market levels, affordable rents are relatively close to the level of social rent within the Borough for 1 and 2 bedroom properties (Figure 2.6). Figure 2.4 shows that affordable rents set at 60% of market rents range from £330 per month for a 1 bedroom property to £1,000 per month for a 4 bedroom property. Whilst this level is consistent with social rents for 1 and 2 properties, there remains a divergence between affordable rents and social rents for larger properties. Affordable rents at 50% of market rents come into line with social rents for 3 bedroom properties but there remains a significant gap for 4 and 5 bedroom homes.

Figure 2.3: Average Affordable Rents (70%) within Test Valley Borough, by Sub-Borough Area

	Andover	Romsey	Rural Area	Borough
1 bed	£380	£390	£430	£380
2 bed	£460	£640	£590	£530
3 bed	£550	£770	£750	£690
4 bed	£840	£1,170	£1,170	£1,170
5 bed	£960	£1,910	£2,240	£1,870

Source: Rightmove. Figures rounded to nearest £10. *Italic* figure indicates an estimate because of the lack of data on 4 bed properties in Andover at the time of the rental survey.

Figure 2.4: Average Affordable Rents (60%) within Test Valley Borough, by Sub-Borough Area

	Andover	Romsey	Rural Area	Borough
1 bed	£320	£340	£370	£330
2 bed	£390	£550	£500	£450
3 bed	£470	£660	£640	£590
4 bed	£720	£1,000	£1,000	£1,000
5 bed	£820	£1,640	£1,920	£1,610

Source: Rightmove. Figures rounded to nearest £10. *Italic* figure indicates an estimate because of the lack of data on 4 bed properties in Andover at the time of the rental survey.

Figure 2.5: Average Affordable Rents (50%) within Test Valley Borough, by Sub-Borough Area

	Andover	Romsey	Rural Area	Borough
1 bed	£270	£280	£310	£270
2 bed	£330	£460	£420	£380
3 bed	£390	£550	£540	£490
4 bed	£600	£840	£840	£840
5 bed	£680	£1,370	£1,600	£1,340

Source: Rightmove. Figures rounded to nearest £10. *Italic* figure indicates an estimate because of the lack of data on 4 bed properties in Andover at the time of the rental survey.

2.3 Social Rents

2.13 Figure 2.6 sets out social rents within Test Valley. The Borough Council transferred its stock to Testway Housing Association (part of the Aster Group) so the stock of social rented housing within the Borough is owned and managed by housing associations. As noted above, there is much more compression of rents in the social rented sector with relatively small steps in price between properties with additional bedrooms. This might be explained in part by larger properties in the market sector having additional attributes eg large gardens, more internal space etc which are not matched in the social rented sector for properties with the same number of bedrooms. However, the low rents for larger properties in the social rented sector are largely to do with rent controls in place. This has implications for setting affordable rents within Test Valley where rents will be based on market rents.

Figure 2.6: Social Rents within Test Valley Borough (p/w and pcm)

	Weekly Rent	Monthly Rent
1 bed	£74.3	£320
2 bed	£86.5	£380
3 bed	£93.5	£410
4 bed	£104.6	£450
5 bed	£103.5	£450

Source: Regulatory and Statistical Return 2011 – Guide to local rents. Rounded to nearest £10

2.3.1 Housing Benefit

2.14 It is important to note that housing benefit may cover all or part of the rent where a household is eligible for it. For households living within housing association homes within the Borough, households receiving housing benefit will have their full rent covered or receive a discount on their rent to reflect their entitlement. Those living in the private rented sector will receive the local housing allowance for the size of property the household it entitled to. The local housing allowance is set at the following levels within Test Valley (as at January 2012):

- Shared accommodation rate: £63.50 per week (£273 per month)
- One Bedroom Rate: £132.69 per week (£575 per month)
- Two Bedrooms Rate: £161.54 per week (£700 per month)
- Three Bedrooms Rate: £184.62 per week (£800 per month)
- Four Bedrooms Rate: £242.31 per week (£1,050 per month)

2.15 This level of rent may or may not cover the full rent of the property. The LHA level is calculated by the Rent Service from the distribution of market rents within the Borough and is set at the 30th percentile. It is clear from the analysis of market rents that the LHA rent levels in Test Valley would not cover the full market rent of properties with 2 bedrooms or more unless they can be secured at lower than average rents. However, the supply of properties at entry level rents is limited within some parts of the Borough.

- 2.16 For tenants in council accommodation or other social housing, the maximum housing benefit they can receive is the same as their 'eligible' rent. Eligible rent includes rent for the accommodation and charges for some services, such as lifts, communal laundry facilities or play areas. The amount of housing benefit a household is entitled to will depend on their personal and financial circumstances. It will also reflect the type of property and rent paid and whether the rent is reasonable for the particular property. The eligible rent may be limited to an amount that is reasonable for a suitably sized property in the area.

3 The Income Required to Rent within Test Valley

3.1 Income required for Market Rents

- 3.1 Using the rental levels set out in Section 2, Figure 3.1 calculates the annual income a household would need to be able to rent affordably. This calculation assumes that households spend no more than 33% of their gross income on rental costs.
- 3.2 Figure 3.1 shows that, in the Borough as a whole, the income required to access market rents starts at £19,600 per annum. This would allow the household to access an average priced 1 bedroom property. The income required to afford an average priced 2 bedroom property is around £27,000, rising to over £35,000 for a 3 bed and £60,200 for a 4 bed property. Overall, the income required to rent is slightly lower in Andover.

Figure 3.1: Income Required to Afford Average Market Rents within Test Valley Borough, by Sub-Borough Area

	Andover	Romsey	Rural Villages	Borough
1 bed	£19,400	£20,300	£21,900	£19,600
2 bed	£23,600	£33,000	£30,100	£27,000
3 bed	£28,000	£39,800	£38,700	£35,400
4 bed	£43,200	£60,200	£60,200	£60,200
5 bed	£49,100	£98,200	£115,200	£96,300

Source: Rightmove, follow up telephone survey of local agents. Figures rounded to nearest £100.

- 3.3 There is a range of rental properties with prices above and below the average and so households on lower incomes may be able to afford to rent in the market if they are able to access these. Figure 3.2 shows the income required to access the lowest price market rental properties within the Borough. The appendix provides similar data for the sub-borough areas.
- 3.4 If a household is able to access one of the lowest priced properties in the Borough, it might be possible for those on incomes of around £10,600 to afford a market rent (see Figure 3.2), though this will depend on what is available at a particular point in time and is likely to vary significantly from month to month.

Figure 3.2: Annual Income Needed to Rent within Test Valley Borough (£ per annum)

	Lowest	Average	Median	Highest
1 bed	£10,600	£19,600	£19,300	£30,600
2 bed	£20,700	£27,000	£24,500	£61,200
3 bed	£22,500	£35,400	£30,200	£46,800
4 bed	£34,000	£60,200	£64,300	£75,600
5 bed	£46,600	£96,300	£90,000	£234,000

Source: DTZ

3.2 Income Required for Affordable Rents

3.5 Figure 3.3 sets out the income required to access affordable rented properties, when rents are set at 80% of market rents. Again, households are assumed to be able to afford to spend up to 33% of their gross annual income on rental costs. To access affordable rented homes in Test Valley, with rents set at 80% of market values, households would need an annual income of £15,700 to access a 1 bedroom property, £21,600 for 2 bedrooms, £28,300 for 3 bedrooms and £48,200 for 4 bedrooms.

Figure 3.3: Income Required to Afford Affordable Rents (80%) within Test Valley Borough, by Sub-Borough Area

	Andover	Romsey	Rural Villages	Borough
1 bed	£15,500	£16,200	£17,500	£15,700
2 bed	£18,900	£26,400	£24,000	£21,600
3 bed	£22,400	£31,900	£30,900	£28,300
4 bed	£34,600	£48,200	£48,100	£48,200
5 bed	£39,300	£78,600	£92,200	£77,100

3.6 Figures 3.4-3.6 progressively reduce the level at which affordable rents are set (to 70%, 60% and 50% of the market rent) and calculate the income required to access properties in the Borough as a result.

Figure 3.4: Income Required to Afford Affordable Rents (70%) within Test Valley Borough, by Sub-Borough Area

	Andover	Romsey	Rural Villages	Borough
1 bed	£13,600	£14,200	£15,300	£13,700
2 bed	£16,500	£23,100	£21,000	£18,900
3 bed	£19,600	£27,900	£27,100	£24,800
4 bed	£30,000	£42,200	£42,100	£42,100
5 bed	£34,400	£68,800	£80,600	£67,400

Figure 3.5: Income Required to Afford Affordable Rents (60%) within Test Valley Borough, by Sub-Borough Area

	Andover	Romsey	Rural Villages	Borough
1 bed	£11,600	£12,200	£13,200	£11,800
2 bed	£14,200	£19,800	£18,000	£16,200
3 bed	£16,800	£23,900	£23,200	£21,200
4 bed	£25,900	£36,200	£36,100	£36,100
5 bed	£29,500	£58,900	£69,100	£57,800

Figure 3.6: Income Required to Afford Affordable Rents (50%) within Test Valley Borough, by Sub-Borough Area

	Andover	Romsey	Rural Villages	Borough
1 bed	£9,700	£10,100	£11,000	£9,800
2 bed	£11,800	£16,500	£15,000	£13,500
3 bed	£14,000	£19,900	£19,300	£17,700
4 bed	£21,600	£30,100	£30,100	£30,100
5 bed	£24,600	£49,100	£57,600	£48,200

- 3.7 The income required to afford social rents within Test Valley is similar to the income required for affordable rents set at 60% of the market value for 1 and 2 bedroom properties (Figure 3.7). However, there remains a significant step between social rents and affordable rents for the larger properties if the rental values of these properties are set in relation to market levels.
- 3.8 Figure 3.7 does not take account of housing benefit which may cover all or part of the cost of renting. If a household is not eligible for housing benefit, Figure 3.7 sets out the minimum income they are likely to need in order to afford their social rent.

Figure 3.7: Income Required to Afford Social Rents within Test Valley

	Housing association homes
1 bed	£11,520
2 bed	£13,680
3 bed	£14,760
4 bed	£16,200
5 bed	£16,200

Source: DTZ, using RSR 2011 rents. Rounded to nearest £10

4 Incomes of Households in Need

4.1 Approach

- 4.1 Figure 3.7 does not take account of housing benefit which may cover all or part of the cost of renting. If a household is not eligible for housing benefit, Figure 3.7 sets out the minimum income they are likely to need in order to afford their social rent.
- 4.2 This section analyses data on the incomes of a sample of applicants on the housing waiting list within Test Valley. It is not a complete sample because not all applicants filled out all relevant parts of the application form – where information is incomplete households have been excluded from the analysis. It is not possible to tell whether this is a representative sample or whether those applicants who have not reported income information share certain characteristics.
- 4.3 After removing entries that have incomplete income information and excluding some records that we are unable to include with confidence, we are left with 762 households (out of 3,541 respondents), representing around 21% of all applicant households. This includes 597 new applicants and 165 transfer tenants. An additional 236 households on the HomeinHants register have been analysed separately – taking the full sample to just over 1,000 households.
- 4.4 There are three other caveats which need to be borne in mind in using this income data. First, it is based on households self reporting and relies on households accurately disclosing their income from earnings and benefits on the application form. Second, this information is not verified by the Council until a household is offered a home. This means that the data below may not be accurate for all applicants. A further issue is that the income reported by a household is reflective of their *current* circumstances. Some households may be living with friends or family and not yet claiming housing benefit; their incomes will be higher when they receive the benefits to which they are entitled when they form an independent household. Others may be living in social rented housing and receiving housing benefit to pay their full rent. But social rents are much lower than affordable rents. The income of these households will increase if they to move to affordable rented homes as they will be able to claim a higher level of housing benefit to cover the corresponding increase in rent.
- 4.5 However, this data represents the best available information on the incomes of households in need within the Borough and provides an important indication of the likely affordability of different tenures to those in housing need.
- 4.6 Data is available for both new applicants and transfer tenants and can be profiled according to the size of property the household requires (number of bedrooms) and the level of priority on the waiting list (Bands 1 – 5). Annual income is the combined sum of annual income from employment and annual income from benefits for each household.
- 4.7 We have also excluded a small number of applicants where the income levels from benefits are significantly above reasonable expectations and we believe this is due to errors when applicants fill in the application form. This only applies to 5 applicants however. Although this approach produces more realistic results we are unable to guarantee that each record is accurate. Nevertheless, the overall pattern of results should not suffer major impact from the exclusion of a small proportion of outliers.
- 4.8 The rest of this section analyses the income of waiting list applicants and those in housing need and the extent to which they can afford different levels of rent. In 4.2 we provide an overall analysis of the affordability of affordable rent to households on the waiting list. In 4.3 we analyse the income profile of *new* applicant households on the waiting list. In 4.3 we assess the proportion of *transfer* tenants that could potentially afford market and affordable rents in the Test Valley. This gives an indication of the extent to which existing social rented tenants might be able to afford to move out of social rented accommodation and into other tenures. We distinguish between households *not* reliant on benefits who are reliant on their own earnings through employment and those who do receive benefits (which includes those who earn as well as those who are wholly reliant on benefits).

4.2 Households on the Waiting List

- 4.9 Overall around 30% of households on Test Valley's waiting list could afford affordable rent as set at 80% of market rents (Figure 4.1). However 20% of households on the waiting list could afford a market rent for the property size they need. Affordable rent (at 80% of market rents) would help an additional 10% of households, based on their current incomes. Around one quarter of those who can afford Affordable Rents are within Band 5 on the waiting list and likely to have limited or no housing need. Band 1 applicants are those with the highest priority needs and usually include homeless households who urgently need housing. There were just five Band 1 households on the waiting list but none had provided information on their incomes so we were unable to include them in this analysis.
- 4.10 Most of those that can afford 80% market rents need a 1, 2 or 3 bedroom property. Those needing larger properties are less able to afford the size of home they require. As affordable rents are reduced more households on the waiting list are able to afford them. When set at 50% of market rents, half of the households on the waiting list would be able to afford the rent.
- 4.11 It is important to keep in mind that this assessment sets 33% of gross incomes as the affordability threshold. In practice, many households, particularly those dependent on benefits, will be spending more than 33% of their incomes on rent. This partly explains why not all households are 'priced in' when the level of rent is reduced though this would be extended if households were assumed to spend 40% or 50% of their incomes on rent. There are other applicants who are not yet receiving benefits to which they are entitled (eg housing benefit) and these rents would become affordable or more affordable when they begin to claim. Finally, there are other applicants who currently receive housing benefit to cover their rent within social rented accommodation but would be able to claim more if they moved to affordable rented or private rented accommodation.

Figure 4.1: Number and Percentage of All Applicants that can Afford Affordable Rent (80%)

	Band 2	Band 3	Band 4	Band 5	Total applicants that can afford 80% market rent	Total Applicants	% of all applicants
1 bed	3	91	6	27	127	335	38%
2 bed	3	42	3	18	66	219	30%
3 bed	1	17	2	9	29	136	21%
4 bed	0	3	0	1	4	72	6%
Total	7	154	11	55	226	762	30%

Source: Hampshire Home Choice January 2012 (no applicants in Band 1 provided full income data)

Figure 4.2: Number and Percentage of All Applicants that can Afford Affordable Rent at Different Rent Levels

Minimum size property required	% who can afford Affordable Rent (80%)		% who can afford Affordable Rent (70%)		% who can afford Affordable Rent (60%)		% who can afford Affordable Rent (50%)	
	No.	%	No.	%	No.	%	No.	%
1 bed	127	38%	152	45%	172	51%	194	58%
2 bed	66	30%	77	35%	91	42%	110	50%
3 bed	29	21%	41	30%	56	41%	61	45%
4 bed	4	6%	4	6%	6	8%	12	17%
Total	226	30%	274	36%	325	43%	377	49%

Source: Hampshire Home Choice January 2012 (no applicants in Band 1 provided full income data)

4.3 New Applicants

- 4.12 Overall, 26% of new households on Test Valley's waiting list are able to afford affordable rent (set at 80% of market rents) for the size of property they need. 16% of new households could also afford market rents and therefore may not need assistance from the Council to access affordable housing.
- 4.13 Figures 4.3-4.8 examine how this varies for new applicants who are not receiving benefits and those that are reliant on benefits to some extent. It is important to keep in mind that the sample size is smaller as we break down the analysis so it is difficult to place too much weight on the detailed breakdown by band and bed size.
- 4.14 Figures 4.3-4.5 show the number and percentage of new applicants not receiving benefits that could afford rents set at 80% of the average market rent in Test Valley.
- Overall 34% of new applicants that are not receiving benefits can afford rents set at 80% of average market rents.
 - The proportion is higher for smaller properties, with 41% of new applicants for 1 bedroom properties able to afford 80% of market rent; 25% of new 2 bedroom applicants; 22% of 3 bedroom applicants and 7% of 4 bedroom applicants.

Figure 4.3: Percentage of applicants who can afford Affordable Rent, New applicants, Not Receiving Benefits

Minimum size of property required	Band 2	Band 3	Band 4	Band 5
1 bed	0%	40%	40%	53%
2 bed	0%	30%	0%	21%
3 bed	n/a	25%	0%	17%
4 bed	0%	13%	n/a	0%

Source: Hampshire Home Choice January 2012 (no applicants in Band 1 provided full income data). N/A indicates that there were no applicants in that Band needing that size of property in our sample.

Figure 4.4: Number of applicants who can afford Affordable Rent, New applicants, Not Receiving Benefits

	Band 2	Band 3	Band 4	Band 5	Total new applicants without benefits that can afford market rent	Total new applicants without benefits	% of new applicants without benefits
1 bed	0	67	6	17	90	218	41%
2 bed	0	16	0	3	19	76	25%
3 bed	n/a	6	0	1	7	32	22%
4 bed	0	1	n/a	0	1	15	7%
Total					117	341	34%

Source: Hampshire Home Choice January 2012 (no applicants in Band 1 provided full income data). N/A indicates that there were no applicants in that Band needing that size of property in our sample.

Figure 4.5: Number and Percentage of applicants who can afford Affordable Rent, New applicants, Not Receiving Benefits

	Total that can afford	Total in Band	% that can afford by band
Band 2	0	7	0%
Band 3	90	255	35%
Band 4	6	22	27%
Band 5	21	57	37%
Total	117	341	34%

Source: Hampshire Home Choice January 2012 (no applicants in Band 1 provided full income data)

4.15 Figures 4.6, 4.7 and 4.8 present the same analysis for new applicants that receive benefits. The tables indicate a lower level of overall affordability, with 16% of new applicants receiving benefits able to afford affordable rents at 80% of market rent, compared to 34% of new applicants who are not dependent on benefits.

- None of the households in the highest priority band (Band 2) were able to afford affordable rent.
- 9% of households needing a 1 bedroom property are able to afford 80% market rent; compared to 24% seeking a 2 bedroom property and 17% seeking a 3 bedroom property. The data also suggests that none of the 25 applicants for a 4 bedroom property could afford 80% market rent.

Figure 4.6: Percentage who can Afford Affordable Rent, New Applicants, Receiving Benefits

	Band 2	Band 3	Band 4	Band 5
1 bed	0%	13%	0%	0%
2 bed	0%	23%	25%	26%
3 bed	0%	18%	10%	20%
4 bed	n/a	0%	0%	0%

Source: Hampshire Home Choice January 2012 (no applicants in Band 1 provided full income data). N/A indicates that there were no applicants in that Band needing that size of property in our sample.

Figure 4.7: Number who can Afford Affordable Rent, New Applicants, Receiving benefits

	Band 2	Band 3	Band 4	Band 5	Total new applicants without benefits that can afford market rent	Total new applicants without benefits	% of new applicants without benefits
1 bed	0	6	0	0	6	70	9%
2 bed	0	16	3	5	24	101	24%
3 bed	0	6	1	3	10	60	17%
4 bed	n/a	0	0	0	0	25	0%
Total	0	28	4	8	40	256	16%

Source: Hampshire Home Choice January 2012 (no applicants in Band 1 provided full income data). N/A indicates that there were no applicants in that Band needing that size of property in our sample.

Figure 4.8: Number and Percentage of applicants who can Afford Affordable Rent, New Applicants, Receiving Benefits

	Total that can afford	Total in Band	% that can afford by band
Band 2	0	7	0%
Band 3	28	164	17%
Band 4	4	35	11%
Band 5	8	50	16%
Total	40	256	16%

Source: Hampshire Home Choice January 2012 (no applicants in Band 1 provided full income data)

4.3.1 Affordability of Different Levels of Rent – New Applicants

4.16 Figures 4.9 and 4.10 show how affordability changes across all bands as rental levels are reduced.

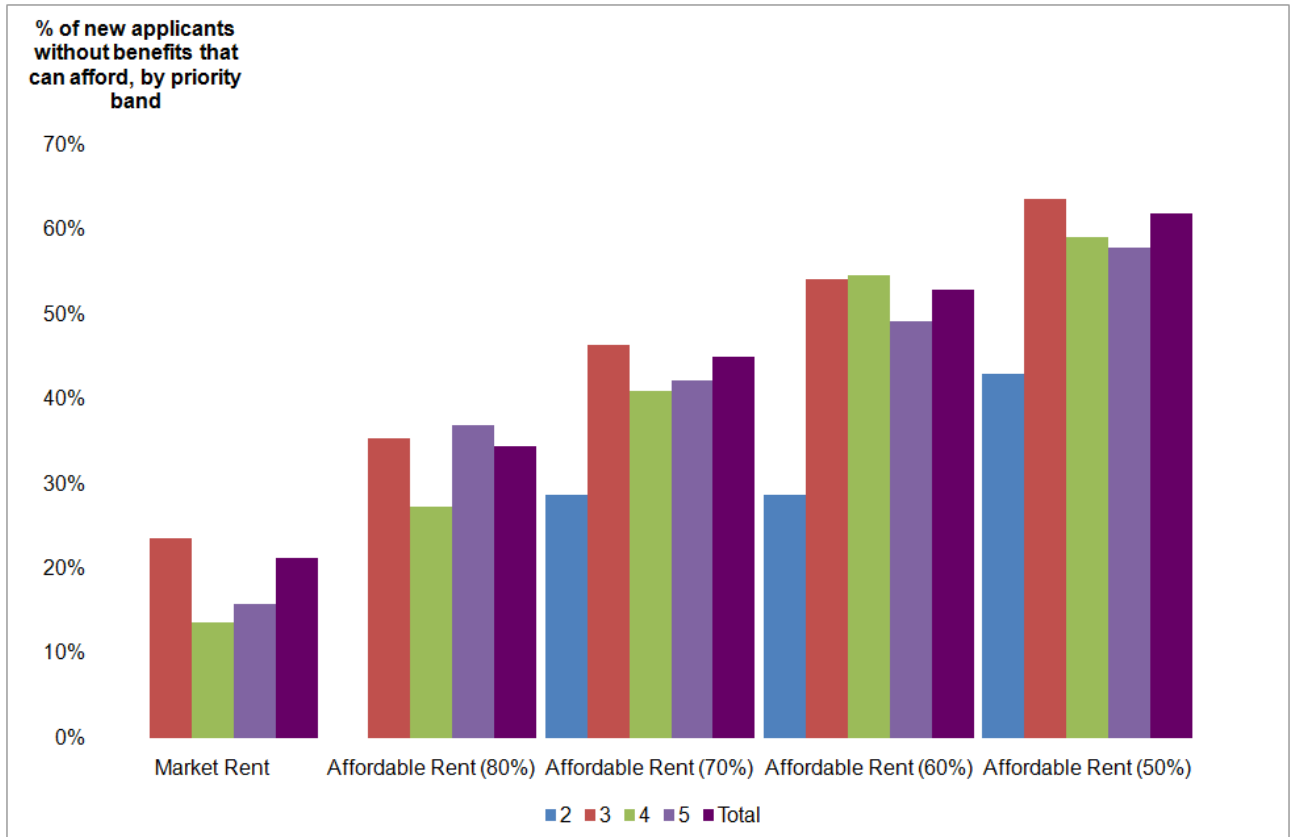
- Figure 4.9 suggests that overall, 21% of new applicants not receiving benefits could afford market rents; with 34% able to afford 80% market rent (an additional 13% of households). The proportion rises to almost two thirds that could afford 50% of market rent.
- Households in Band 2 (high priority banding) demonstrate consistently reduced ability to afford rents, across all rental levels, when compared to other bands, although this is based on a small sample.
- There are likely to be a significant number of households who are deemed unable to afford these levels of rent yet they are already renting in the market. In practice, households are paying more than 33% of their incomes in rent (the affordability threshold used in this analysis). Their current accommodation may be unaffordable to them but they are managing to get by, at least on a short term basis.
- There are also households who can afford market rents but whose circumstances mean they need a more secure form of tenure eg households with young children in school or older or vulnerable households who have wider support needs.

Figure 4.9: Percentage who can Afford, at Different Levels of Rent, New Applicants, Not Receiving Benefits

Band	Market Rent		Affordable Rent (80%)		Affordable Rent (70%)		Affordable Rent (60%)		Affordable Rent (50%)	
	No.	%	No.	%	No.	%	No.	%	No.	%
2	0	0%	0	0%	2	29%	2	29%	3	43%
3	60	24%	90	35%	118	46%	138	54%	162	64%
4	3	14%	6	27%	9	41%	12	55%	13	59%
5	9	16%	21	37%	24	42%	28	49%	33	58%
Total	72	21%	117	34%	153	45%	180	53%	211	62%

Source: Hampshire Home Choice January 2012 (no applicants in Band 1 provided full income data).

Figure 4.10: Percentage who can Afford, at Different Levels of Rent, New Applicants, Not Receiving Benefits



Source: Hampshire Home Choice January 2012 (no applicants in Band 1 provided full income data).

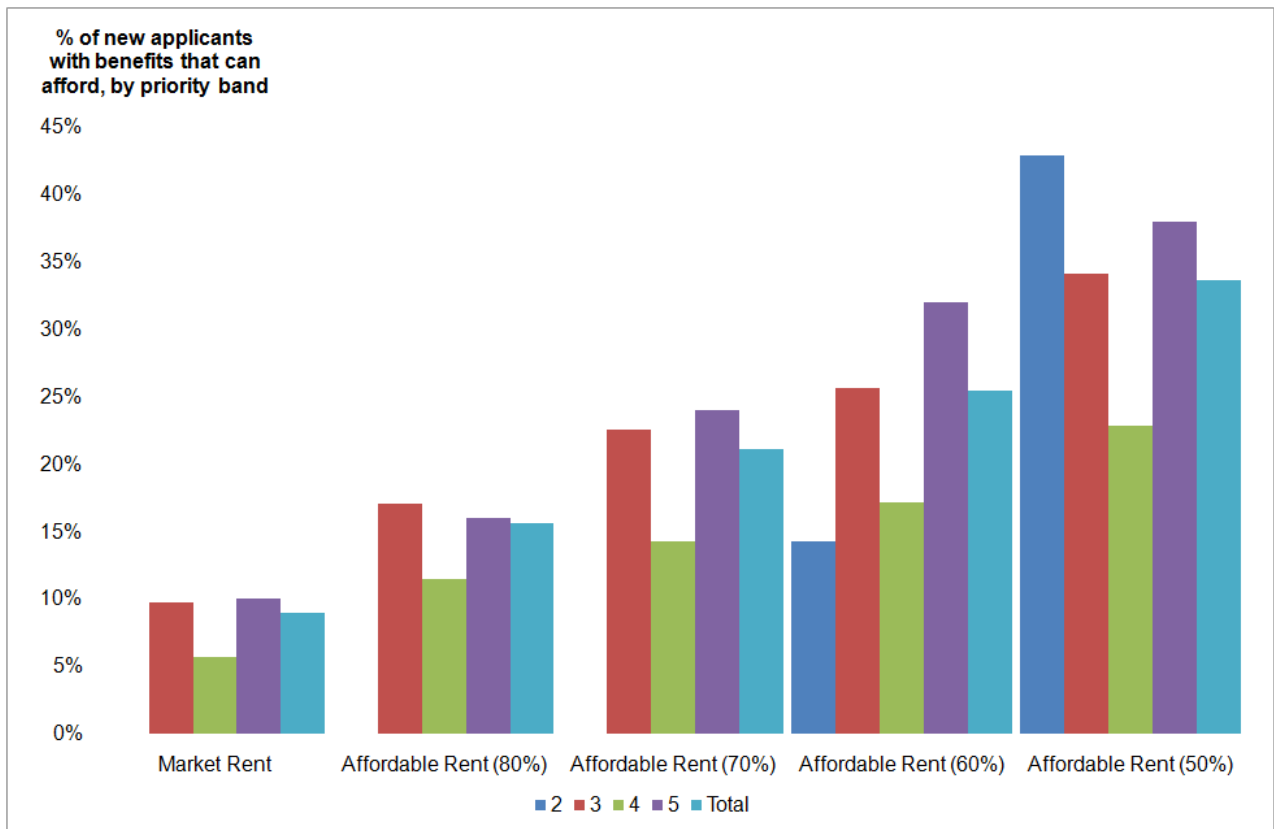
4.17 Figures 4.11 and 4.12 present the same analysis for new applicants who receive benefits and again demonstrate the progressive increase in affordability as rental levels are reduced. However, overall affordability is much more limited than for those who do not receive benefits. Just 9% of new applicants receiving benefits could afford a market rent for the property they need, compared to 21% of new applicants not receiving benefits (earning through employment). Similarly, just 16% of new applicants receiving benefits could afford affordable rent set at 80% of market rent, compared to 34% of those not receiving benefits.

Figure 4.11: Percentage who can Afford, at Different Levels of Rent, New Applicants, Receiving Benefits

Band	Market Rent		Affordable Rent (80%)		Affordable Rent (70%)		Affordable Rent (60%)		Affordable Rent (50%)	
	No.	%	No.	%	No.	%	No.	%	No.	%
2	0	0%	0	0%	0	0%	1	14%	3	43%
3	16	10%	28	17%	37	23%	42	26%	56	34%
4	2	6%	4	11%	5	14%	6	17%	8	23%
5	5	10%	8	16%	12	24%	16	32%	19	38%
Total	23	9%	40	16%	54	21%	65	25%	86	34%

Source: Hampshire Home Choice January 2012 (no applicants in Band 1 provided full income data).

Figure 4.12: Percentage who can Afford, at Different Levels of Rent, New Applicants, Receiving Benefits



Source: Hampshire Home Choice January 2012 (no applicants in Band 1 provided full income data).

4.3.2 Affordability of Different Levels of Rent – by Size of Property Required

4.18 Figures 4.13 and 4.14 highlight the significantly higher levels of affordability of smaller property types for new applicants *not receiving* benefits.

- For those requiring a 1 bedroom property, 26% could afford market rent, compared to 13% that could afford a 3 bedroom property at a market rent and none of those needing 4 bedrooms able to afford.
- If affordable rents were set at 80% of market rents, 41% of those needing a 1 bedroom property would be able to afford this; compared to 7% requiring a 4 bedroom property.
- At 50% of market rents, 68% of those needing a 1 bedroom property would be able to afford, compared to 27% of those needing a 4 bedroom property.

4.19 Figures 4.15 and 4.16 present the same analysis for new applicants *who receive* benefits.

- For those requiring a 1 bedroom property, 6% could afford market rents, compared to none of those needing a 4 bedroom property. Whilst affordability for those receiving benefits appears to be greatest for those seeking 2 bedroom (20%) and 3 bedroom (13%) properties this is likely to be the result of the small sample size.
- If rents were 80% of market rents, 9% of those needing a 1 bedroom property would be able to afford it; again none of those needing a 4 bed homes would be able to afford one. As with market

rents, those seeking 2 and 3 bedroom properties are better able to afford affordable rents set at 80% of market rent; (24% could afford a 2 bedroom; and 17% a 3 bedroom property).

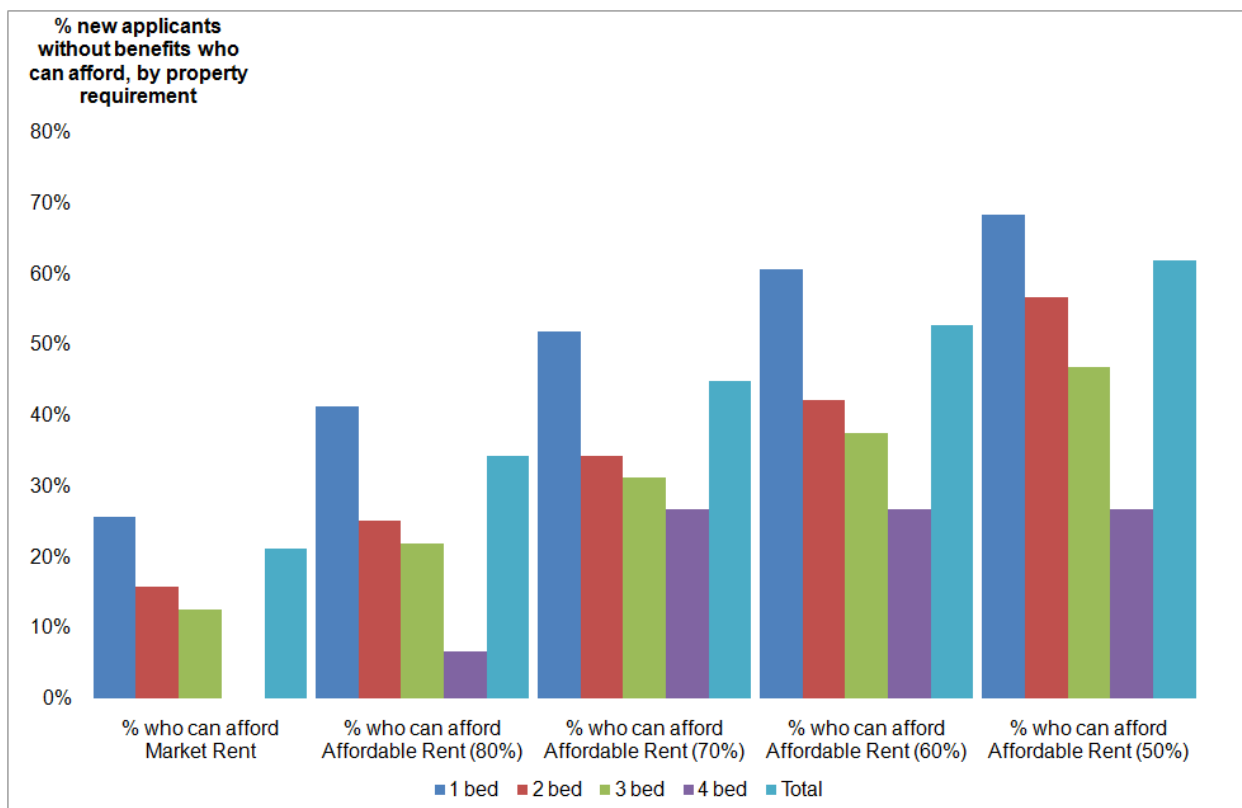
- At 50% of market rents, around 34% of households would be able to afford the property size they need, with 43% of those needing a 2 or 3 bedroom property being able to afford it.

Figure 4.13: Percentage who can Afford, by Size of Property Required, New Applicants, Not Receiving Benefits

Minimum size of property required	% who can afford Market Rent		% who can afford Affordable Rent (80%)		% who can afford Affordable Rent (70%)		% who can afford Affordable Rent (60%)		% who can afford Affordable Rent (50%)	
	No.	%	No.	%	No.	%	No.	%	No.	%
1 bed	56	26%	90	41%	113	52%	132	61%	149	68%
2 bed	12	16%	19	25%	26	34%	32	42%	43	57%
3 bed	4	13%	7	22%	10	31%	12	38%	15	47%
4 bed	0	0%	1	7%	4	27%	4	27%	4	27%
Total	72	21%	117	34%	153	45%	180	53%	211	62%

Source: Hampshire Home Choice January 2012 (no applicants in Band 1 provided full income data).

Figure 4.14: Percentage who can Afford, by Size of Property Required, New Applicants, Not Receiving Benefits



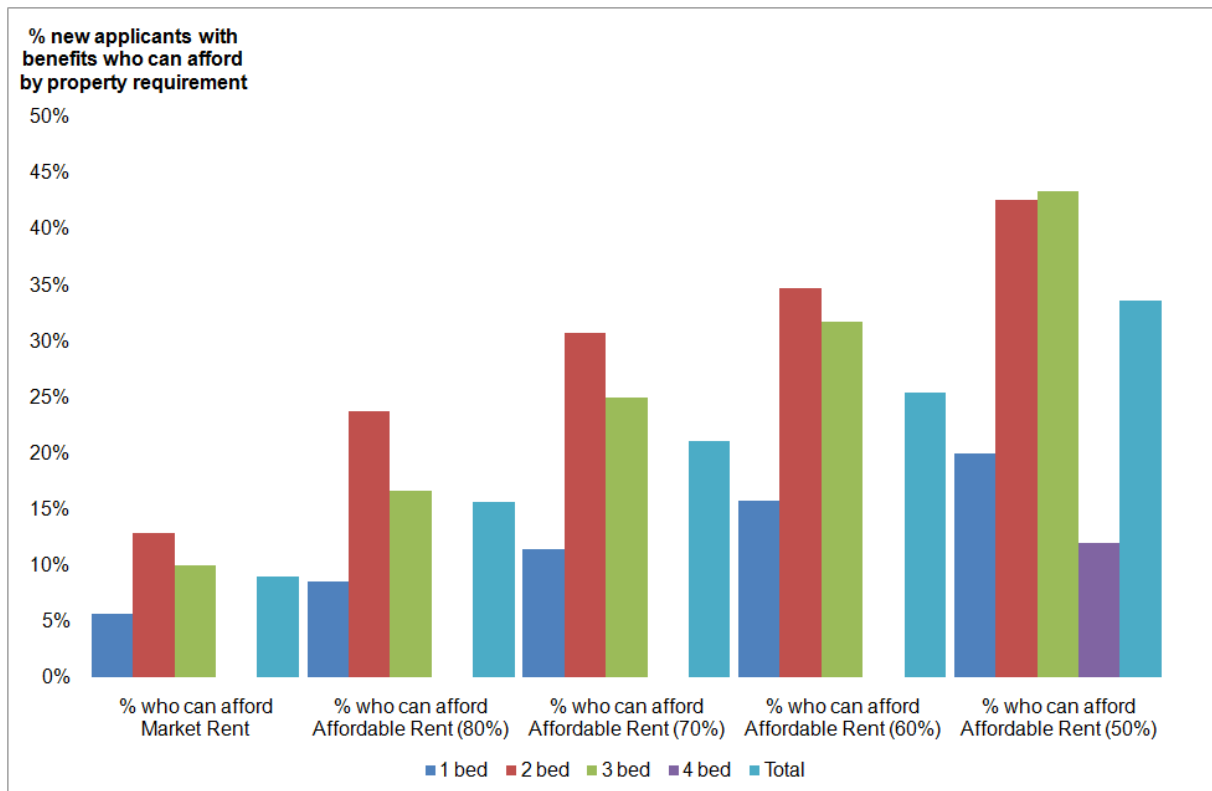
Source: Hampshire Home Choice January 2012 (no applicants in Band 1 provided full income data).

Figure 4.15: Percentage who can Afford, by Size of Property Required, New Applicants, Receiving Benefits

Minimum size of property required	% who can afford Market Rent		% who can afford Affordable Rent (80%)		% who can afford Affordable Rent (70%)		% who can afford Affordable Rent (60%)		% who can afford Affordable Rent (50%)	
	No.	%	No.	%	No.	%	No.	%	No.	%
1 bed	4	6%	6	9%	8	11%	11	16%	14	20%
2 bed	13	13%	24	24%	31	31%	35	35%	43	43%
3 bed	6	10%	10	17%	15	25%	19	32%	26	43%
4 bed	0	0%	0	0%	0	0%	0	0%	3	12%
Total	23	9%	40	16%	54	21%	65	25%	86	34%

Source: Hampshire Home Choice January 2012 (no applicants in Band 1 provided full income data).

Figure 4.16: Percentage who can Afford, by Size of Property Required, New Applicants, Receiving Benefits



Source: Hampshire Home Choice January 2012 (no applicants in Band 1 provided full income data).

4.4 Existing Tenants of Social Rented Housing

- 4.20 Overall, 17% of transfer tenants could afford affordable rents set at 80% of market rents. 12% of transfer tenants could also afford market rents and therefore may not need assistance from the Council to access affordable housing.
- 4.21 Figures 4.17-4.22 examine how this varies for transfer applicants who are not receiving benefits and those that are reliant on benefits to some extent. It is important to keep in mind that the sample size is smaller as we break down the analysis so it is difficult to place too much weight on the detailed breakdown by band and bed size.
- 4.22 Figures 4.17, 4.18 and 4.19 show the number and percentage of transfer tenants not receiving benefits who could afford 80% market rent.
- Overall 27% of transfer tenants not receiving benefits could afford 80% of market rent for the property they need (Figure 4.18).
 - As with new applicants, transfer tenants not receiving benefits and requiring smaller homes appear better able to afford affordable rents.
 - 45% of transfer tenants not receiving benefits and needing a 1 bedroom property could access affordable rent set at 80% of the market rent; compared to 24% of those needing a 2 bedroom property and 22% of those needing a 3 bedroom home; while none of the 12 applicants could afford a 4 bedroom property.

Figure 4.17: Percentage who can Afford Affordable Rent, Transfer Tenants, Not Receiving Benefits

	Band 2	Band 3	Band 4	Band 5
1 bed	40%	100%	n/a	44%
2 bed	33%	33%	n/a	18%
3 bed	n/a	0%	0%	29%
4 bed	0%	0%	n/a	0%

Source: Hampshire Home Choice January 2012 (no applicants in Band 1 provided full income data). N/A indicates that there were no applicants in that Band needing that size of property in our sample.

Figure 4.18: Number who can Afford Affordable Rent, Transfer Tenants, Not Receiving Benefits

	Band 2	Band 3	Band 4	Band 5	Total transfer tenants not receiving benefits that can afford market rent	Total transfer tenants not receiving benefits	% of transfer tenants not receiving benefits
1 bed	2	1	n/a	7	10	22	45%
2 bed	1	1	n/a	2	4	17	24%
3 bed	n/a	0	0	2	2	9	22%
4 bed	0	0	n/a	0	0	12	0%
Total	3	2	0	11	16	60	27%

Source: Hampshire Home Choice January 2012 (no applicants in Band 1 provided full income data). N/A indicates that there were no applicants in that Band needing that size of property in our sample.

Figure 4.19: Number and Percentage who can Afford Affordable Rent, Transfer Tenants, Not Receiving Benefits by Priority Band

	Total that can afford	Total in Band	% that can afford by band
Band 2	3	11	27%
Band 3	2	10	20%
Band 4	0	1	0%
Band 5	11	38	29%
Total	16	60	27%

Source: Hampshire Home Choice January 2012 (no applicants in Band 1 provided full income data).

4.23 Figures 4.20, 4.21 and 4.22 show affordability levels for transfer tenants who receive benefits.

- Affordable rent appears affordable to 8% of those requiring 1 bedroom; 24% requiring 2 bedrooms and 17% of those requiring 3 bedroom properties. None of the 20 transfer applicants for a 4 bedroom property could afford Affordable Rent.
- As is the case for new applicants, the total proportion of transfer tenants receiving benefits that can afford 80% market rent is lower (11%) than those not receiving benefits (27%).

Figure 4.20: Percentage who can Afford Affordable Rent, Transfer Tenants, Receiving Benefits

	Band 2	Band 3	Band 4	Band 5
1 bed	20%	33%	0%	0%
2 bed	N/A	20%	0%	21%
3 bed	25%	19%	0%	8%
4 bed	0%	0%	0%	0%

Source: Hampshire Home Choice January 2012 (no applicants in Band 1 provided full income data). N/A indicates that there were no applicants in that Band needing that size of property in our sample.

Figure 4.21: Number who can Afford Affordable Rent, Transfer Tenants, Receiving Benefits

	Band 2	Band 3	Band 4	Band 5	Total transfer tenants receiving benefits that can afford	Total transfer tenants receiving benefits	% of transfer tenants receiving benefits
1 bed	1	1	0	0	2	25	8%
2 bed	n/a	1	0	4	5	25	20%
3 bed	1	3	0	1	5	35	14%
4 bed	0	0	0	0	0	20	0%
Total	2	5	0	5	12	105	11%

Source: Hampshire Home Choice January 2012 (no applicants in Band 1 provided full income data). N/A indicates that there were no applicants in that Band needing that size of property in our sample.

Figure 4.22: Number and Percentage who can afford Affordable Rent, Transfer Tenants, Receiving Benefits, By Priority Band

	Total that can afford	Total in Band	% that can afford by band
Band 2	2	12	17%
Band 3	5	33	15%
Band 4	0	7	0%
Band 5	5	53	9%
Total	12	105	11%

Source: Hampshire Home Choice January 2012 (no applicants in Band 1 provided full income data).

4.4.1 Affordability of Different Levels of Rent – by Band

4.24 There is not a clear pattern of affordability across the priority bands, possibly due to a relatively small sample size (60 transfer applicants not receiving benefits). However, broadly, affordability appears greater amongst Band 5 applicants.

4.25 The pattern for those transfer tenants receiving benefits is less clear unclear, again due to the small sample size of this group (105 transfer applicants receiving benefits). It appears that across all levels of affordable rent tested, affordability is similar for applicants in Bands 2, 3 and 5.

Figure 4.23: Percentage who can Afford, at Different Rent Levels, Transfer Tenants, Not Receiving Benefits

Band	Market Rents		Affordable Rent (80%)		Affordable Rent (70%)		Affordable Rent (60%)		Affordable Rent (50%)	
	No.	%	No.	%	No.	%	No.	%	No.	%
2	1	9%	3	27%	4	36%	5	45%	5	45%
3	2	20%	2	20%	2	20%	2	20%	2	20%
4	0	0%	0	0%	0	0%	0	0%	0	0%
5	9	24%	11	29%	12	32%	18	47%	21	55%
Total	12	20%	16	27%	18	30%	25	42%	28	47%

Source: Hampshire Home Choice January 2012 (no applicants in Band 1 provided full income data).

Figure 4.24: Percentage who can Afford, at Different Rent Levels, Transfer Tenants, Receiving Benefits

Band	Market Rents		Affordable Rent (80%)		Affordable Rent (70%)		Affordable Rent (60%)		Affordable Rent (50%)	
	No.	%	No.	%	No.	%	No.	%	No.	%
2	1	8%	2	17%	2	17%	2	17%	3	25%
3	2	6%	5	15%	6	18%	9	27%	12	36%
4	0	0%	0	0%	0	0%	0	0%	0	0%
5	4	8%	5	9%	8	15%	9	17%	13	25%
Total	7	7%	12	11%	16	15%	20	19%	28	27%

Source: Hampshire Home Choice January 2012 (no applicants in Band 1 provided full income data).

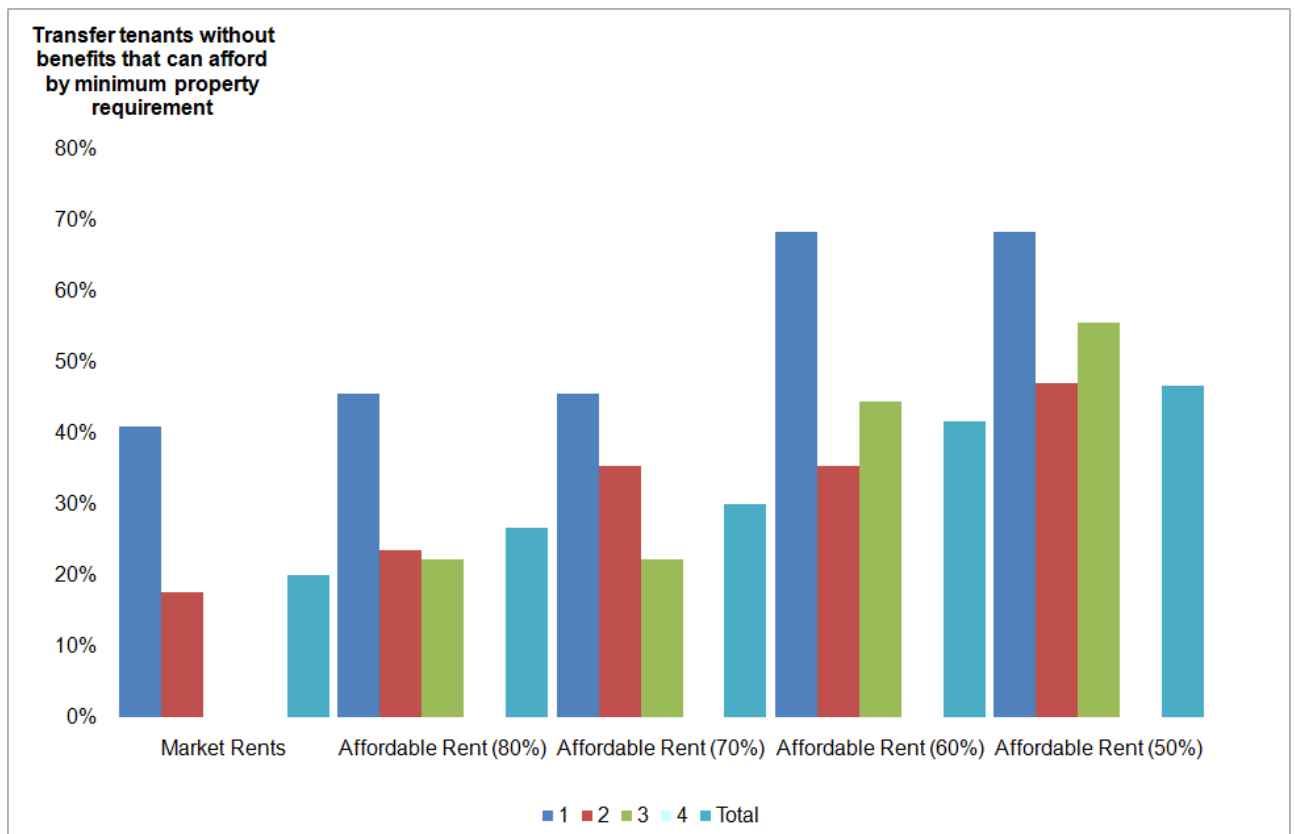
4.26 As is the case for new applicants, Figures 4.25 and 4.26 show that generally transfer tenants not receiving benefits and needing 1 and 2 bedroom properties are more able to afford rents. At 80% of market rent, 45% of transfer applicants not receiving benefits could afford a 1 bedroom property; compared to 24% requiring a 2 bedroom property; and 22% requiring a 3 bedroom property.

Figure 4.25: Percentage who can Afford, by Size of Property Required, Transfer Tenants, Not Receiving Benefits

Minimum size of property required	% who can afford Market Rent		% who can afford Affordable Rent (80%)		% who can afford Affordable Rent (70%)		% who can afford Affordable Rent (60%)		% who can afford Affordable Rent (50%)	
	No.	%	No.	%	No.	%	No.	%	No.	%
1 bed	9	41%	10	45%	10	45%	15	68%	15	68%
2 bed	3	18%	4	24%	6	35%	6	35%	8	47%
3 bed	0	0%	2	22%	2	22%	4	44%	5	56%
4 bed	0	0%	0	0%	0	0%	0	0%	0	0%
Total	12	20%	16	27%	18	30%	25	42%	28	47%

Source: Hampshire Home Choice January 2012 (no applicants in Band 1 provided full income data).

Figure 4.26: Percentage who can Afford, by Size of Property Required, Transfer Tenants, Not Receiving Benefits



Source: Hampshire Home Choice January 2012 (no applicants in Band 1 provided full income data).

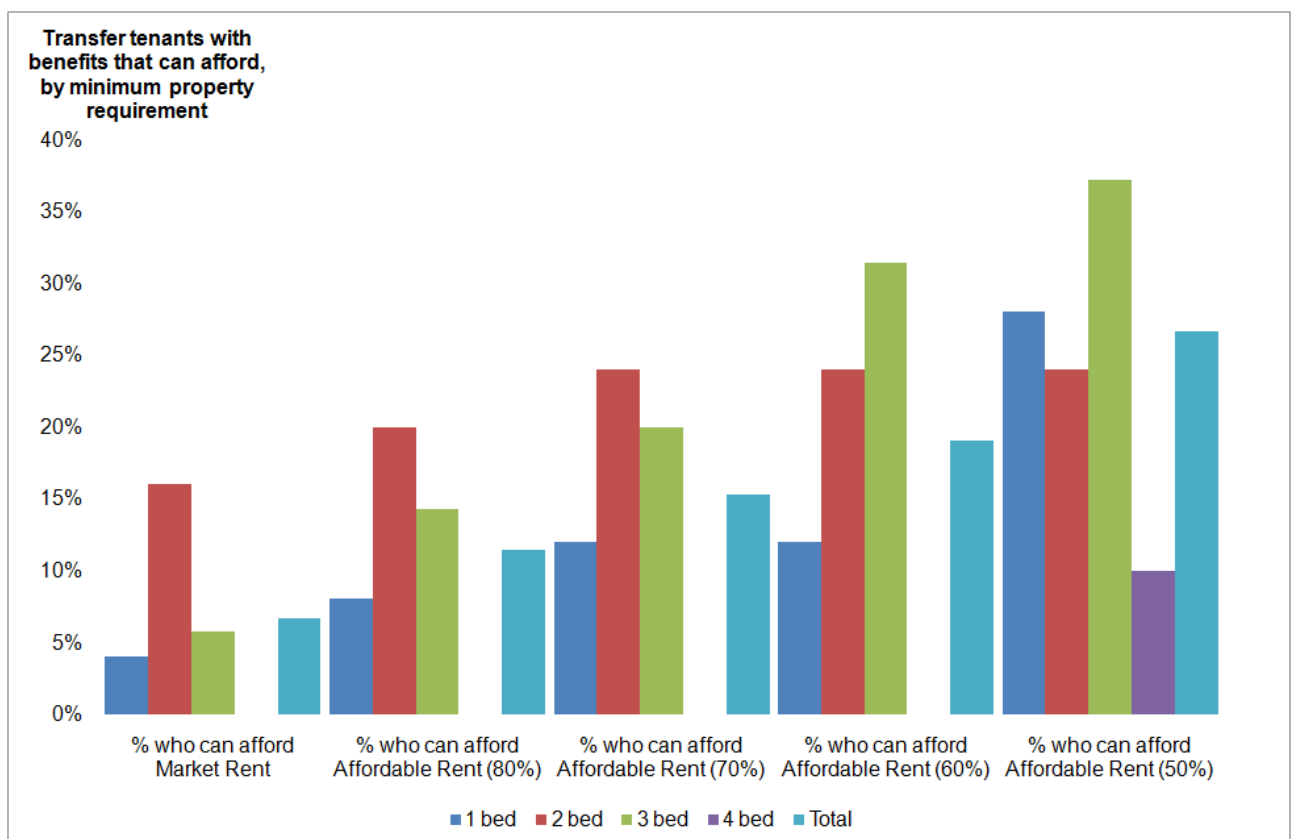
4.27 Figures 4.27 and 4.28 show that for transfer tenants receiving benefits, those needing 2 and 3 bedroom properties are most able to afford rents.

Figure 4.27: Percentage who can Afford, by Size of Property Required, Transfer Tenants, Receiving Benefits

Size of property required	% who can afford Market Rent		% who can afford Affordable Rent (80%)		% who can afford Affordable Rent (70%)		% who can afford Affordable Rent (60%)		% who can afford Affordable Rent (50%)	
	No.	%	No.	%	No.	%	No.	%	No.	%
1 bed	1	4%	2	8%	3	12%	3	12%	7	28%
2 bed	4	16%	5	20%	6	24%	6	24%	6	24%
3 bed	2	6%	5	14%	7	20%	11	31%	13	37%
4 bed	0	0%	0	0%	0	0%	0	0%	2	10%
Total	7	7%	12	11%	16	15%	20	19%	28	27%

Source: Hampshire Home Choice January 2012 (no applicants in Band 1 provided full income data).

Figure 4.28: Percentage who can Afford, by Size of Property Required, Transfer Tenants, Receiving Benefits



Source: Hampshire Home Choice January 2012 (no applicants in Band 1 provided full income data).

- 4.28 It is also worth examining data from the Local HomeBuy Agent (Catalyst) which provides information on a modest number of social rented tenants who have expressed interest in intermediate housing within Test Valley. It is interesting and relevant to note that the largest proportion of households who have expressed an interest in intermediate options within Test Valley are existing social rented tenants.
- 4.29 These social rented tenants are unlikely to be in housing need or registered on the Council's waiting list; their circumstances are different to those applicants in the analysis presented earlier in this section. Nevertheless, Figure 4.29 shows that the majority could afford market rents and by implication, financially, do not need the social rented housing which they currently occupy (although it is important to note that social rented homes provide secure tenancies). Additional households would be 'priced in' to affordable rented housing as rents are steadily reduced in relation to market rents. This suggests that there are social rented tenants who are able to afford more than a social rent and who may be willing to move to other tenures; though most of these would probably aspire to home ownership options rather than another form of renting. Furthermore, many of these households are likely to have secure tenancies which they may be unwilling to give up.

Figure 4.29: Social Rented Tenants who can Afford Affordable Rent (based on those who are interested in intermediate products)

Minimum size of property required	Total number	Number who can afford Market Rent	Number who can afford Affordable Rent (80%)	70%	60%	50%
1 bed	18	16	18	18	18	18
2 bed	53	40	47	49	52	52
3 bed	39	25	32	35	36	39
Total	110	81	97	102	106	109

Source: Catalyst (HomesinHants)

4.5 'Intermediate' Households

- 4.30 It is useful to explore how far other groups within Test Valley might be able to afford affordable rent, even though it is primarily intended to be aimed at those on the Council's waiting list and in housing need.
- 4.31 The Local HomeBuy Agent for Test Valley (HomeinHants) maintains a list of households interested in intermediate options. Some of the households interested in intermediate options are social rented tenants who may or may not be on the waiting list. Affordable rent is not intended to be an intermediate product but it may be that suitable tenants in social rented accommodation may be identified and targeted through the intermediate route, or if affordable rent is not taken up by those in priority need it may be necessary to widen eligibility to other households. Furthermore, some of the households interested in intermediate products are specifically interested in rented rather than low cost homeownership products.
- 4.32 Figure 4.30 shows that the majority (70%) of the 236 intermediate households on the HomesinHants list can afford to rent in the open market and this could be extended to 86% under affordable rent (set at 80% of the market value). The majority of those who can afford open market rents and affordable rents are those that need smaller sized properties. Households who need 3 bedrooms are less able to afford the market rent for the size of home they need.

Figure 4.30: Households Interested in Intermediate Products within Test Valley and Ability to Afford Market and Affordable Rents

Size of property required (bedrooms)	Number of households	Able to Afford	
		Market Rent	Affordable Rent (80% of market)
1 bed	63	53 (84%)	60 (95%)
2 bed	111	75 (68%)	96 (86%)
3 bed	61	38 (62%)	47(77%)
4 bed	1	1 (100%)	n/a
Total	236	166 (70%)	203 (86%)

Source: HomesinHants, base of 236 applicants who have expressed an interested in any type of intermediate product within Test Valley Borough

4.33 Figure 4.31 focuses on those households who are only interested in intermediate rental products. These households are more likely to be interested in affordable rent than the general population of intermediate households who are primarily attracted to low cost home ownership. Our analysis suggests that the majority (75%) of those interested in 1 bedroom properties could in fact afford open market rents. Affordable rent (at 80% of market rents) would allow almost all of these households to afford a suitably sized property. Those that require 2 or 3 bedrooms are less able to afford market rents and Figure 4.31 suggests affordable rents would allow more of these households to afford a suitably sized home.

Figure 4.31: Households Interested in Intermediate Rental Products and Ability to Afford Market and Affordable Rents

Size of property required (bedrooms)	Number of households	Able to Afford			
		Market Rent	Affordable Rent (80% of market)	Affordable Rent (70% of market)	Affordable Rent (60% of market)
1 bed	16	12(75%)	15(94%)	16 (100%)	16(100%)
2 bed	16	11(69%)	14 (88%)	14 (88%)	15 (94%)
3 bed	2	1 (50%)	1 (50%)	2 (100%)	2 (100%)

Source: HomesinHants, base of 34 applicants who have expressed an interested in intermediate rental products only within Test Valley Borough

5 Policy Implications

5.1 Key observations

- 5.1 The analysis in this report sheds light on the following issues in relation to the new affordable rent tenure:
- Most of those households in priority housing need would be unable to afford affordable rents set at 80% of market rents, based on their current incomes.
 - Housing benefit (LHA rates) would generally allow households to access properties priced at 80% of market rents within Andover. Affordable rents set at 70% of market rents would fall within LHA limits in all areas of the Borough, though would remain marginal for the largest properties in Romsey and the rural areas.
 - There are some existing tenants in social rented homes who would be able to afford affordable rent but their willingness to move into this tenure is uncertain.
 - Most of those households unable to afford to buy in the open market, who have registered their interest in intermediate affordable housing, would be able to afford affordable rent based on their current incomes; indeed many would be able to afford market rents.
- 5.2 This section summarises the implications of the analysis in relation to these key observations. This section also examines the likely impact of welfare reform on the incomes of households analysed in this report and how this might affect the operation of affordable rent. There are two main aspects to this:
- Planned and proposed changes to welfare benefits, including housing benefit, will impact on the ability of some households to afford affordable rent and access the private rented sector more generally.
 - The affordability and impact of affordable rent is likely to have different implications for those households receiving local housing allowance and living in the private rented sector compared to those living in social rented accommodation and supported by housing benefit.

5.1.1 Households in Need – All Applicants

- 5.3 Around 24% of applicants on Test Valley's waiting list (Hampshire HomeChoice) could afford affordable rents set at 80% of market rents. A proportion of those that can afford are not in housing need – or are a low priority for housing or re-housing (Band 5). However the vast majority (75%) of applicants that can afford affordable rent are in need (Bands 1-4). But many of those that could afford affordable rent could also afford a market rent – 15% of all applicants on the waiting list could afford a market rent. So affordable rent would be accessible to an additional 9% of households, based on their current incomes. There are significant differences in affordability between different households in need and these are summarised below.

5.1.2 Households in Need – New Applicants

- 5.4 Overall, 26% of new households on Test Valley's waiting list are able to afford affordable rent (set at 80% of market rents) for the size of property that they need. However, 16% could also afford market rents and therefore may not need the assistance of the Council to access affordable housing. The number who can access the open market rented sector is relatively small and we do not have information on these households wider circumstances which may mean that an open market solution is beyond their financial reach or unsuitable for their needs eg because of household debts or need for medical or social support.

- 5.5 Providing accommodation at 80% of market rents would therefore appear to assist an additional 10% of these households into affordable accommodation. Reducing the level at which affordable rents are set would make it affordable to more households in need. But once levels reach 40-50% of open market rents affordable rents would effectively be similar to social rents, with the exception of the largest properties. This would not allow registered providers to expand their revenues in the absence of grant subsidy.
- 5.6 The ability to access affordable rent is highest amongst those households needing 1 or 2 bedrooms – this is unsurprising because these properties are cheaper. But for those needing 3 bedrooms or larger, the cost of renting a 3 or 4 bedroom property in the market is significantly higher and this is transferred to Affordable Rents if they are set in relation to market rents. Affordable rents set at 80% of market levels for 3 and 4 bedroom properties go some way to improve the affordability of these properties to those needing larger homes but still less than one third of households could afford them. This is a significant consideration for the Council. If affordable rents are set in relation to market levels it is unlikely that those in need of 3 and 4 bedroom homes will be able to afford them, even if they receive the full amount of housing benefit in some parts of the Borough. Affordable rents would need to be set at lower than 80% of market rents to become affordable to households in need of larger homes.
- 5.7 The evidence from this analysis suggests that households not receiving benefits ie those who rely on earnings from employment are better able to afford affordable rent. 34% of new applicants not receiving benefits are able to afford 80% of market rents. In general, their incomes are higher than those who receive benefits. This suggests that affordable rent could be used explicitly to give priority to working households who need affordable housing if the Council wished to give additional support to this group.
- 5.8 New households on the waiting list who are dependent on benefits are less likely to be able to afford affordable rents set at 80% of market rents. Only 16% of those on benefits could afford this level of rent. However, this figure needs to be treated with caution for two reasons:
- New applicants on the waiting list may be eligible for housing benefit but are not yet claiming it (eg because they are living temporarily with family or friends).
 - Limited numbers of single households who are dependent on housing benefit could afford the market rent for a 1 bedroom property ie independent accommodation because they only receive an allowance to cover the cost of a room in a shared house. Introducing affordable rent levels has a limited impact on the ability of these households to afford such a property unless rents are set at 50-60% of market levels. We have assumed that affordable rents would not be available for rooms in shared houses or flats, which would make accommodation more affordable to this group.
 - Households dependent on benefits are likely to be spending significantly more than 33% of their income on rent. They may be entitled to the full amount of housing benefit to cover their rent in full but this would still appear 'unaffordable' when judged against the threshold of 33% of gross income on housing costs.

5.1.3 Existing Social Rented Tenants

- 5.9 Section 4 has examined the affordability of affordable rent to existing social rented tenants through analysis of those on the transfer list (Hampshire Home Choice) and tenants who have expressed an interest in intermediate housing with HomesinHants. These two groups may not be representative of all social rented tenants but it is the only source of data on their incomes. However, the data may be representative of those households who are willing to move and therefore more useful to the Borough Council than information on the generality of household incomes in the social rented sector.
- 5.10 The current housing benefit regime complicates the analysis of the incomes of these households and their ability to afford different tenures. It is not completely clear whether the incomes reported by those on Test Valley's transfer list include or exclude housing benefit, where it is received. This may mean that the analysis underestimates the ability of households to afford affordable rents (or even market rents in some cases). For households who live in the social rented sector and receive housing benefit, the vast majority have their benefit paid directly to the landlord and it is experienced by them as a

discount on their rent or 'free' rent if they are entitled to the full amount. These households may not report it as part of their income on their application form. In contrast, households receiving housing benefit in the private rented sector have it paid directly to them and for these it is likely to be considered as part of their income and recorded as such.

- 5.11 Around 17% of households on Test Valley's waiting list who are already social rented tenants are able to afford affordable rent (set at 80% of market rents) for the size of property that they need. However, around 12% could also afford market rents and therefore may not need the assistance of the Council even though they may already live in affordable housing. The number who can access the open market rented sector is small and we do not have information on these households wider circumstances eg debt or need for support which may mean that an open market solution is beyond their financial reach or unsuitable for their needs.
- 5.12 Providing accommodation at 80% of market rents would therefore appear to assist an additional 5% of households into affordable accommodation. Reducing the level at which affordable rents are set would allow more households to access affordable accommodation. But once levels reach 40-50% of open market rents affordable rents would be similar to social rents, with the exception of larger properties.
- 5.13 There are 110 households who are interested in intermediate accommodation who are existing social rented tenants. The majority of these households can afford a market rent for the size of home they want. The majority of the remaining households would be priced in to affordable rent as rents are gradually reduced in relation to market levels. This is evidence that there is some scope for social rented tenants to move out of their existing accommodation into other tenures and free up affordable housing for those in greater need.

5.1.4 Intermediate Households

- 5.14 70% of the 236 intermediate households on the HomesinHants list can afford to rent in the open market and this could be extended to 86% under affordable rent (set at 80% of the market value). However, the majority of those who can afford open market rents and affordable rents are those that need smaller sized properties. Households who need 3 bedrooms are less able to afford the market rent for the size of home they need.
- 5.15 Affordable rent is not intended to be an intermediate product but it may be that suitable tenants in social rented accommodation may be identified and targeted through the intermediate route, or if affordable rent is not taken up by those in priority need it may be necessary to widen eligibility to other households. Furthermore, some of the households interested in intermediate products are specifically interested in rented rather than low cost homeownership products.

5.1.5 Impact of Welfare Reform

- 5.16 There have been a number of recent changes to housing benefit which are relevant to the discussion of affordable rent:
- The LHA single room allowance, which covers the rent of a room in a shared house, has been extended to those aged under 35 (those aged 25s year and over would previously have been eligible for HB to cover the rent of a 1 bed property).
 - The LHA was set at the 30th percentile of market rents rather than the 50th percentile (median average) in April 2011, with transitional arrangement running until December 2012. This means that households receiving the LHA to rent within the private sector may have to find extra resources to be able to afford rents within Test Valley, unless they are able to find properties priced well below average levels.
 - Reductions in benefit entitlements for those under-occupying will have implications for existing affordable housing tenants as well as new ones. With under-occupation by 1 bedroom resulting in a 14% reduction in housing benefit and 2 bedrooms by 25%, affordability will be adversely affected.

Whether such reductions will encourage households to move to smaller accommodation in any scale is uncertain, particularly as such reductions will not affect pensioner households or working households not receiving benefits.

- Phased changes to the dependents allowance for those receiving housing benefit in the social rented sector will have completed by April 2013. This will affect households with dependents who are over the age of 18. These households experience a reduction (called an allowance) in their housing benefit in the expectation that those over the age of 18 can contribute to the rent. This allowance is being increased to catch up with RPI and will have the effect of reducing housing benefit for these households unless the dependents move out.
- 5.17 Analysis of the impact of changes to housing benefit, undertaken by the Chartered Institute for Housing using Department for Work and Pensions data suggests that around 790 households in Test Valley will lose out. This includes households who are currently living in and were receiving benefit payments for accommodation priced above the 30th percentile rent (but below the 50th percentile) and the impact of the extension of the single room allowance to those aged 35 and under. The CIH estimate this to be split between 320 households in 1 bed properties, 350 in 2 bed, 100 in 3 beds and 20 in 4 bed accommodation.
- 5.18 There are **two key proposed changes** to the benefit system which could have more dramatic impacts on the ability of households to afford suitable accommodation. These are the introduction of Universal Credit and a cap on the total benefits households can receive.
- 5.19 The introduction of a Universal Credit, planned for 2013, aims to bring together income support benefits for working age people into a single payment that is based on their overall needs.
- 5.20 Universal Credit is described in the Government's White Paper as 'an integrated working-age credit that will provide a basic allowance with additional elements for children, disability, housing and caring. It will support people both in and out of work, replacing Working Tax Credit, Child Tax Credit, Housing Benefit, Income Support, income-based Jobseeker's Allowance and income-related Employment and Support Allowance.'²
- 5.21 Universal Credit will improve work incentives by ensuring that support through benefits is reduced at a consistent and managed rate as people return to work and increase their working hours and earnings. People will generally keep more of their earnings than is currently the case. An IFS report found that the overall impact of UC was likely to improve the incentive to work and, initially, reduce child poverty. However, the IFS report claims that Universal Credit payments will not keep up with inflation (because of changes to the measure for calculating inflation for means tested benefits) and so in the long term will lead to growth in child poverty.
- 5.22 The Government's White Paper states that the intention is that no-one will experience a reduction in the benefit they receive as a result of the introduction of Universal Credit. The indications from the Government are that the existing method of calculating housing benefit will be carried over into Universal Credit.
- 5.23 However, there are likely to be transitional issues for those used to having their housing benefit paid directly to landlords. This covers the majority of those who live in the social rented sector and receive housing benefit. These households will have to adapt to receiving a monthly credit which covers their overall entitlement, not just housing benefit, and the individual components of their entitlement may not be broken down which means they will have to budget for different costs including housing. Households on housing benefit (LHA) in the private rented sector already have to do this so it is proven that it can work. However, it will represent a major change for some in the social rented sector, many of whom are long standing tenants who have never had to manage paying rent before. There are risks that this will increase rent arrears with the implication that registered providers as landlords

² White Paper (November 2010) Universal Credit: welfare that works

will spend more time chasing arrears and this could also impact on their ability to borrow and fund their activities.

- 5.24 Although the White Paper on the Universal Credit states that no-one will be worse off as a result of the introduction of UC, the Welfare Reform Bill is separately taking forward the introduction of a cap on the total amount a household can receive in benefits. In the future (post 2013) benefit payments will be capped so that households do not receive more in benefits than the average working household earns.
- 5.25 There is little detail available on how this cap will be calculated and specifically, whether there will be different caps in different parts of the Country to reflect varied living costs. The Government's Equality Impact Assessment suggests that there will be different caps applied to different household types:
- Up to £350 per week for single adult households (£18,500 per annum). This equates to around £23,000 gross, for comparison with those who are earning and paying tax.
 - Up to £500 per week for couple or lone parent households (£26,000 per annum). This equates to around £35,000 gross, for comparison with those who are earning and paying tax
- 5.26 The EIA suggest that the cap of £500 per week will also apply to larger households with multiple children and the analysis in the EIA shows that the majority of 'capped' households will be those with more than three children. Data from Test Valley's waiting list suggests there are just 4 households who receive more than £26,000 in benefits though there is likely to be a larger group living in social rented or private rented housing but not currently on the waiting list.
- 5.27 If we apply the affordability threshold (33% of gross incomes on rent) to the proposed benefit cap for larger households, this implies households will have a maximum budget of £970 per month to spend on rent. This is based on a gross figure of £35,000 per annum. The net figure is £26,000 per annum and in practice means that households will need to spend 45% of their net income on rent. This implies that affordable rents (set at 80% of market rents) in Test Valley would allow households to access up to 3 bedrooms. Four bedroom or larger homes would remain unaffordable outside of Andover.
- 5.28 The cap will eventually be brought into Universal Credit but until then, local authorities will be expected to re-coup/adjust levels of Housing Benefit as a way of enforcing the cap.
- 5.29 The introduction of a cap on the level of benefits that can be received by households is likely to have limited impact on the affordability of housing within Test Valley for the majority of households in need. However, there will be a small number of households affected which might result in the following impacts:
- The Government's EIA suggests larger families with children will lose out compared to the current system which may mean they can afford to spend less on housing costs.
 - These households may decide to move out of more expensive, although it is uncertain whether the benefit cap will be calculated in relation to where a household lives, so this may or may not make a difference since their entitlement may fall when they move.
 - Some household may decide (or be forced) to live in over-crowded or poor conditions as a means of reducing their housing bill. This will have knock-on impacts for children in these households as the effect of overcrowded and poor condition housing on health and education outcomes is well researched.
 - If households see their overall budget reduced they will be forced to make decisions about what to prioritise spending their money on. Not all will choose to pay their rent first and this may lead to

increases in arrears and ultimately homelessness, with additional pressures on social landlords and housing authorities with responsibilities in these areas.

- There is some anecdotal evidence that Registered Providers will set Affordable Rents to take account of entitlements under Housing Benefit and likely future caps but this is not guaranteed.

5.2 Policy Implications

- 5.30 Affordable rent is going to affect the ability of local authorities to meet housing need. Much relies on providers setting rents at levels which are affordable to those in priority housing need. The greatest risk is that it is going to make it more difficult to meet priority needs, especially larger households and it raises the prospect of increased use of temporary housing, overcrowding and the knock on effects on children in these conditions.
- 5.31 It is important to keep in mind that the purpose of affordable rent is to allow providers to deliver affordable housing by allowing them to increase their revenues by raising rents and to extend their borrowings to compensate for reduced subsidy. The level of public subsidy per new affordable home has been reduced from around £60,000 per unit to around £20,000 per unit. All other things being equal, setting higher rents under affordable rent will allow providers to deliver more affordable housing than would otherwise have been the case. Lower rents will deliver less, unless additional subsidy can be provided by the provider, developer/landowner or local authority. This is the trade off that Test Valley Borough Council will need to consider in assessing whether affordable rented homes proposed by Providers on new developments are affordable to those in housing need.
- 5.32 DTZ would draw out the following broad policy implications for Test Valley Borough Council:
- If Affordable Rents were to be set in relation to the incomes of those in housing need and not exceeding 33% of their gross income, rents would need to be set significantly below 80% of market values. A reasonable proportion (30-45%) of those in housing need and requiring 1 or 2 bedroom properties would be able to afford 70-80% of market rents without spending more than a third of their income on rent. Rents would need to be 60-70% of market levels for a similar proportion of those needing 3 bedrooms to be able to afford rents. Affordable rents, set in relation to market levels do little to improve the affordability of 4 bedroom properties within Test Valley.
 - The poorer affordability of larger homes presents a problem for providers within Test Valley. If Affordable Rents are set at levels which are low enough for those in housing need to afford them (by spending no more than 33% of their incomes on rent) then the rents are unlikely to generate additional returns for providers to compensate for the lack of grant subsidy. Providers have indicated that developing 3 or 4 bedroom properties in the future will be more difficult under the affordable rent model.
 - In practice, those in housing need and particularly those dependent on benefits have to spend a much larger proportion of their income on housing costs. It may be unrealistic to use 33% of gross incomes as the threshold of affordability in cases where households are wholly reliant on benefits. In these cases it is more relevant to consider the level of housing benefit available.
 - Across the Borough as a whole, at present affordable rents set at 70% of market rents should ensure affordable rents are accessible to those on housing benefit (within LHA limits). For some larger properties outside of Andover rents may need to be around 60% of market rents to be affordable. This rent would need to be inclusive of any service charge.
 - The Council and providers will need to consider how far rents might increase over time and whether this would take them above LHA limits. If affordable rents are increased annually by RPI + 0.5% there is a risk, if the base rent is set too close to the LHA limit, that rents will exceed LHA

limits during the course of the tenancy. Housing benefit (and eventually Universal Credit) will be increased in line with CPI rather than RPI in future. There needs to be enough 'headroom' in affordable rents in relation to LHA levels to allow rental growth without exceeding LHA limits.

- Working households in housing need (who do not rely on benefits) are better able to afford affordable rents. Amongst new applicants on the waiting list, 34% could afford rents set at 80% of market values. The same is true for existing social rented tenants who are earning and do not receive benefits. However, it is difficult to see the incentive to move from social rented to affordable rent accommodation for these households since the increased rental payments will directly affect their income. It is likely to be most attractive to low income working households in the private rented sector who would directly benefit from paying lower rents.
- A proportion of those who are able to afford affordable rents are those in the lowest priority banding (Band 5) and not generally deemed to be in housing need. Whilst households in Band 5 would not normally receive priority in terms of affordable housing, those occupying social rented accommodation and able to afford higher rents could be encouraged to move to affordable rented accommodation and free up a social rented home. There would be some incentive for the household since they are unlikely to access other affordable accommodation given their low priority.

5.2.1 Implications for Providers

- 5.33 The introduction of affordable rent requires providers to re-think their activities. Many providers are also doing work to establish at what level rents should be set. Providers who have bid for HCA funding in the most recent bid round have made assumptions about the level of rents they can achieve and their business plans will be based on this. An often quoted assumption appears to be 65% of market rents – though this is described as a 'blend' with higher percentages for some properties (eg small flats) and lower percentages for others (eg larger houses). Across Test Valley and amongst the providers in Hampshire that DTZ has spoken to, most are planning to set rents at 80% of market levels but within LHA limits.
- 5.34 From one point of view, it would make sense that rents are set at the maximum level possible to secure greater revenue which can then be channelled in to development of new homes. For many tenants the increase in rent will be met by an increase in housing benefit since. This gives landlords significant scope to increase rents from social rented levels before the LHA limit is reached. The cost in these cases will be borne by HM Treasury through the housing benefit bill, rather than the tenant or provider. Nevertheless, like local authorities, providers are likely to be wary of setting rents at higher levels because of the risk that this might result in greater levels of arrears amongst tenants. Providers operating within the authority area confirm that rent levels are likely to vary on a site by site basis for the same sized properties within a local authority area.
- 5.35 Providers are also concerned that current housing benefit levels will not necessarily be maintained over time. Cuts in benefit levels are on the horizon when the Government introduces a cap on the overall amount that can be claimed in 2013. At the same time, Universal Credit will be introduced which will make payments of benefits (including housing benefit) directly to tenants. Providers are concerned about the risks of arrears and void levels if rents are set too high for their tenants, or if some are unable to manage their own budgets, or if support through housing benefit starts to dwindle. The local housing allowance (which is likely to become the housing element of Universal Credit) will be increased in line with consumer price inflation (CPI) in the future. There is a risk that rents will increase at a faster rate and that housing benefit levels will increasingly fall short of rents. If arrears increase this will negatively impact on a providers' revenues and costs and their ability to raise finance against their assets. They will also have to invest more of their resources in chasing rents and dealing with voids - diverting resources away from development activities.
- The introduction of affordable rent is going to affect the ability of providers to raise finance and fund their development activities. Overall it should improve their ability to borrow and to fund future

developments by increasing their revenues, but this is counterbalanced by greater risk in arrears and voids if the levels of rent are not affordable or sustainable. They will need to manage this risk and in many situations it may mean setting rents at lower levels and foregoing the potential to increase revenues to fund the development of new homes, this will impact on the development of larger homes in particular. There are also some indications that lenders may not be willing to treat affordable rent differently to social rent in valuation terms. This would mean an inability to leverage higher borrowing in order to fund new development, though none of the providers in Test Valley indicated that this was a problem for them.

- Rental levels may vary on a localised basis for the same type and size of property as providers look at schemes individually and attempt to make developments stack up. This may have implications for the take up of affordable rented properties as prospective tenants compare the costs of what is available to let and, as far as they are able to, exercise choice over which properties they rent.
- Some housing associations increasingly see themselves as property companies with a social purpose, with plan to build new homes for open market sale and rent in order to plough profits back into subsidising rents for those in housing need.

5.3 Implications for Planning Policy and Decisions

5.36 There are a number of specific issues that Affordable Rent raises for planning policy:

- Whether there is a need to make specific provision for Affordable Rent within planning policies?
- How far Test Valley Borough Council should specify conditions relating to rents and tenancies?
- Whether Affordable Rent should be considered an intermediate tenure?
- The extent to which Affordable Rent will impact upon the viability of housing developments

5.37 Test Valley Borough Council's planning policy (Core Strategy – Regulation 25 Draft) specifies that new housing developments should provide 40% affordable housing (on sites of 15 or more homes) of which the majority 25% should usually be provided as social rent and 15% as shared ownership. The Core Strategy is currently out for consultation.

5.38 The Central Hampshire SHMA (2007) demonstrated the scale of need for affordable homes for those in housing need within the Borough. The priority remains for homes that meet the needs of those in greatest need and are unable to afford housing in the open market or intermediate sector.

5.39 In some respects, whether new homes are provided as social or affordable Rent may not be the priority for the Council – what matters is whether they are accessible to those in the greatest housing need. The question for housing and planning policy is how Test Valley Borough Council can ensure that new affordable rented homes, delivered through new housing development, are capable of addressing priority housing needs. There is a risk in setting out specific rental limits (eg % of market rents that affordable rents must not exceed) in policy since they may not always remain appropriate as the market or funding environment changes.

5.40 DTZ would suggest that the Council consider planning policy criteria along the following lines:

- The majority (25% of the 40% quota) of new affordable housing needs to be affordable to those in housing need. Households in housing need are typically those in Band 1-4 on the Hampshire HomeChoice waiting list and unable to afford suitable housing in the open market. The Strategic Tenancy Policy could set out further detail on the households which the Council considers to have priority for affordable housing.

- Rents in these homes need to be affordable in relation to the incomes of households in need (eg within Housing Benefit (LHA) limits in the short term and not more than 33% of gross incomes under the benefit cap³). Given that it is likely to be difficult to ensure that affordable rents are affordable to all of those in housing need on the basis of their incomes, DTZ suggest that affordable rents need primarily to take account of housing benefit (LHA) limits.
 - Rents should remain affordable ie within these limits throughout the lifetime of the tenancy. This will involve taking account of likely rent increases in relation to increases in housing benefit.
 - If providers plan to set rents on new affordable homes which are unaffordable to those in housing need (in excess of housing benefit limits) then the Borough Council may define this as intermediate housing.
 - The Council may also wish to set out the type of tenancy or tenancies that it would consider appropriate to households in housing need eg minimum 5 year tenancies for families.
- 5.41 This approach would involve setting out less detail in planning policy about the tenure of affordable homes but would involve greater scrutiny of provider's plans and planning applications at the site specific level.
- 5.42 There are likely to be some circumstances where a scheme is unable to provide the majority of affordable housing at rents which are affordable to those in housing need. This is likely to be because of site specific viability issues or constraints on the ability of providers to finance affordable rent in some cases. There may be two options for the Council and provider:
- **Option 1:** The affordable housing could be provided as affordable rent but with rents that are at or close to the maximum level permitted (and likely to be above Housing Benefit limits in many locations). This would allow the provider to increase revenues and may be enough to ensure the viability of the development. There may be households in need on the Home Choice waiting list who are able to afford these rents though there is no guarantee they will be willing to take up these properties, particularly if they are occupying social rented accommodation or if they have relatively high priority and are confident of securing other (lower rent) properties when they become available for re-let.
 - It is likely that intermediate households (eg those registered with HomesinHants) would be able to afford affordable rents set at the maximum limit. It may be attractive to these households, most of whom are paying market rents. But they are not the priority group and the majority can afford to pay a market rent so this would imply a significant subsidy, by way of a discount on the rent, for households who do not need it. However, there are some exceptions. These include larger households on the intermediate list who need 3 bedroom properties and cannot afford to pay market rents. There are also over 100 households living in social rented accommodation who can afford to pay higher rents (and have indicated their interest in intermediate options). Priority could be given to these groups.
 - **Option 2:** The affordable housing could be provided as intermediate housing either to buy or rent. This would mean extending the proportion of intermediate housing on site, as a proportion of all affordable housing. This may be necessary in cases where site specific viability issues are more serious and where increasing the proportion of shared ownership or increasing the rents would allow the provider to deliver affordable housing.

³ This assumes that households receiving the maximum level of benefits will have a net income of £26,000 since they will not pay tax. The equivalent gross income is around £35,000. 33% of gross income is equivalent to around 45% of net income at this level.

- 5.43 The introduction of affordable rent will have a number of implications for the viability of affordable housing delivery and consequently housing delivery overall. These implications may need to be reflected in the Council's planning policies in relation to viability. DTZ has not assessed the viability implications of affordable rent within Test Valley but would make the following general points:
- A key part of the Government's Affordable Housing Strategy is that grant aid will only be available on an exceptional basis for affordable housing provided in connection with Section 106 Agreements. Affordable housing will generally make less of a contribution to Gross Development Value on mixed residential development sites than in the past.
 - Providers are able to deliver a development programme because of affordable rent. Average grant rates are lower under affordable rent, so providers are delivering more for a given pot of grant, but at the cost of higher rents, and more strain on their borrowing capacity.
 - Affordable rent will change the amount that providers are able to pay for the affordable element of a scheme and this is likely to make valuations more complex as there is greater flexibility and uncertainty over rent levels. House builders are particularly concerned about the uncertainty around the setting of rents – with both housing associations and local authorities involved – and the impact this will have on the viability of affordable housing on schemes.

5.4 Implications for the Strategic Tenancy Policy

- 5.44 Test Valley Borough Council has strategic housing responsibilities. The Council need to know at what levels affordable rents should be set and whether those in housing need will be able to afford them. The Council has a role in influencing Providers on the type of product that is developed in their area. This should include the level of rent and type of tenancies offered to ensure that they can meet their responsibilities to house those in greatest need. This is expected to be set out in Tenancy Strategies which local authorities are now responsible for developing.
- 5.45 There are a number of specific issues that affordable rent raises for Test Valley Borough Council's Strategic Tenancy Policy:
- Affordable rent has the potential to prioritise households who have greater resources. Some of those households in priority housing need will not be able to afford affordable rents. This implies that there will be a smaller pool of properties which these households can bid for, unless they are willing and able to stretch their incomes further to access new affordable rented properties. All other things being equal, these households will have to wait longer to secure a suitable property.
 - The implication of the above is that Test Valley Borough Council will need to set out what it considers to be the benchmark of affordability for households in priority need so that providers can set rent levels accordingly. The evidence presented in this report suggests an appropriate benchmark might be for affordable rents to be affordable in relation to the incomes of households in need (eg within housing benefit (LHA) limits and in future not exceeding one third of gross⁴ incomes under the benefit cap). These rents should also remain affordable ie within these limits throughout the lifetime of the tenancy. This will involve taking account of likely rent increases in relation to increases in housing benefit.
 - The introduction of affordable rent has the potential to *reduce* the volume of re-lets within the existing social rented stock – the majority of which is owned and managed by Testway. Given the difference in rents between affordable and social rented properties, those already occupying social rented homes may be unwilling to move, unless the increased rent is entirely covered by an increase in housing benefit.

⁴ Equivalent to around 45% of net income

- There is already a two tier affordable housing system in operation – with those in housing need either supported through benefits in the private rented sector or allocated a social rented home (with or without support for their rent. There are already inequalities between the two tenures – with those in the social rented sector enjoying security of tenure and low rents, in contrast to those in the private rented sector. This is worth expanding on.
- 5.46 Housing need in Test Valley is addressed either through allocating a household a social rented property (they may or may not be entitled to housing benefit to pay the rent) or by supporting households to access properties in the private rented sector with local housing allowance to pay the rent, in whole or in part. The former is likely to offer more security of tenure and rents are likely to be around half those in the private rented sector. Furthermore, if a household is entitled to housing benefit to cover all or part of their rent, in the social rented sector it is usually paid directly to their landlord. The significant difference in rents between the social and private rented sector means that those on low incomes will inevitably try to secure social rented accommodation if it is available. It is unsurprising that a social rented home is highly sought after by those in need of affordable housing.
- 5.47 The introduction of affordable rented properties (with rents set at 80% of market rents or lower) will have different effects on the behaviour of those living in the private rented sector to those in the social rented sector.
- 5.48 There would be a strong incentive for those living in the private rented sector to move into affordable rented accommodation if it is available to them. The incentive is likely to be stronger for those not receiving housing benefit since they will immediately experience the benefits of paying lower rents, whereas those who are dependent on housing benefit will not be able to keep the saving.
- 5.49 The incentive to move from the private rented sector into affordable or social rented properties could be compounded by the introduction of a cap on the level of benefits received by a household. Households affected by the cap are likely to look for cheaper accommodation to reduce the impact of the reduction in their entitlement unless their entitlement adjusts according to the tenure of accommodation. The demand is likely to come from those in the private rented sector, supported by benefits, since their rents in Test Valley are already likely to be at the top of what the LHA provides.
- 5.50 The introduction of affordable rent has the potential to create a greater incentive to acquire or remain in social rented housing:
- Affordable rents could be double those of social rents for the same type and size of property whilst tenancies are less secure (albeit much more secure than in the open market). This will be especially true once the Universal Credit is introduced. Under the Universal Credit, tenants receiving benefits will have to manage their own budgets and the level of rent they pay will directly impact on how much they have left for other needs.
 - Affordable rented tenures will also be less secure than those under social rent, although current indications suggest secure tenancies will be offered for 5 years under affordable rent.
 - Both of the above could reduce movement out of the social rented sector and limit the ability of providers to convert homes to affordable rent. It also works against flexibility and mobility within the affordable sector – two things which the reforms intend to improve.
 - Higher rents for affordable rented properties compared to like for like Social Rented properties could also add complications for the choice based letting system as households bid for the property with cheaper rents. In some cases it could limit take up of affordable rented properties, though given the shortage of supply in relation to need for affordable homes it is difficult to envisage this being a real problem within Test Valley.

- There may also be some concerns about different tenants paying different rents for essentially identical properties because they different tenures. This already happens within the social rented sector due to the different tenancies and rent controls that have been brought in over time. However, the difference between the base rents of affordable and social rented properties is likely to greater and more visible; especially when they are advertised through the choice based letting system.
- 5.51 DTZ has not consulted all of the developing providers within Test Valley but discussions with some of the organisations and also with others operating nationally and regionally suggest that most are planning some level of conversions of their existing stock to affordable rent.
- 5.52 It is difficult to estimate what the scale of conversions might be within Test Valley:
- It is hard to envisage why providers would *not* convert existing stock to affordable rent when the opportunity becomes available. This would allow them to increase their revenues, in many cases without any impact on their tenants, assuming they are supported by housing benefit. But there is a risk with conversions that not all tenants will not be able to afford rent increases and will start to fall into arrears. There is also a risk in relying on the benefit system to support higher rents in the longer term, given the uncertainties around the introduction of caps and inflation of benefit payments.
 - DTZ has spoken to a number of providers who plan to convert between 20-50% of their stock to Affordable Rent as it becomes available for re-let or as a tenancy comes up for renewal. It is important to note that only around 5-10% of the social rented stock becomes available for re-let each year. If only a proportion of this is converted then it will take some time for this process to have an impact on the nature of the affordable housing stock. Nonetheless, this process will increase the effects discussed earlier in this section eg limiting the stock of housing available for those unable to afford affordable rents.

6 Appendix

6.1 Market Rents within Test Valley

Figure 6.1: Market Rents within Test Valley Borough

	Low	Average	Median	High
1 bed	£295	£545	£535	£850
2 bed	£575	£751	£680	£1,700
3 bed	£625	£983	£838	£1,300
4 bed	£945	£1,672	£1,787	£2,100
5 bed	£1,295	£2,676	£2,500	£6,500

Figure 6.2: Market Rents within Andover

	Low	Average	Median	High
1 bed	£295	£538	£545	£650
2 bed	£575	£656	£662	£770
3 bed	£625	£779	£800	£895
4 bed				
5 bed	£1,295	£1,365		£1,400

Figure 6.3: Market Rents within Romsey

	Low	Average	Median	High
1 bed	£550	£562		£575
2 bed	£650	£917	£800	£1,700
3 bed	£775	£1,106	£1,100	£1,300
4 bed	£945	£1,673		£2,100
5 bed	£1,495	£2,729		£3,650

Figure 6.4: Market Rents within the Rural Villages

	Low	Average	Median	High
1 bed	£475	£575	£518	£850
2 bed	£625	£787	£795	£950
3 bed	£750	£1,024	£900	£1,395
4 bed	£1,200	£1,671	£1,787	£2,000
5 bed	£1,950	£2,513		£3,000

6.2 Affordable Rents (80% of market)

NB: Low and High figures are illustrative of what affordable rents would be if they were set in relation to the lowest or highest market rents, rather than the mean average.

Figure 6.5: Affordable Rents within Test Valley Borough

	Low	Average	Median	High
1 bed	£212	£392	£385	£612
2 bed	£414	£541	£490	£1,224
3 bed	£450	£708	£603	£936
4 bed	£680	£1,204	£1,287	£1,512
5 bed	£932	£1,927	£1,800	£4,680

Figure 6.6: Affordable Rents within Andover

	Low	Average	Median	High
1 bed	£212	£387	£392	£468
2 bed	£414	£472	£477	£554
3 bed	£450	£561	£576	£644
4 bed	£0	£0	£0	£0
5 bed	£932	£983	£0	£1,008

Figure 6.7: Affordable Rents within Romsey

	Low	Average	Median	High
1 bed	£396	£405	£0	£414
2 bed	£468	£660	£576	£1,224
3 bed	£558	£796	£792	£936
4 bed	£680	£1,205	£0	£1,512
5 bed	£0	£1,965	£0	£2,628

Figure 6.8: Affordable Rents within the Rural Villages

	Low	Average	Median	High
1 bed	£342	£414	£373	£612
2 bed	£450	£567	£572	£684
3 bed	£540	£737	£648	£1,004
4 bed	£864	£1,203	£1,287	£1,440
5 bed	£1,404	£1,809	£0	£2,160

6.3 Affordable Rents (70% of market)

NB: Low and High figures are illustrative of what affordable rents would be if they were set in relation to the lowest or highest market rents, rather than the mean average.

Figure 6.9: Affordable Rents within Test Valley Borough

	Low	Average	Median	High
1 bed	£186	£343	£337	£536
2 bed	£362	£473	£428	£1,071
3 bed	£394	£619	£528	£819
4 bed	£595	£1,053	£1,126	£1,323
5 bed	£816	£1,686	£1,575	£4,095

Figure 6.10: Affordable Rents within Andover

	Low	Average	Median	High
1 bed	£186	£339	£343	£410
2 bed	£362	£413	£417	£485
3 bed	£394	£491	£504	£564
4 bed	£0	£0	£0	£0
5 bed	£816	£860	£0	£882

Figure 6.11: Affordable Rents within Romsey

	Low	Average	Median	High
1 bed	£347	£354	£0	£362
2 bed	£410	£578	£504	£1,071
3 bed	£488	£697	£693	£819
4 bed	£595	£1,054	£0	£1,323
5 bed	£0	£1,719	£0	£2,300

Figure 6.12: Affordable Rents within the Rural Villages

	Low	Average	Median	High
1 bed	£299	£362	£326	£536
2 bed	£394	£496	£501	£599
3 bed	£473	£645	£567	£879
4 bed	£756	£1,053	£1,126	£1,260
5 bed	£1,229	£1,583	£0	£1,890

Affordable Rents (60% of market)

NB: Low and High figures are illustrative of what affordable rents would be if they were set in relation to the lowest or highest market rents, rather than the mean average.

Figure 6.13: Affordable Rents within Test Valley Borough

	Low	Average	Median	High
1 bed	£159	£294	£289	£459
2 bed	£311	£406	£367	£918
3 bed	£338	£531	£453	£702
4 bed	£510	£903	£965	£1,134
5 bed	£699	£1,445	£1,350	£3,510

Figure 6.14: Affordable Rents within Andover

	Low	Average	Median	High
1 bed	£159	£291	£294	£351
2 bed	£311	£354	£357	£416
3 bed	£338	£421	£432	£483
4 bed	£0	£0	£0	£0
5 bed	£699	£737	£0	£756

Figure 6.15: Affordable Rents within Romsey

	Low	Average	Median	High
1 bed	£297	£303	£0	£311
2 bed	£351	£495	£432	£918
3 bed	£419	£597	£594	£702
4 bed	£510	£903	£0	£1,134
5 bed	£0	£1,474	£0	£1,971

Figure 6.16: Affordable Rents within the Rural Villages

	Low	Average	Median	High
1 bed	£257	£311	£280	£459
2 bed	£338	£425	£429	£513
3 bed	£405	£553	£486	£753
4 bed	£648	£902	£965	£1,080
5 bed	£1,053	£1,357	£0	£1,620

6.4 Affordable Rents (50% of market)

NB: Low and High figures are illustrative of what affordable rents would be if they were set in relation to the lowest or highest market rents, rather than the mean average.

Figure 6.17: Affordable Rents within Test Valley Borough

	Low	Average	Median	High
1 bed	£133	£245	£241	£383
2 bed	£259	£338	£306	£765
3 bed	£281	£442	£377	£585
4 bed	£425	£752	£804	£945
5 bed	£583	£1,204	£1,125	£2,925

Figure 6.18: Affordable Rents within Andover

	Low	Average	Median	High
1 bed	£133	£242	£245	£293
2 bed	£259	£295	£298	£347
3 bed	£281	£351	£360	£403
4 bed	£0	£0	£0	£0
5 bed	£583	£614	£0	£630

Figure 6.19: Affordable Rents within Romsey

	Low	Average	Median	High
1 bed	£248	£253	£0	£259
2 bed	£293	£413	£360	£765
3 bed	£349	£498	£495	£585
4 bed	£425	£753	£0	£945
5 bed	£0	£1,228	£0	£1,643

Figure 6.20: Affordable Rents within the Rural Villages

	Low	Average	Median	High
1 bed	£214	£259	£233	£383
2 bed	£281	£354	£358	£428
3 bed	£338	£461	£405	£628
4 bed	£540	£752	£804	£900
5 bed	£878	£1,131	£0	£1,350

Figure 6.21: Annual Income Needed to Rent within Test Valley (£ per annum)

	Low	Average	Median	High
1 bed	£9,558	£17,658	£17,334	£27,540
2 bed	£18,630	£24,332	£22,032	£55,080
3 bed	£20,250	£31,849	£27,151	£42,120
4 bed	£30,618	£54,173	£57,899	£68,040
5 bed	£41,958	£86,702	£81,000	£210,600

Figure 6.22: Annual Income Needed to Rent within Andover (£ per annum)

	Low	Average	Median	High
1 bed	£9,558	£17,431	£17,658	£21,060
2 bed	£18,630	£21,254	£21,449	£24,948
3 bed	£20,250	£25,240	£25,920	£28,998
4 bed	£0	£0	£0	£0
5 bed	£41,958	£44,226	£0	£45,360

Figure 6.23: Annual Income Needed to Rent within Romsey (£ per annum)

	Low	Average	Median	High
1 bed	£17,820	£18,209	£0	£18,630
2 bed	£21,060	£29,711	£25,920	£55,080
3 bed	£25,110	£35,834	£35,640	£42,120
4 bed	£30,618	£54,205	£0	£68,040
5 bed	£0	£88,420	£0	£118,260

Figure 6.23: Annual Income Needed to Rent within the Rural Villages (£ per annum)

	Low	Average	Median	High
1 bed	£15,390	£18,630	£16,783	£27,540
2 bed	£20,250	£25,499	£25,758	£30,780
3 bed	£24,300	£33,178	£29,160	£45,198
4 bed	£38,880	£54,140	£57,899	£64,800
5 bed	£63,180	£81,421	£0	£97,200

Affordable Rents @ 80% of Market Rents

NB: Low and High figures are illustrative of the income required to rent if households access the lowest or highest market rents, rather than the mean average.

Figure 6.24: Annual Income Needed for Affordable Rent within Test Valley (£ per annum)

	Low	Average	Median	High
1 bed	£7,646	£14,126	£13,867	£22,032
2 bed	£14,904	£19,466	£17,626	£44,064
3 bed	£16,200	£25,479	£21,721	£33,696
4 bed	£24,494	£43,338	£46,319	£54,432
5 bed	£33,566	£69,362	£64,800	£168,480

Figure 6.25: Annual Income Needed for Affordable Rent within Andover (£ per annum)

	Low	Average	Median	High
1 bed	£7,646	£13,945	£14,126	£16,848
2 bed	£14,904	£17,004	£17,159	£19,958
3 bed	£16,200	£20,192	£20,736	£23,198
4 bed	£0	£0	£0	£0
5 bed	£33,566	£35,381	£0	£36,288

Figure 6.26: Annual Income Needed for Affordable Rent within Romsey (£ per annum)

	Low	Average	Median	High
1 bed	£14,256	£14,567	£0	£14,904
2 bed	£16,848	£23,769	£20,736	£44,064
3 bed	£20,088	£28,668	£28,512	£33,696
4 bed	£24,494	£43,364	£0	£54,432
5 bed	£0	£70,736	£0	£94,608

Figure 6.27: Annual Income Needed for Affordable Rent within the Rural Villages (£ per annum)

	Low	Average	Median	High
1 bed	£12,312	£14,904	£13,427	£22,032
2 bed	£16,200	£20,399	£20,606	£24,624
3 bed	£19,440	£26,542	£23,328	£36,158
4 bed	£31,104	£43,312	£46,319	£51,840
5 bed	£50,544	£65,137	£0	£77,760

Affordable Rents @ 70% of Market Rents

NB: Low and High figures are illustrative of the income required to rent if households access the lowest or highest market rents, rather than the mean average.

Figure 6.30: Annual Income Needed to Rent within Test Valley (£ per annum)

	Low	Average	Median	High
1 bed	£6,691	£12,361	£12,134	£19,278
2 bed	£13,041	£17,033	£15,422	£38,556
3 bed	£14,175	£22,294	£19,006	£29,484
4 bed	£21,433	£37,921	£40,529	£47,628
5 bed	£29,371	£60,692	£56,700	£147,420

Figure 6.31: Annual Income Needed to Rent within Andover (£ per annum)

	Low	Average	Median	High
1 bed	£6,691	£12,202	£12,361	£14,742
2 bed	£13,041	£14,878	£15,014	£17,464
3 bed	£14,175	£17,668	£18,144	£20,299
4 bed	£0	£0	£0	£0
5 bed	£29,371	£30,958	£0	£31,752

Figure 6.32: Annual Income Needed to Rent within Romsey (£ per annum)

	Low	Average	Median	High
1 bed	£12,474	£12,746	£0	£13,041
2 bed	£14,742	£20,798	£18,144	£38,556
3 bed	£17,577	£25,084	£24,948	£29,484
4 bed	£21,433	£37,944	£0	£47,628
5 bed	£0	£61,894	£0	£82,782

Figure 6.33: Annual Income Needed to Rent within the Rural Villages (£ per annum)

	Low	Average	Median	High
1 bed	£10,773	£13,041	£11,748	£19,278
2 bed	£14,175	£17,849	£18,031	£21,546
3 bed	£17,010	£23,224	£20,412	£31,639
4 bed	£27,216	£37,898	£40,529	£45,360
5 bed	£44,226	£56,995	£0	£68,040

Affordable Rents @60% of Market Rents

NB: Low and High figures are illustrative of the income required to rent if households access the lowest or highest market rents, rather than the mean average.

Figure 6.34: Annual Income Needed to Rent within Test Valley (£ per annum)

	Low	Average	Median	High
1 bed	£5,735	£10,595	£10,400	£16,524
2 bed	£11,178	£14,599	£13,219	£33,048
3 bed	£12,150	£19,110	£16,291	£25,272
4 bed	£18,371	£32,504	£34,739	£40,824
5 bed	£25,175	£52,021	£48,600	£126,360

Figure 6.35: Annual Income Needed to Rent within Andover (£ per annum)

	Low	Average	Median	High
1 bed	£5,735	£10,459	£10,595	£12,636
2 bed	£11,178	£12,753	£12,869	£14,969
3 bed	£12,150	£15,144	£15,552	£17,399
4 bed	£0	£0	£0	£0
5 bed	£25,175	£26,536	£0	£27,216

Figure 6.36: Annual Income Needed to Rent within Romsey (£ per annum)

	Low	Average	Median	High
1 bed	£10,692	£10,925	£0	£11,178
2 bed	£12,636	£17,826	£15,552	£33,048
3 bed	£15,066	£21,501	£21,384	£25,272
4 bed	£18,371	£32,523	£0	£40,824
5 bed	£0	£53,052	£0	£70,956

Figure 6.37: Annual Income Needed to Rent within the Rural Villages (£ per annum)

	Low	Average	Median	High
1 bed	£9,234	£11,178	£10,070	£16,524
2 bed	£12,150	£15,299	£15,455	£18,468
3 bed	£14,580	£19,907	£17,496	£27,119
4 bed	£23,328	£32,484	£34,739	£38,880
5 bed	£37,908	£48,853	£0	£58,320

Affordable Rents @50% Market Rents

NB: Low and High figures are illustrative of the income required to rent if households access the lowest or highest market rents, rather than the mean average.

Figure 3.17: Annual Income Needed to Rent within Test Valley (£ per annum)

	Low	Average	Median	High
1 bed	£4,779	£8,829	£8,667	£13,770
2 bed	£9,315	£12,166	£11,016	£27,540
3 bed	£10,125	£15,925	£13,576	£21,060
4 bed	£15,309	£27,086	£28,949	£34,020
5 bed	£20,979	£43,351	£40,500	£105,300

Figure 3.18: Annual Income Needed to Rent within Andover (£ per annum)

	Low	Average	Median	High
1 bed	£4,779	£8,716	£8,829	£10,530
2 bed	£9,315	£10,627	£10,724	£12,474
3 bed	£10,125	£12,620	£12,960	£14,499
4 bed	£0	£0	£0	£0
5 bed	£20,979	£22,113	£0	£22,680

Figure 3.19: Annual Income Needed to Rent within Romsey (£ per annum)

	Low	Average	Median	High
1 bed	£8,910	£9,104	£0	£9,315
2 bed	£10,530	£14,855	£12,960	£27,540
3 bed	£12,555	£17,917	£17,820	£21,060
4 bed	£15,309	£27,103	£0	£34,020
5 bed	£0	£44,210	£0	£59,130

Figure 3.20: Annual Income Needed to Rent within the Rural Villages (£ per annum)

	Low	Average	Median	High
1 bed	£7,695	£9,315	£8,392	£13,770
2 bed	£10,125	£12,749	£12,879	£15,390
3 bed	£12,150	£16,589	£14,580	£22,599
4 bed	£19,440	£27,070	£28,949	£32,400
5 bed	£31,590	£40,711	£0	£48,600