Affordability of Affordable Rented Housing & Starter Homes

An examination of affordability and the alternative to affordable rent

The Health & Housing Partnership LLP

A Report to Winchester City Council

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1. Introduction

Objectives

1. The aim of this paper is to review whether the cost of affordable housing is achievable to those in housing need. Specifically, Winchester City Council wish to consider whether an approach which links affordable rents to market rent levels is appropriate, or whether there is an alternative where rents are linked to local incomes or affordability. Affordability thresholds also need to be reviewed to establish the maximum proportion of a household's income that can reasonably be spent on housing costs.

2. The need for this review has been driven by major changes to housing benefit, the introduction of affordable rent and ongoing welfare reform since 2011. This research will be used to inform the implementation of the Council's affordable housing policies, through discussions and negotiations on planning applications on key sites within the District.

3. The Council also wish to examine the affordability of 'Starter Homes' – the Government's new initiative to enable first time buyers to access home ownership. The provision of Starter Homes on development sites may affect the ability of developers and RPs to provide other forms of affordable housing, including affordable rent. Viability matters are not within the scope of this research which is focused mainly on the cost of these homes to buyers.

Context

Affordable Rent

1. Affordable rent was introduced by the Government in the 2011-15 affordable housing programme. Affordable Rents can be set at *up to* 80% of market rents and guidance on setting these rents was provided by RICS, though this guidance has since been withdrawn. By comparison, Social Rents equate to around 40-50% of market rents, having been set by a rent formula which takes account of earnings and market rents.

2. The National Planning Policy Framework defines affordable rent as: 'housing [which] is let by local authorities or private registered providers of social housing to households who are eligible for social rented housing. Affordable rent is subject to rent controls that require a rent of no more than 80% of the local market rent (including service charges, where applicable).'[1] Landlords are able to offer affordable rented properties on

[1] National Planning Policy Framework Annex 2: Glossary

flexible tenancies. There is flexibility to offer shorter terms with a minimum of two years rather than secure tenancies.

3. It is important to keep in mind that the purpose of affordable rent was to allow Registered Providers to deliver affordable housing with much less grant by allowing them to increase their revenues by raising rents. All other things being equal, setting higher rents under affordable rent allows RPs to deliver more affordable housing than would otherwise have been the case under reducing grant levels. Conversely, lower rents will deliver less housing, unless additional subsidy can be provided by the Registered Provider, the developer/land owner or local authority.

Welfare Reform

4. In parallel to the introduction of affordable rent, from mid-2011 a range of measures have been introduced with the aim of reforming the welfare system and reducing the housing benefit bill. For households in receipt of housing benefit, overall, these changes have had the effect of reducing the income that households have available to spend on rent. The changes to housing benefit have included:

- The local housing allowance single room allowance, which covers the rent of a room in a shared house, has been extended to those aged under 35; previously those aged 25 years and over would have been eligible for housing benefit to cover the rent of a 1 bed property. This means that those aged 35 or under and in housing need will have to find additional resources to afford independent accommodation.

- The local housing allowance has been reduced to the 30th percentile of market rents rather than the 50th percentile (median average). This means that households receiving the LHA to rent within the private sector may have to find extra resources to be able to afford their existing home.

- There have been reductions in benefit entitlements for those under-occupying social housing, with under-occupation by 1 bedroom resulting in a 14% reduction in housing benefit and 2 bedrooms by 25%. Some local authorities and RPs have reported difficulties in rehousing those who are willing to downsize because of the lack of suitably sized properties available for letting. Reductions do not affect pensioner households or working households not receiving benefits.

- There have been changes to the dependents allowance for those receiving housing benefit in the social rented sector. This affects households with dependents who are over the age of 18. These households have experienced 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 has been increased to catch up with RPI and has had the effect of reducing housing benefit for households with dependents over the age of 18.

- A cap on the total benefits a household can receive was introduced in April 2013. Couples and households with children were limited to £500 per week –£26,000 per annum. Single people were limited to £350 per week - £18,200 per annum. The Summer Budget 2015 confirmed that this cap would be reduced to £23,000 in London and £20,000 elsewhere. Measures to reduce the benefit cap have been included in the Welfare Reform and Work Bill 2015-16, but there is no firm date for when the measures will be applied.

5. The key remaining element of welfare reform which is still to be introduced in full is Universal Credit. It has been introduced for single claimants and full roll out is planned through 2015. Universal Credit aims to bring together income support benefits for working age people into a single payment that is based on their overall needs. It 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]

6. Universal Credit aims to 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. In Winchester, UC has been rolled out to single people claiming benefits.

7. There are likely to be transitional issues for those used to having their housing benefit paid directly to their landlord. 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. The individual components of their entitlement will not be broken down which means they will have to budget for different costs including housing, in a context where their overall benefit entitlement is being reduced.

8. Although UC is the remaining structural reform to the welfare system, the Summer Budget announced further measures to reduce the overall welfare budget. Government has stated that it will make a further £13bn cuts in the welfare budget per annum. This will include, but is not limited to:

   - the reduction in the benefit cap to £23,000 in London and £20,000 elsewhere,

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

- child benefit limited to the first two children from 2017
- reductions in tax credits (working tax credits and child tax credits)
- a freeze in working age benefits for two years
- replacement of JSA for 18-21 year olds with a 'youth allowance' which is limited to 6 months
- no automatic housing benefit entitlement for 18-21 year olds

9. These measures will continue to have implications for households in receipt of benefits as their income from benefits is reduced, impacting on their ability to pay their rents. In turn, this will place pressure on housing providers' incomes from rents and their ability to fund further development.

Starter Homes Initiative

10. The Government is also in the process of bringing forward policy to promote the development of Starter Homes. These are homes to be provided for first time buyers aged under 40 and offered at a 20% discount on the open market value of the property. The Housing and Planning Bill 2015 sets out a 'general duty to promote supply of starter homes'. Part 3 (1) of the Bill states: '*An English planning authority must carry out its relevant planning functions with a view to promoting the supply of starter homes in England.' Part 4 (1) of the Bill states: 'The Secretary of State may by regulations provide that an English planning authority may only grant planning permission for a residential development of a specified description if the starter homes requirement is met.*'

11. There is little other detail in the draft Bill, though the Bill puts a 'price cap' on these starter homes at a maximum of £250,000 outside of London. Although it is unclear from the draft bill whether this price cap applies to the market value of the home before a discount of 20% is applied or whether this cap is applied to properties that have been discounted.[3] Government's initial proposals prevent buyers of Starter Homes from selling them on the open market for 5 years. However, after 5 years, they may sell the property at the full market value and thus realise a 20% uplift. This is likely to provide a significant incentive for first time buyers to purchase a Starter Home, even if they may have been able to afford a home on the open market, since it essentially guarantees a 20% profit after 5 years.

12. The Spending Review and Autumn Statement (November 2015) set out further commitment from Government to the Starter Homes initiative by allocating £2.3bn of

[3] THHP assume the £250k limit applies to the discounted value of the property following informal clarification from CLG.

funding to support the delivery of 60,000 of these homes. This implies a subsidy of £38,000 per property which is significantly higher than the currently average subsidy provided to other forms of affordable housing, including affordable rent and shared ownership under the Affordable Housing Programme 2015-18. A further 140,000 delivered through the 'reform of the planning system'. THHP understand this to be homes delivered on sites that would not have previously been given planning permission for housing – previously developed commercial sites and other 'exception sites'.

Winchester City Council Policy

13. Winchester City Council commissioned research in 2012 to examine the affordability of affordable rents to local residents. Following this research, WCC developed policy which expects affordable rents in housing association properties to be set in relation to three criteria:

- They should be set at a maximum of 80% of market rents including service charge
- within the local housing allowance
- up to 45% of the benefit cap within the Universal Credit (which is the same as 33% of gross earnings equivalent to the cap)

14. In the new affordable rented homes developed by Winchester City Council itself, rents will be set at a maximum of 74% of market rents. This limit was originally set at 70% of market rents but has been increased to 74% to allow for 1% rent reduction each year announced by the Government in the Summer Budget 2015.

15. It is also worth stating that Winchester's affordable housing policies require that 70% of affordable housing is delivered as rented housing (social or affordable), with 30% as intermediate products including shared ownership. This is relevant in the consideration of the new requirement to provider Starter Homes, set out in the Government's emerging Housing Bill.

16. The rest of this report examines:

- The current price of renting in Winchester (Section 2)
- The proportion of income spent on housing costs (Section 2)
- The affordability of affordable rents and starter homes (Section 2)
- Alternative approach – Living Rents in Winchester (Section 3)

- Implications for policy (Section 4)

2. Affordability

Cost of Renting

1. Figure 1 sets out the cost of renting a property on the open market in Winchester by size of property. Average rents start at around £675 per calendar month for a 1 bedroom property, rising to £1,775 for a 4 bedroom family sized home. For comparison, lower quartile rents are also presented in Figure 1 along with the local housing allowance (LHA) available to those receiving housing benefit.

2. Figure 1 shows local housing allowance rates for Winchester. The majority of the District, including Winchester City, is covered by the Winchester Broad Rental Market Area. The Winchester LHA is currently sufficient to cover the cost of renting a lower quartile property in the District. The LHA payments are unlikely to cover the cost of a lower quartile rent and service charge however. Service charges are, on average, around £80 per month and most likely to be applicable to 1 and 2 bedroom flats. LHA will be phased out as Universal Credit is introduced and households will receive a single payment to cover all of their benefits and from which they will need to pay their rent. It is important to keep in mind that, since 2013, the overall benefits households receive has been capped. Those households receiving total benefits in excess of the £26,000 cap have had their housing benefit reduced. So in practice, some households will not receive the full LHA allowance set out in Figure 1 and in particular this is likely to affect larger family households.

Figure 1: Average and Lower Quartile Market Rents (Mean) 2014

	Rent		Local Housing Allowance by Broad Rental Market Area (as at November 2015)		
Property Size	Average pcm	Lower Quartile pcm	Winchester *	Portsmouth	Southampton
1 bedroom	£675	£600	£640	£505	£505
2 bedroom	£870	£735	£790	£625	£680
3 bedroom	£1,115	£895	£920	£750	£800
4 bedroom	£1,775	£1,350	£1,355	£1,040	£1,050

Source: Rental Value Series, Valuation Office Agency *The majority of the District and Winchester City is covered by the Winchester BRMA.

3. Figure 2 sets out affordable rents which are calculated at 80% and 74% of average market rents within Winchester. Affordable rents set at 74% of market rents are in line with Winchester City Council's current affordable housing policy. Affordable rents set at 80% of market rents are included in Figure 2 to illustrate the limit of the rents which would be permissible under the Government's regulations for affordable rent.

Figure 2: Affordable Rents (2014)

Property Size	80% of Average Market Rents pcm	74% of Average Market Rents (WCC Policy) pcm
1 bedroom	£540	£500
2 bedroom	£695	£645
3 bedroom	£895	£825
4 bedroom	£1,420	£1,315

Source: Rental Value Series, Valuation Office Agency for market rents. Affordable Rents calculated as a percentage of average market rents. Rounded to nearest £5.

4. The rental values in Figure 2 are not inclusive of service charges. If it is assumed that service charges are around £80 per month[4], affordable rents set at 80% of market rents remain affordable to those on housing benefit for 1 and 2 bedroom properties. However, if service charges were to be applied to 3 and 4 bedroom properties (which is unlikely unless they are delivered as flats), these become unaffordable under current LHA levels. Affordable rents set at 74% market rents with service charges added remain affordable for all property sizes to households reliant on housing benefit under current LHA levels.

Income Spent on Housing Costs

5. Before considering whether these rents are likely to remain affordable to households within Winchester in future, it is relevant to examine what proportion of their income households can be expected to spend on housing costs.

6. There is no Government guidance on this matter. It has generally been accepted in the practice of developing housing need assessments and SHMAs that 25-35% of gross household income can be spent on rent or a mortgage. In the Winchester SHMA and housing need assessment, it was assumed that households could spend up to 33% of their gross incomes on rent and this threshold was accepted by the Planning Inspector. The PUSH SHMA uses 30% of gross incomes to establish affordability. However, it is relevant to note that the Inspector in the Eastleigh Local Plan Inquiry criticised the use of a 30% affordability threshold (30% gross income on housing costs) and considered this to be the upper limit of affordability in Eastleigh.

7. It is worth considering recent evidence on this subject. The English Housing Survey (2013/14) provides data on the proportion of household income spent on housing costs,

[4] Based on the average service charge for Home Buy South properties. However, these do not apply to WCC properties and are unlikely to apply to RP 3 and 4 bed properties as these are predominately houses rather than flats.

by tenure (Figure 3). This suggests that the assumption that households could spend up to one third of their gross income on housing costs reflects reality for those living in the private and social rented sectors in England. This evidence is drawn on in the NHF's Home Truths 2014 report and is used by Savills in the NHF and JRF Living Rents study (discussed below). THHP has also reviewed the evidence on household incomes and expenditure in the ONS's Family Spending Survey. However, this source does not provide expenditure on rent specifically, rather grouping it with fuel and other housing costs so it is difficult to obtain a clear picture of the proportion of household income spent on rent.

8. THHP suggest that the threshold of 33% of gross household incomes is a reasonable threshold based on the available evidence and is retained for assessing affordability, though this might be considered the upper limit of what low income households can afford to spend on rent.

Figure 3: Proportion of Income Spent on Rent/ Mortgage by Tenure (2013/14) England

Tenure	Proportion of Gross Income % (including benefits)
Owner occupiers (first time buyers in last 5 years)	20%
Private renters	43%
Social renters	31%

Source: English Housing Survey 2013/14, Annex Tables 3.2, 4.3 and 5.2

Earnings and Incomes

9. To understand the affordability of rents, it is necessary to examine the income and earnings of households within Winchester. Understanding household incomes at the local level is a complex exercise because of the varied circumstances of households. Households on low earnings are often entitled to benefits to top up their earnings from work (eg working tax credit, housing benefit). Conversely, households reliant on benefits are permitted to increase their incomes through work before benefits are reduced or removed.

10. There are a number of sources of modelled household income data which are available to purchase from private companies eg CACI and Experian. These are built up from publically available data on earnings and other data sets eg from credit scoring companies. Accessing this data entails a cost and one which would need to be incurred

on an annual basis if Winchester wished to use up to date income data as an input for setting rents in the affordable rent sector. [5]

11. The only publically available data which is available at the local level and provides an indication of local incomes is the annual survey of hours and earnings (ASHE). This does not provide household incomes directly but can be adjusted to provide an estimate of incomes, as done for the NHF and JRF 'Living Rents' research. This study is discussed in Section 3.

12. Figure 4a shows that lower quartile earnings for those working in Winchester (including part time and full time workers) were just under £15,000 per annum in 2014, with average earnings at just over £31,000 per annum. It is this lower quartile measure which has been used in the NHF and JRF's Living Rent model because, according to the authors, this relates most closely to the incomes of those living in social housing. The earnings figures in Figure 4a are then adjusted using a multiplier in the NHF Living Rents study to estimate household income.

Figure 4a: Earnings of Residents in Winchester (Gross, All Employees) 2014

	Average	Lower Quartile
Weekly	£600	£280
Annual	£31,180	£14,665

Source: Annual Survey of Hours and Earnings (ASHE) Rounded to nearest £5

Figure 4b: Earnings of Residents in Winchester (Gross, <u>Full Time</u> Employees) 2014

	Average	Lower Quartile
Weekly	£615	£480
Annual	£31,910	£24,915

Source: Annual Survey of Hours and Earnings (ASHE) Rounded to nearest £5

13. Figure 4b shows earnings for those in full time employment only. The earnings of lower quartile workers are substantially higher on this measure, which excludes part time workers.

14. It is relevant to note that the majority of households (77%) on Winchester's waiting list (Hampshire Home Choice) have incomes of less than £15,000. Although self-reported income data such as this needs to be treated with caution, it is consistent with the earnings data (Figure 4a) and assumptions used in the Living Rents report which claims to be typical of households living in social rented accommodation.

[5] The PUSH SHMA (2014) provides household income data using their own modelling for 2014 which is derived from ASHE, SHE, CACI and ONS.

Affordability of Affordable Rents

15. It is useful to compare income from earnings to the cost of market and affordable rents. As discussed above, the affordability of rents in Winchester is calculated on the assumption that households can spend up to one third (33%) of their gross income on housing costs.

16. Figure 5 compares the cost of renting with the incomes of those households reliant on lower quartile individual earnings (just under £15,000 per annum). This level of earnings would be insufficient to afford to rent even a 1 bedroom property in Winchester, even when rents are set at 70% of market rents.

17. However, it is fair to assume that households on the lowest earnings and needing larger properties may have more than one earner or are likely to have their earnings boosted by benefit entitlements. The NHF's Living Rent report provides a method for converting individual earnings to household incomes and this is examined further on in this paper.

Figure 5: Affordability of Affordable Rents, based on LQ Resident Individual Earnings

Property Size	1 bedroom	2 bedroom	3 bedroom	4 bedroom
Market Rent	No	No	No	No
Affordable Rent (80%	No	No	No	No
Affordable Rent (70%)	No	No	No	No

Source: Market Rents from Valuation Office Agency Rental Value Series (2014), LQ earnings from Annual Survey of Hours and Earnings, Gross Earnings for Winchester residents (Full and part time). Assumes household spends 33% of income on rent.

18. Figure 6 examines the affordability of rented properties to households reliant on benefits. The maximum entitlement is currently set at £26,000 for couples and households with children. It is important to note that benefits are untaxed and £26,000 in benefit is the equivalent of around £34,000 earned income, which is subject to tax. It is therefore appropriate to calculate affordability under the benefit cap based on the equivalent gross earnings so that it is comparable to affordability based on income from earnings.

19. Under the current benefit cap of £26,000, most properties in Winchester are affordable under affordable rents set at 80% of market rents. The exception is 4 bedroom properties which are unaffordable. They remain unaffordable even when affordable rents are set at 70% of market rents (Figure 7 overleaf).

Figure 6: Affordable Rent under the Benefit Cap (Affordable Rents at 80% of Market Rent) in Winchester

Universal	Equivalent	Maximum rent	1 bed	2 bed	3 bed	4 bed

Credit cap (net benefit)	income in earnings (before tax)[6]	affordable to household (assumes 33% of income on rent)[7]				
£26,000 (current)	£34,000	£945	Yes	Yes	Yes	No
£20,000 (proposed)	£25,000	£695	Yes	Marginal	No	No

Source: House of Commons Library Briefing Paper (20th July 2015) The Benefit Cap, market and affordable rents from Figures 1-2 in this paper.

Figure 7: Affordable Rent under the Benefit Cap (Affordable Rents at 74% of Market Rent) in Winchester

Universal Credit cap (net benefit)	Equivalent income in earnings (before tax)[8]	Maximum rent affordable to household (assumes 33% of income on rent)[9]	1 bed	2 bed	3 bed	4 bed
£26,000 (current)	£34,000	£945	Yes	Yes	Yes	No
£20,000 (proposed)	£25,000	£695	Yes	Yes	No	No

Source: House of Commons Library Briefing Paper (20th July 2015) The Benefit Cap, market and affordable rents from Figures 1-2 in this paper.

20. Figure 7 shows the impact of the benefit cap reducing to £20,000 for couples and families. This is the equivalent pre-tax income of around £25,000, which is lower than lower quartile full time earnings in Winchester as set out in Figure 4b. Affordable rents at 80% of market rents are largely unaffordable to households under the proposed cap (unless they are able to add to their incomes from benefits through work). Affordable rents at 74% of market rents are affordable for those needing 1 and 2 bedroom homes but unaffordable for larger properties (3 and 4 bedrooms). Two bedroom properties may also become marginal in terms of affordability if service charges are applicable.

21. This suggests that in future affordable rents set at 74% of market rents in Winchester will not be affordable to households relying solely on benefits and in need of family sized properties. The gap between actual rents and rents that are affordable to households in need may also increase over time as benefits are increased in line with inflation and are not tied to increases in rents in the market. In the short term, Government's

[6] Summer Budget 2015, HC 264, July 2015, para 1.152
[7] 33% of the equivalent 'pre tax' earnings level is equivalent to around 45% of income from benefits (untaxed)
[8] Summer Budget 2015, HC 264, July 2015, para 1.152
[9] 33% of the equivalent 'pre tax' earnings level is equivalent to around 45% of income from benefits (untaxed)

requirement that social rents are reduced by 1% each year for the next four years will mean that rents are more affordable than they would otherwise have been. However, WCC plans to set rents in new build Council properties at 74% of market levels initially to offset the reduction in rents of 1% per annum.

Affordability of Starter Homes

22. The Government is in the process of bringing forward policy to promote the development of Starter Homes. These are homes to be provided for first time buyers and offered at a 20% discount on the open market value of the property. There is little other detail in the draft Bill or the subsequent Autumn Statement and Spending Review (November 2015), though the Bill puts a 'price cap' on these starter homes at a maximum of £250,000 outside of London. It is unclear whether this price cap applies to the market value of the home before a discount of 20% is applied or whether this cap is applied to properties that have been discounted. THHP assume the £250k cap applies to the discounted value. A property discounted by 20% to £250,000 would have a value of £315,500 on the open market.

23. Coincidently, the lower quartile house price in Winchester (October 2014 - October 2015) was £250,000. Starter Homes priced at or close to the £250k cap in Winchester will overlap and compete with lower quartile properties on the open market. Figure 9 illustrates the income required to afford a home in Winchester under the Starter Home scheme, assuming properties are priced at the £250k cap.

24. Figure 8 assumes households are able to access a 10% deposit (£25,000) and that they need to secure a mortgage on the remaining £225,000. Households may be able to borrow a maximum of 4.5 times their incomes from mortgage providers. This suggests households with combined incomes above £50,000 will be able to afford a Starter Home in the District.

25. It is important to emphasise that this is likely to be the very minimum income a household will need in order to access a Starter Home. Most households will be unable to secure a mortgage of 4.5 times their income since most mortgage providers will not lend this amount and all mortgage providers will undertake an affordability assessment which includes households' outgoings eg childcare costs, debt repayments etc.

26. A range of lenders offer mortgages to first time buyers at up to 4.5 times income.[10] But lenders now also use a household's incomings and outgoings as a basis for lending. The Bank of England introduced a new rule in October 2014 to prevent banks from lending more than 15% of their loans at 4.5 times incomes or higher. As a result, many banks reduced the number of loans available at higher multiples. In practice, most households will secure approval for a mortgage that is between 3 and 3.5 times their household income. This suggests that most households will need incomes above £64,000 to afford a Starter Home within Winchester. Most banks offer loans for periods longer than the

[10] Report in the Telegraph in February 2015 lists 7 lenders with income multiples of up to five times household income: Santander (4.5x), Barclays (4.5x), Nationwide (4.75x), RBS/Natwest (4.99x), YBS (5x), Virgin Money (4.5x) and Clydesdale (4.35x)

traditional 25 year term, up to 35 years, with some offering a 40 year term. Longer repayment terms bring down the monthly cost to the household but the additional interest that builds up over time is substantial.

27. Figure 9 shows the monthly cost of a £225,000 mortgage under different interest rate and repayment term scenarios. In the current market, borrowers can secure discounted mortgages with initial interest rates below 3%. Monthly mortgage payments of around £1,065 pcm at this rate over a 25 year period would equate to around one quarter of household income (assuming household income of £50,000). The Bank of England has indicated that interest rates are likely to rise in the short term. Figure 9 shows the likely impact of a gradual rise to 5%. Under this scenario, households would spend 31% of their income, but this could be reduced by extending the repayment period. However, most lenders require mortgages to end by the time the borrowers are 65 years old, though this is gradually extending to 70 years old for some lenders to reflect changing retirement ages. Longer mortgage terms of 35-40 years are only likely to be available to those under the age of 30-35. This is relevant to the Starter Home programme since there will be many buyers in their mid to late thirties who are eligible but unable to access mortgages with longer terms and lower monthly payments.

Figure 8: Income Required for Starter Homes in Winchester

	Assumption	Value (£)
Overall price of Starter Home (before discount)	Starter Homes outside of London can be a maximum of £250k	£312,500
Price of home after 20% discount	20% discount on market value	£250,000
Deposit	10% required	£25,000
Mortgage required	Minus 20% discount and 10% deposit	£225,000
Income required to afford home	Assuming **maximum** mortgage up to 4.5x income	£50,000
	Assuming a mortgage up to 3.5x income	£64,300

Source: Land Registry House Price data for Winchester (October 2014-2015)

Figure 9: Monthly Mortgage Payments Compared for £225,000 Repayment Mortgage

Interest Rate	**25 year**	**30 year**	**35 year**	**40 year**
3%	£1,065	£950	£865	£805
4%	£1,185	£1,075	£995	£940
5%	£1,315	£1,210	£1,135	£1,085

Source: Money Saving Expert online calculator (not including lenders' arrangement fees)

28. Starter Homes priced at £250k, with an open market value of £312k would be higher cost than existing lower quartile properties on the open market in Winchester. If Starter Homes are delivered at or close to the £250k cap this could give developers the scope to

provide family sized accommodation. If developers bring forward Starter Homes at prices *below* the cap it is likely that these will be characteristic of other lower quartile properties in the District. They are likely to be smaller properties of 1 and 2 bedrooms and delivered as flats in Winchester City and flats and terraces elsewhere in the District. Either way, Starter Homes in the District may compete directly with properties on the open market in terms of price.

29. The data on earnings of residents within Winchester suggests that only households with two people working full time and earning lower quartile to average earnings would be able to afford a Starter Home in Winchester if they are priced at or near the £250k cap. Households with one person in employment and earning average full time earnings (£31,000 per annum) would not be able to afford a Starter Home within the District.

30. Households with incomes less than £60,000 are currently eligible for intermediate shared ownership properties in Winchester. This threshold was increased to £80,000 in the Autumn Statement and Spending Review in 2015. However, households accessing intermediate shared ownership in Winchester, in general, have incomes below £31,000 for all sized properties containing up to 3 bedrooms.[11] [12]

31. Early indications on the likely cost of Starter Homes in Winchester suggests that these may not meet the needs of the majority of intermediate households, unless they have relatively high incomes (above £50,000 and able to access mortgage multiples of 4.5 times their income).

Figure 10: Income Required to Afford Different Tenures in Winchester (2 bed and/or Lowest Quartile Property)

Tenure/ Product	Income Required to Afford
Social Rent (2 bed)	£18,600
'Living' Rent (2 bed)	£21,200
Affordable Rent at 74% of market rent(2 bed)	£25,700
Market Rent (Lower Quartile 2 bed)	£29,400
Shared Ownership (2 bed)	£25,000 (theoretical) - £31,600 (average in practice)
Starter Home (priced at £250k cap)	£50,000 - £64,000 (dependent on mortgage income multiple)
Market Ownership (LQ property valued at £250k in 2015)	£50,000 - £64,000 (dependent on mortgage income multiple)

[11] Analysis of incomes of households accessing shared ownership in Review of North Whiteley Affordable Housing Statement

[12] WCC applies an affordability test to new intermediate properties delivered through s106 sites. These must be affordable to households spending 30% of their gross income on mortgage/rent.

32. Figure 10 sets out the spectrum of housing tenures within Winchester and the estimated household income required to afford each tenure. Figure 10 illustrates that Starter Homes sold at £250k will overlap with lower quartile properties on the open market. Those that can afford a Starter Home in Winchester, priced at this level, could afford to buy on the open market. There are a range of issues that this initiative raises:

- The pricing of Starter Homes will be a complex process for both developers, registered providers and local authorities. The price at which it is possible to sell Starter Homes in Winchester implies that they ought to form part of the mix of *market* homes on development sites. But developers will not want to offer Starter Homes at prices with the potential to compete with the market housing on their sites because it will erode the profit from the sale of market homes. This would not preclude developers offering properties which compete with lower quartile properties in general, however, since most of these are in the 2nd hand market, with new build properties generally attracting a price premium.

- If developers choose to deliver Starter Homes at the highest price possible – (£250k discounted from £312k open market value) this may afford the opportunity to provide larger, family sized accommodation. These could enable households who might be able to afford a small lower quartile property on the open market but are unable to afford a family sized home to access the size of home they need.

- Whether developers choose to (or are required to by local authorities) provide Starter Homes that are affordable to those unable to afford lower quartile properties. For example, homes priced at £200,000 (discounted from £250k open market value) could be affordable to households with incomes of £40,000 based on the assumptions in Figure 10. This would ensure that Starter Homes are taken up by households who cannot afford to buy on the open market (unless they have access to significant deposits). However, one implication of this approach might be that these homes require more subsidy to be delivered and that this might have knock on consequences for the subsidy available to other forms of affordable housing, particularly affordable rent.

- Starter Homes priced at levels which are affordable to those currently priced out of the ownership market are also likely to be in direct competition with the current range of low cost home ownership products eg shared ownership. Starter Homes are likely to be much more attractive to these buyers since they offer the opportunity of full ownership and a guaranteed 20% uplift in value after 5 years. Since shared ownership often provides cross subsidy for RPs to deliver subsidised rented homes there is a significant risk to the delivery of affordable housing which meets priority needs.

3. Approaches to Achieving Affordable Rents

1. The proposed reduction in the benefit cap from £26,000 to £20,000 for couples and families with children is likely to make affordable rents unaffordable to those on the lowest incomes and those reliant on benefits and needing homes with 3 or more bedrooms.

2. Furthermore, if service charges are applicable on 2 bedroom properties, these homes are also likely to become unaffordable under the proposed benefit cap, even when affordable rents are set at 74% of market rents – below the permitted level of 80% of market rents. A further risk is that, over time, rents will increase at a faster rate than earnings or benefits, making affordable rents unaffordable to more households. In the short term, the Government is requiring reductions in social/affordable rents of 1% per annum over the next 4 years. This will ensure that in the short term, households will benefit from flat or marginally lower rental costs.

3. Winchester City Council wish to explore whether there is an alternative approach to setting rents to ensure that they are affordable to those on low incomes and in need of affordable housing. This approach could be applied to new homes developed by the Council through its development programme.

4. The purpose of this section is to explore whether there is an alternative to setting affordable rents in relation to market rents, which may imply higher levels of capital subsidy, although it is not within the scope of this study to examine viability impacts in detail.

5. THHP has reviewed recent reports which have examined the affordability of affordable rents, including the NHF and JRF's Living Rents study, Capital Economics research 'Building New Social Rented Homes'[13] which examined the long term value for money of capital subsidy for affordable housing, the JRF's report 'Minimum Income Standard for the UK in 2015' and the NHF's 'Home Truths 2014' report. A web based search of approaches to affordable rent within Hampshire did not reveal any alternatives models for settings rents. The various approaches which might be used to set affordable rents are set out in Appendix 1. The majority of these use market rents as the basis for setting affordable rents, or existing benefit levels. In terms of local incomes, the only alternative to affordable rents set in relation to market rents that has been examined in detail is the NHF and JRF's Living Rent model. This is explored in the rest of this section.

[13] Research undertaken for SHOUT and the National Federation of ALMOs

Living Rents

6. A recent study by the Joseph Rowntree Foundation and National Housing Federation, undertaken by Savills devised an approach with the aim of 're-establishing the link between housing and the labour market and between rents and the ability of low income households to afford them.'[14]

7. The principles of the Living Rents approach are that:

   - Rents reflect the type of households accessing social housing.
   - Rent levels are affordable for households with individuals in full time employment, working average hours each week, earning the minimum wage.
   - Earnings are indexed used an equivalence scale to allow for household income and property size.

8. The steps in calculating a Living Rent, according to the report, are as follows:

   - Lower quartile gross weekly pay for all employees (using ASHE) is taken to represent the incomes of those who typically live in social housing and also to equate to earnings of someone working full time, average hours and earning the minimum wage.[15] These figures can be extracted at the local level (see Figure 4a in Section 2).
   - The study then uses CORE data and the OECD modified equivalence scale to adapt the individual earnings data to reflect different household compositions in different sized properties. Specifically, this allows for benefit top ups for households with children (see Figure 11). This is a very useful methodology for converting local individual earnings data into estimated household incomes.

Figure 11: Incomes in Winchester Based on Living Rent Methodology

Property Size	Household composition (on average)	Income multiplier (based on OECD equivalence scale)	Estimated Income of Winchester Households per annum
1 bedroom	Single adult (1 person)	1	£14,665
2 bedrooms	One adult and one child (2 people)	1.3	£19,065
3 bedrooms	One adult and two children (3 people)	1.6	£23,456

Source: NHF & JRF Living Rents Report (2015), applied by THHP using ASHE earnings data

[14] JRF, NHF by Savills (June 2015) Living Rents – A New Development Framework for Affordable Housing
[15] Minimum wage to be increased to become the 'Living Wage' over next X year.

- The study concludes that rents should be set at 28% of earnings. The research explains that whilst households typically spend 33% of earnings or incomes on housing costs, this has been adjusted to 28% to take account of net earnings/incomes after tax. The five percentage point difference between 28% and 33% of income spent on rent has quite a large effect on the rent that the household can afford and so it is useful to calculate the resulting rents under each scenario.

9. The Living Rent report provides rents for Winchester, based on 2014 earnings data (Figure 11). This is based on earnings in Winchester of around £280 per week, increased in line with the equivalence scale in Figure 10 to take account of the household likely to be living in each property, and assuming households can spend 28% of their earnings on rent. Figure 11 shows that 'Living Rents' under these assumptions equate to around 50% of market rents based on earnings and rents at the end of 2014.

Figure 11: Living Rents Calculated by Savills (based on LQ gross earnings of all employees spending 28% of their income on rent)

	Living Rent p/w	Living Rent pcm	% of Market Rent (mean average)
1 bedroom	£78.96	£342.16	50.5%
2 bedrooms	£102.65	£444.82	51.1%
3 bedrooms	£126.34	£547.47	48.9%

Source: NHF & JRF Living Rents – a new development framework for Affordable Housing, local figures provided from link on page 22 of the report.

Applying 'Living Rents' in Winchester

10. There are a number of assumptions in the Living Rent methodology developed by the JRF that might be adapted to provide an approach that better suits Winchester's local circumstances. These are:

- The proportion of household income spent on rent.
- The type of households in social housing and their incomes
- The current and proposed benefit cap.

11. First, Figure 12 calculates 'Living Rents' under the assumption that Winchester households can spend one third of their income on rent. One third (33%) is consistent with the Winchester Housing Need Assessment which has been scrutinised by a Planning Inspector as part of the Local Plan Part 1 Examination in Public. It is also broadly in line with data from the English Housing Survey which reveals that households living in social rented housing spend 31% of their gross incomes on rent and those living in the private rented sector spend 43% of the gross incomes on rent. This has the effect of increasing

the rents that households can afford. On the whole, Living Rents under this scenario equate to around 60% of current average market rents.

Figure 12: Living Rents Adapted by THHP (based on LQ gross earnings for all employees, spending 33% of their income on rent)

	Living Rent p/w	Living Rent pcm	% of Market Rent (mean average)
1 bedroom	£93.90	£406.90	60.1%
2 bedrooms	£122.07	£528.97	60.1%
3 bedrooms	£150.24	£651.04	58.2%

Source: NHF & JRF Living Rents – a new development framework for Affordable Housing, local figures provided from link on page 22 of the report.

12. Secondly, it is also useful to examine the type of households accessing rented properties in Winchester and compare this to the assumptions made in the Living Rent methodology (Figure 11). If there is a different profile of households in Winchester's social and affordable rented housing, this might imply the need to use different multipliers to calculate household income. In turn, this will impact on the rent that can be charged affordably.

13. It is important to state that the JRF methodology assumes that, in each size of property, the rent must be affordable to the **lowest** income household likely to occupy that property. This ensures that all types of households who are entitled to occupy a property are able to afford it.

14. An alternative to this approach would be to use **weighted average** incomes of the households who are entitled to occupy each different sized property. As with the JRF Living Rent methodology, incomes are established by applying the OECD multiplier to average LQ earnings in Winchester. Appendix 2 shows how incomes have been weighted to reflect the balance of different household types accessing different sized properties. The result is that 'Living Rents' could be higher than those set out in Figure 12. The key risk with this approach is that there will be households who need to access these properties who have incomes that are lower than the average incomes on which the rents are based.

Figure 13: 'Living Rent' pcm based on Weighted Average Incomes of Households Accessing Different Sized Properties

	1 bed	2 bed	3 bed	4 bed
	£450	£650	£855	£1,030
Market rent	£675	£870	£1,115	£1,775
% of market rent	67%	75%	77%	58%

denotes rent likely to be unaffordable to households under benefit cap

15. The rents in Figure 13 are problematic however because they exceed what is likely to be affordable to households under the benefit cap. Any households solely reliant on benefits and needing to access a 3 or 4 bed property would not be able to afford these ‘Living Rents’. If the benefit cap is applied to these rents, this imposes a limit on the rents that can be charged for these larger properties (see Figure 14).

Figure 14: 'Living Rent' pcm based on Weighted Average Incomes of Households Accessing Different Sized Properties, Capped by the Benefit Cap

	1 bed	2 bed	3 bed	4 bed
	£450	£650	£695	£695
Market rent	£675	£870	£1,115	£1,775
% of market rent	67%	75%	62%	39%

16. It would be possible to develop a more sophisticated estimate of rents that are affordable to the households in WCC properties if there was more detailed information on household incomes. For example, the rents estimated in Figure 14 for one bedroom properties are constrained by the fact that these properties are largely occupied by single person households. It is assumed that these households’ incomes are limited to LQ average earnings and this assumption then limits the rent that can be charged. In practice, the incomes of these households (through earnings and benefit top ups) may be higher and could support higher rents whilst remaining affordable. THHP would suggest a cross checking exercise with a sample of households living in WCC properties would be a useful exercise to establish what household incomes are in practice.

Figure 15: Comparison of Subsidised Rents and Current and Proposal Benefit Entitlements

	1 bed	2 bed	3 bed	4 bed
Social Rent*	£395	£465	£555	*
Affordable Rent (80%)	£540	£695	£895	£1,420
Affordable Rent (74%) (WCC Policy)	£500	£645	£825	£1,315
Adapted ‘Living Rent’	£450	£650	£695	£695
LHA (Winchester BRWM)	£640	£790	£920	£1,355
Universal Credit Cap of £20k (assumes 33% of equivalent gross income - £25k - on rent)	£695	£695	£695	£695

Source: Figures contained earlier in this report. Social rent levels provided by Winchester City Council. Rounded to nearest £5. *Based on average rents of properties advertised in the year to September 2015 **Only 1 property let in last year for a similar rent as the average 3 bed social rented property.

17. Figure 15 shows how the adapted ‘Living Rents’ in Figure 14 compare to the existing range of submarket rents within Winchester. When it is assumed that households can spend 33% of their gross income on rent, Living Rents fall between average Social Rents and Affordable Rents set at 74% of market rents. The exception is 2 bed properties, where the adapted ‘Living Rents’ and Affordable Rents (at 74% market rent) are broadly equal. It is important to emphasise that a cap has been applied to the adapted ‘Living Rents’ to ensure they are affordable under the benefit cap. A cap has not been applied to Affordable Rents in Figure 15, though many of the households accessing these properties will also be affected by the cap.

18. This analysis suggests that there is some scope to increase rents above the level of Social Rents whilst maintaining affordability for tenants. If Living Rents were applied to properties in the existing stock, this would allow the Council and Registered Providers to raise more revenue through rents which could be used to raise funds for new development.

4. Conclusions

Policy Implications

1. A review of recent research suggests that the NHF and JRF's 'Living Rent' model is the only alternative to setting affordable rents that takes account of local incomes and which has been thoroughly examined. Under this model, affordable rents are set in relation to local earnings and incomes rather than in relation to market rents. The data used is publically available and uses a transparent methodology for converting local individual earnings into household incomes. The advantage of this approach from a practical perspective is that Winchester City Council would be able to update local earnings and income data each year and review affordable or 'Living Rents' accordingly. The 'Living Rent' methodology developed by the NHF and JRF has been adapted, with assumptions adjusted, to reflect Winchester's local circumstances.

2. It is worth highlighting the key benefits of these 'Living Rents'. First, they are likely to be more affordable to those on low incomes and in housing need because they relate to incomes these households can expect to receive. They are affordable to those on low incomes in work, those reliant on benefits, and households who work but have their incomes topped up through benefits.

3. If it is assumed that Winchester households can spend one third of their incomes on rent, this approach would reduce rents in Winchester to around 65% of market rents based on <u>current</u> incomes and <u>current</u> market rental costs. This compares to current WCC policy which limits affordable rents in its housing stock to a maximum of 74% of market rents. However, although affordability based on local incomes currently equates to around 65% of market rents, this will not be maintained over time if market rents rise faster than wages.

4. A further complexity is that whilst WCC might be able to set rents in line with 'Living Rents' it is unclear how much flexibility the Council would have to increase rents as earnings and incomes increase. Or whether rents would be subject to increases in line with inflation and subject to Government limits or reductions, including the 1% reduction in social rents per annum over the next 4 years.

5. It is important to state that THHP has not considered the viability of the 'Living Rent' approach for developers and registered providers. On average, the Living Rent approach reduces rents compared to those under affordable rents. This will reduce the rental income to landlords and is likely to drive the need for higher levels of upfront capital subsidy. In the absence of subsidy for rented housing from Government, as the focus for affordable housing shifts to low cost home ownership, cross-subsidy will need to come from developers, land owners or other sources. Without increased subsidy, there is a

risk that this approach could reduce the volume of new affordable homes that can be developed.

6. However, the Living Rents analysis suggests that there is some scope to increase rents above the level of Social Rents whilst maintaining affordability for tenants. If Living Rents were applied to properties in the existing stock, this would allow the Council to raise more revenue through rents which could be used to raise funds for new development.

7. It is worth highlighting that the Living Rent report aims to persuade Government and specifically HM Treasury to increase capital investment in affordable housing. The report demonstrates that greater capital investment, rather than higher rents, it better value for money in the long term because it reduces the housing benefit bill. This is supported by the Capital Economics 'Building New Social Rented Homes' report in June 2015.

8. THHP has also considered the likely cost and affordability of Starter Homes within Winchester. The Starter Home price cap of £250k (discounted value) outside of London means that, in Winchester, these properties will overlap with open market prices. Buyers will have the choice between an open market property and a new build Starter Home. If Starter Homes are priced substantially lower than £250k, only lower quartile properties are likely to be built and these are likely to be small dwellings and flats rather than houses. Only if Starter Homes are priced below lower quartile property prices (under £250k) will they help those on the margins of being able to afford to buy rather than those who can already afford market prices. However, if priced below £250k, Starter Homes will overlap with the intermediate shared ownership market any may reduce demand for these products given the significant financial incentive to purchase a Starter Home.

9. The Shelter report published in August 2015 'Starter Homes – Will they be affordable?' concludes that this product will help those able to afford to buy in the open market and will not help households in need of affordable housing. They will not meet the needs of households who are unable to afford to rent in the open market – the vast majority of households on Winchester's waiting list. The further risk raised by Shelter is that these homes will be delivered at the expense of other forms of affordable housing. These homes will not remain affordable in perpetuity and there is a particular incentive for these new owners to sell on the open market after 5 years in order to 'cash in' on the 20% uplift in property price.

10. The Housing Bill (2015) makes clear that local authorities have a duty to promote the development of Starter Homes and that planning permission for sites will be tied to the delivery of these homes. If the development of Starter Homes is fixed in law, as suggested by the Bill, it is likely that these homes will take precedence over the delivery of other forms of affordable housing. Furthermore, the Spending Review and Autumn

Statement in November 2015 focused new funding for affordable housing on the Starter Homes programme and additional shared ownership homes.

11. This presents a significant challenge for Winchester City Council and local registered providers to continue their sub-market rental development programmes in the absence of support from Government. The detail of the Starter Home Initiative is not yet available but there are several key issues that this new programme raises for affordable housing overall:

 - The price point at which Starter Homes are delivered will determine whether they overlap with properties for sale in the open market and compete for the same buyers or overlap with affordable housing products such as shared ownership and target buyers unable to access the open market.

 - The price of Starter Homes will also determine the extent to which they require subsidy from the developer or landowner. Starter Homes provided at higher prices (near the £250k cap) might be capable of being delivered as part of the spectrum of market housing on new development sites, particularly on large sites, without the need for subsidy. This might allow WCC to seek provision of, or contributions towards, other forms of affordable housing including affordable rent.

 - The Government has committed £2.3bn of funding to support the development of 60,000 of these Starter Homes. This equates to £38k per property in subsidy. If this is available to fund the development of Starter Homes on sites in Winchester it may negate the need for subsidy from the developer/landowner to bring forward these discounted homes. All other things being equal, this might allow schemes to continue to deliver other forms of affordable housing, including affordable rent.

Appendix 1: Comparison of Criteria which could be used to set Sub-Market Rents.

Criteria for setting rent level	Explanation	Advantages	Disadvantage
Social Rent (approximately 40-50% of market rents)	Regulated rents, initially set in line with incomes (70% weighting) and rents (30% weighting).	Affordable to households on the lowest incomes Better value for money over the longer term (30+ years) that providing HB to households in PRS	Capital subsidy heavy and no Government support for funding new social rented homes.
Local Housing Allowance	Set at 30% percentile of market rents for households on housing benefit to access the PRS.	Used by WCC and many RPs to ensure new homes are affordable to those on housing benefit.	Universal credit and benefit cap will replace the LHA and in practice, households will have less to spend on rent if their benefits are capped.
Benefit cap (45% of net benefits)	30% of equivalent gross (taxed) income.	Used by WCC and many RPs to ensure new homes are affordable to those on housing benefit. Will move in line with changes to the benefit cap and therefore remain affordable.	Likely to be capital subsidy heavy.
Up to 80% of market rents	HCA criteria for affordable rent	Familiar to RPs and supported by HCA programme	Not linked to household incomes and unaffordable to many larger households. Potential to become more affordable over time as rents grow faster than earnings. Less subsidy heavy and therefore potential to deliver more housing.
70% market rents	WCC policy for new affordable housing in the District. Reviewed to be set at 74% to take account of 1% rent reductions over next 4 years	Currently affordable to households on low incomes	As above
Sliding scale (80% for smaller properties down to	Reflects affordability for households needing larger properties	Currently affordable to households on low incomes and reflects the	Not linked to household incomes and unaffordable to many larger

60% for larger)		challenges for larger households in affording appropriately sized property.	households. Potential to become more affordable over time as rents grow faster than earnings.
Living Rent	NHF methodology using lower quartile earnings, translated into incomes using OECD scale	Will remain affordable to those on low incomes over time.	Likely to be capital subsidy heavy and in absence of Government funding for sub-market housing, will require cross subsidy from other sources.
Incomes of those on Housing Register	Rents set to be affordable to households registered using income data provided by the applicant	Reflects affordability of those in greatest need for affordable housing.	Poor data quality and availability. Applicants may not report income from benefits which may distort figures.
Segmented dependent on household's working status	GLA approach in London targets 80% market rents at those in work, rents capped at 50% of market rent for those in greatest need	Applied in London and recognises the different groups needing sub-market rents and broadly reflecting their ability to afford.	Not linked to household incomes and could become unaffordable over time depending on the growth of rents and earnings.

Appendix 2: Estimating Incomes of Households in Winchester's Social/Affordable Rented Homes

Figure A2.1: OECD Income Multiplier Applied to Winchester Earnings

OECD Income Multiplier	Multiplier	Winchester Average LQ Earnings (Gross) 2014
1st adult	1	£14,665
Additional adult	0.5	£7,333
Child	0.3	£4,400

Figure A2.1 shows how the OECD income multiplier is applied to Winchester households. It is assumed that the first adult in the household has an income of £14,665 which is the average lower quartile earnings for workers in Winchester. For each additional adult in a household, the OECD multiplier assumes that the household's income increases by 50% (£7,333). For each additional child, the OECD multiplier assumes that the household's income increases by 30% (£4,400). This takes account of the additional earnings or benefits that households might be expected to receive as the household size increases.

Figure A2.2 applies the income multiplier in Figure A2.1 to the different household types accessing different sized properties in Winchester. The final column also presents the maximum income each household would receive if they are relying on benefits under the proposed benefit cap. Figure A2.2 allows us to identify the lowest income that a household in each sized property is likely to have (highlighted in green).

Figure A2.2: Household Income of Different Household Types, Assuming OECD Income Multiplier

Household composition	Household size	1 bed	2 beds	3 beds	4 beds	Benefit cap (equivalent gross income)
1 adult	1	£14,665	n/a	n/a	n/a	23125
2 adults	2	£21,998	£21,998	n/a	n/a	25000
1 adult + 1 child	2	£19,065	£19,065	n/a	n/a	25000
1 adult + 2 children	3	n/a	£23,464	£23,464	n/a	25000
2 adults + 1 child	3	n/a	£26,397	n/a	n/a	25000
1 adult + 3 children	4	n/a	£27,864	£27,864	£27,864	25000
2 adults + 2 children	4	n/a	£30,797	£30,797	£30,797	25000
2 adults + 3 children	5	n/a	n/a	£35,196	£35,196	25000
1 adult + 4 children	5	n/a	n/a	£32,263	£32,263	25000
2 adults + 4+ children	6+	n/a	n/a	£39,596	£39,596	25000
1 adult + 5+ children	6+	n/a	n/a	£36,663	£36,663	25000
Benefit cap (equivalent gross income)		£23,125	£25,000	£25,000	£25,000	

Figure A2.3 translates these lowest incomes for each sized property into rents, assuming households spend no more than 33% of their gross income on rent. Note that for 4 bedroom properties, the maximum rent is constrained by the benefit cap.

Figure A2.3: Living Rent Based on Lowest Income of Households Accessing Property or Benefit Cap

	1 bed	2 bed	3 bed	4 bed
'Living Rent'	£407	£530	£652	£694
Market rent	£675	£870	£1,115	£1,775
% of market rent	60%	61%	58%	39%

Figure A2.4 shows the proportion of different household types who access different sized properties. These percentages are combined with the incomes for each household type presented in Figure A2.2 to produce Figure A2.5. This process 'weights' the income according to the type of households who are likely to access different sized properties and allows us to produce an average income for households in different property sizes which has been weighted according to the range of households likely to access them..

Figure A2.4: Proportion of Household Types Accessing Different Sized Properties in Winchester

Household composition	Household size	1 bed	2 beds	3 beds	4 beds
1 adult	1	79%	2%	0	0
2 adults	2	21%	20%	0	0
1 adult + 1 child	2	0	20%	0	0
1 adult + 2 children	3	0	23%	16%	0
2 adults + 1 child	3	0	23%	0	0
1 adult + 3 children	4	0	0%	21%	0
2 adults + 2 children	4	0	12%	21%	0
2 adults + 3 children	5	0	0%	16%	1
1 adult + 4 children	5	0	0%	16%	0
2 adults + 4+ children	6+	0	0%	6%	1
1 adult + 5+ children	6+	0	0%	6%	1
Total		100%	100%	100%	3

Figure A2.5: Estimating the Average Income of Households in Winchester Properties, Based on Weighted Income of Households Accessing Different Property Sizes

Average income	Household size	1 bed	2 beds	3 beds	4 beds
1 adult	1	£11,585	£0	£0	£0
2 adults	2	£4,619	£4,400	£0	£0
1 adult + 1 child	2	£0.00	£3,813	£0	£0
1 adult + 2 children	3	£0.00	£5,397	£3,754	£0
2 adults + 1 child	3	£0.00	£6,071	£0	£0
1 adult + 3 children	4	£0.00	£0	£5,712	£0
2 adults + 2 children	4	£0.00	£3,696	£6,313	£0
2 adults + 3 children	5	£0.00	£0	£5,631	£11,732
1 adult + 4 children	5	£0.00	£0	£5,162	£0
2 adults + 4+ children	6+	£0.00	£0	£2,178	£13,199
1 adult + 5+ children	6+	£0.00	£0	£2,016	£12,221
Average income (sum of rows)		**£16,205**	**£23,376**	**£30,767**	**£37,151**
Benefit cap		**£23,125**	**£25,000**	**£25,000**	**£25,000**

Figure A2.6 uses the weighted incomes produced in Figure A2.5 (highlighted in green) to produce a 'living rent' for each property size. Note that for 3 and 4 bedroom properties, these rents are constrained by incomes under the proposed benefit cap.

Figure A2.6: 'Living Rent' based on Weighted Average Income of Households Accessing Different Sized Properties, Capped by the Benefit Cap

	1 bed	2 bed	3 bed	4 bed
'Living Rent'	£450	£649	£694	£694
Market rent	£675	£870	£1,115	£1,775
% of market rent	67%	75%	62%	39%