

Affordability

The "affordability rule"

- An affordable level of rent is at or below 30% of a household's net income (after tax and national insurance contributions)

Home ownership

- Mortgage lenders base their decisions on the loan-to-income ratio – the amount you want to borrow divided by how much you earn. Usually up to 4.5x your annual income. They will also assess the monthly payments that you can afford.

Definitions of affordability

Social rent

- Regulated by the Regulator of Social Housing for Registered Providers/Registered Social Landlords
- Rent convergence policy introduced by Labour government in 2002 to bring rents in local authority and housing association stock in line.
- Calculated in accordance with a specific formula:

70% of the national average rent X by relative county earnings X the bedroom weight

Plus

30% of the national average rent X relative property value

- All numbers are based at 1999-2000 figures with an uplift applied each year to get to today's levels
- Now, rents are allowed to increase by CPI+1% per year

Definitions of affordability

Affordable rent

- Regulated by the Regulator of Social Housing
- Introduced in 2011
- Rents (inclusive of service charges) can be set at up to 80% of market rent (inclusive of service charges).
- Introduction of 'affordable rent' was accompanied by the introduction of less secure tenures

> *"The introduction of affordable rent made it possible to build more homes for every pound of government investment, allowing more people in housing need to have access to a good quality home at a sub-market rent"* (gov.uk)



Definitions of affordability

Local Housing Allowance

- In Brighton – Local Housing Allowance (LHA) is used as an affordability cap
- LHA rates are decided by the Department for Work and Pensions (DWP) using information provided by the Valuation Office Agency (VOA).
- LHA rates are based on private market rents being paid by tenants in a Broad Rental Market Area (the area within which a person might reasonably be expected to live).
- LHA originally was originally set to reflect the average cost of renting different sized homes, the 50th percentile. In 2011 this was reduced to the 30th percentile which meant 1 that 3 in 10 properties should fall within the LHA rate. **In September 2022, of the 1015 rental homes advertised that quarter, 19 were within the LHA limit, 13 of those were studios**
- LHA rates are due to increase from April 2024

Definitions of affordability

Living Rent

- Living Rents are based on rents set at a percentage of household income (27.5%-37.5%) of household income for households earning the national living wage.

National Living Wage = £10.42 per hour

"Affordability rule" = 30%

- 1 bed flat (£10.42 p/h x 35 hrs per week) x 1.25) x 30% = Living Rent £136.76 per week

Affordability comparison table

	Social rents*	Living Rents 30%*	LHA	LHA from April 2024	80% market rent**	100% market rent**
1 bed	£105.74	£136.76	£184.11	£211.73	£241.28	£301.60
2 bed	£142.95	£164.12	£230.14	£276.16	£326.07	£407.59
3 bed	£181.14	£191.47	£276.16	£333.70	£392.46	£490.57

*Figures calculated April 2023

** from B&H housing market report September 2022

Using the “affordability rule” – to pay the average market rent of a 2-bed house at 30% of your net income, you would need to be earning a net household income of £70,920.

The median income in B&H is £44,000.

New council homes in B&H at different rent levels

	Council housing – supply	Q4 2022/23	Q1 2023/24
14.1	Additional council homes (new supply)	56	60
14.2	… at Local Housing Allowance (LHA) rents	53% (30 of 56)	2% (1 of 60)
14.3	… at 37.5% Living Wage rents	38% (21 of 56)	3% (2 of 60)
14.4	… at 27.5% Living Wage rents	9% (5 of 56)	7% (4 of 60)
14.5	… at social rents	0% (0 of 56)	88% (53 of 60)

Affordable home ownership

Discounted Market Sale

- Developers can commit to selling homes at least 20% below local market value.

Discounted homes for first-time buyers

- e.g. the ‘First Homes Scheme’, in which homes are sold to people buying their first home for 30% to 50% below market value

Shared ownership

- buy a share between 10% and 75% of the home’s full market value
- Pay rent to the landlord on the share they own
- pay monthly ground rent and service charges, for example towards the maintenance of communal areas
- “staircase” up to 100%

“Affordable” home ownership at Circus Street

1 BED FLAT – MARKET VALUE £360,000
(https://www.onthemarket.com/details/13603969/)

Housing Association: Clarion.
Tenure: Leasehold (125 years from 2019).
Minimum Share: 25% (£90,000). A mortgage of £81,000 (£9,000 deposit) at 5.5% interest for 25 years means monthly repayments of £497
Shared Ownership Rent: £688.13 per month (subject to annual review).
Service Charge: £344.37 per month (subject to annual review).
Ground Rent: £100.00 for the year
Guideline Minimum Income: Dual - £49,500 Single - £56,700 (based on minimum share and 10% deposit).



Issues with shared ownership

- **Capital costs required**
- **Whatever your share, you pay all your repairs**
- **Service charge increase**

" I moved here in August 2021, but even in this space of time (….) Clarion and Savills have increased our service charges between 140% to 170%. For some this meant our service charges have increased from £1,560 to £4,000 per year"

Resident at Circus Street reports to Social Housing Action Campaign
(https://shaction.org/2023/11/28/clarion-housings-circus-street-unaffordable-housing/)

"The name [shared ownership] is probably about as wrong as it possibly could be in crucial respects: its costs are not shared and in very definite effects it is not ownership"

Giles Peaker, a solicitor from Anthony Gold, in an address to the All-Party Parliamentary Group on leasehold and commonhold reform

Shared ownership is popular with developers

During 2021/22 there were 93 affordable homes completed: 18 through the council's housing management property and investment programme and 75 with registered provider partners.

Tenure	Studio	1 bed	2 bed	3 bed	4 bed	Total
Affordable rent	2	22	12	0	0	36
Shared ownership	1	16	27	13	0	57

Oxford Street, Brighton





Viability

Setting the scene

- Government spending on affordable housing has fallen – reduction in grant levels and restrictions placed on local authorities
- One of the main ways that affordable housing is secured on development is through Section 106 agreements.

Local plans

Local authorities prepare local plans which set policies on the percentage of affordable homes they expect developers to provide in new developments

CP20 of the Brighton & Hove City Plan

Requires an affordable housing contribution on all sites of 5 or more net residential units.

- 5 to 9 - 20% as a financial contribution (commuted sum);
- 10-14 - 30% to be provided as either onsite provision or as a financial
- 15+ - 40% onsite affordable housing

Viability assessments

- Viability assessments are financial appraisals carried out on planned housing developments

- Viability that is about the sustainability of the financial model
- Viability in planning terms



How viability assessments work

- Residual Land Value method is the principal method
- Development Costs Minus Development Value = Residual Land Value

National Planning Policy Framework (NPPF)

“Plans should be deliverable. Therefore, the sites and scale of development should not be subject to such a scale of obligations and policy burdens that their ability to be developed viably is threatened.

To ensure viability, the costs of any requirements likely to be applied to development should, when taking account of the normal costs of the development and mitigation, provide competitive returns to a willing landowner and developer to enable the development to be deliverable”

DCLG 2012, para 173

The issues

"competitive returns" – allowed developers to define these.

Increased from 14% to 20% following 2008 crash, but then settled there, became an accepted norm by developers and planning system

"the viability loophole" – developers cite viability concerns – to guarantee 20% profit - inflate bids for land – community benefits (ie affordable housing) are reduced

The issues

- No set standards
- Confidentiality and complexity
- The viability industry



However…

Viability challenges of providing actually affordable homes are very real:

Test affordable housing viability assessment

Resources - affordability

Fact sheet 9: what is affordable housing? (gov.uk)
https://www.gov.uk/government/publications/new-homes-fact-sheet-9-what-is-affordable-housing/fact-sheet-9-what-is-affordable-housing

Affordable Housing Supply (Homes England) https://www.gov.uk/government/collections/affordable-housing-supply

Local Housing Allowance Rates applicable 2024-25 (gov.uk)
https://www.gov.uk/government/publications/local-housing-allowance-lha-rates-applicable-from-april-2024-to-march-2025

Living Rent Campaign https://www.livingrent.org/

Housing Performance Reports (BHCC) https://www.brighton-hove.gov.uk/housing/council-housing/performance-reports-council-housing

Housing Market Reports (BHCC) https://www.brighton-hove.gov.uk/housing/general-housing/housing-market-reports

Resources – viability

Brighton and Hove City Plan (BHCC) Part 1 https://www.brighton-hove.gov.uk/sites/default/files/migrated/article/inline/FINAL%20version%20cityplan%20March%202016compreswith%20forward_0.pdf

Part 2 https://www.brighton-hove.gov.uk/planning/city-plan-part-two

Interrogating viability assessments in planning and housing (Bob Colenutt) http://nectar.northampton.ac.uk/7610/1/Colenutt20157610.pdf

Slipping through the loophole, how viability assessments are reducing affordable housing supply in England (Shelter) https://england.shelter.org.uk/professional_resources/policy_and_research/policy_library/report_slipping_through_the_loophole_how_viability_assessments_are_reducing_affordable_housing_supply_in_england

National Planning Policy Framework (NPPF) https://www.gov.uk/guidance/national-planning-policy-framework