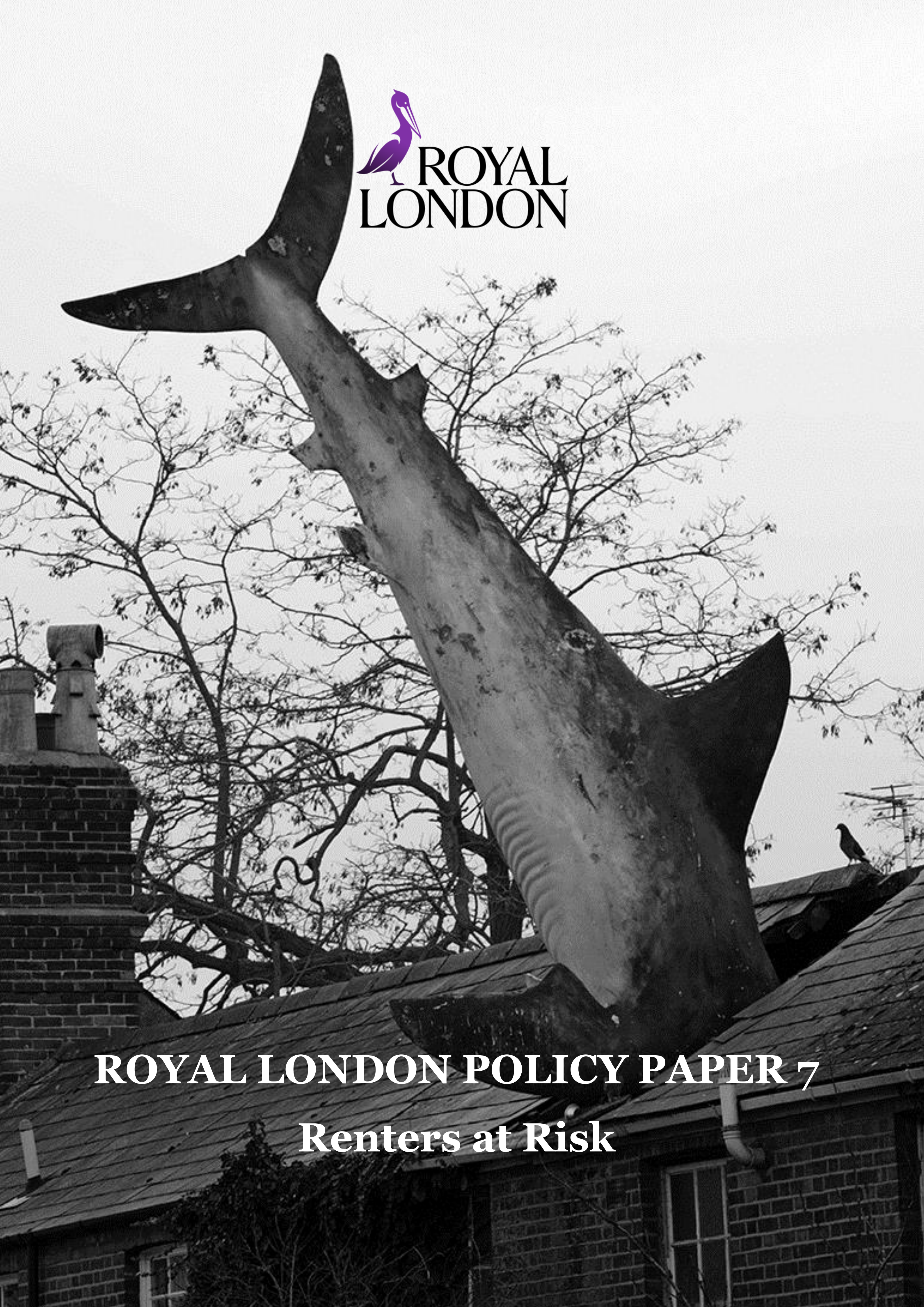
ROYAL LONDON



ROYAL LONDON POLICY PAPER 7

Renters at Risk

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7. Renters at Risk

We are grateful to the Department for Work and Pensions (DWP) for undertaking the Family Resources Survey, and to the UK Data Archive at the University of Essex for supplying anonymised data for the 2003/04 and 2013/14 surveys which are cited in full in this report.

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RENTERS AT RISK

Executive Summary

The number of people in paid work living in rented accommodation has risen sharply in recent years. In 2013/14 there were around 7.7 million working adults living in rented accommodation compared with around 4 million a decade earlier, a rise of over 90%.

Many of these renters may assume that if they were to lose their income because of unemployment or sickness their rent would be covered by the State. But for millions of renters this would be a mistaken assumption. In the event of loss of earnings, large numbers of renters would find either that they were not eligible for housing benefit or that the amount payable would only cover part of their rent. If loss of earnings continued for a sustained period these renters could find themselves unable to pay their rent and could be forced to move out. The research contained in this report suggests that the number of such 'renters at risk' is large and has risen substantially in recent years.

Based on detailed analysis of the Family Resources Survey for 2003/04 and 2013/14[1], we identified two main groups of renters at risk:

a) Those who would not qualify for housing benefit in the event of a loss of earnings[2]

The main group in this category are couples where there are two wage earners contributing to the rent. If one partner lost their wage, the income of the remaining partner may well disqualify the couple from housing benefit. But sustaining an unchanged rent on a much-reduced income could prove impossible. In 2013/14 an estimated 3.25 million adults were in this situation, up nearly two million on a decade earlier. More than a third of this group has dependent children whose schooling and childcare could be significantly disrupted if the family were forced to move.

[1] *Department for Work and Pensions, National Centre for Social Research, Office for National Statistics. Social and Vital Statistics Division. (2016). Family Resources Survey, 2013-2014. [data collection]. 2nd Edition. UK Data Service. SN: 7753,* http://dx.doi.org/10.5255/UKDA-SN-7753-2. and *Department for Work and Pensions, National Centre for Social Research and Office for National Statistics. Social and Vital Statistics Division, Family Resources Survey, 2003-2004 [computer file]. 5th Edition. Colchester, Essex: UK Data Archive [distributor], October 2014. SN: 5139,* http://dx.doi.org/10.5255/UKDA-SN-5139-2

[2] In addition to the group covered here, another smaller group which would be disqualified from housing benefit are those with liquid capital above the upper capital limit, currently £16,000.

b) Those whose housing benefit would at most cover part of their rent

We identified three main groups:

- Single people under 35: under the housing benefit system for private renters, this group is entitled to claim only the rent on a room in a shared house, regardless of the accommodation they are actually living in; single people under 35 who rent a house or flat on their own would find that benefit covers only a small fraction of their current rent; to give an example, in the Birmingham area in 2016/17, the rate of local housing allowance (LHA)[3] for a shared room was £57.34 per week compared with £98.87 for a one-bedroom property and £120.29 for a two-bedroom property; around 320,000 single people were exposed to this risk in 2013/14 compared with around 66,000 in 2003/04 when this restriction only applied to the under 25s;

- Households with 'spare bedrooms': housing benefit for private renters is based on the number of bedrooms a family is deemed to 'need', rather than on the actual rent for the property concerned; for social renters below pension age a similar principle now applies and a deduction is made from eligible rent before benefit is calculated; in 2013/14 3.8m working adults were living in rented accommodation with one or more 'spare' bedrooms according to the benefit rules, up from around 1.0 million a decade earlier; this partly reflects the large growth in private renting and also the extension of 'spare' bedroom rules to working age social renters;

- Households living in more desirable areas: for private renters, the allowable rent for benefit purposes is set at the '30th percentile' of rents across a 'Broad Rental Market Area' (BRMA); prior to 2011 LHA rates were set at the median or 50th percentile of local rent levels; this means that those whose rent reflects higher quality accommodation or a more sought-after area will find that not all of their rent will be covered by benefits; the maximum rent eligible for benefit is set at the rent for a property in a less desirable part of the BRMA which could be many miles away; it is difficult to quantify the number of people potentially affected by this restriction, but because of the way that the rules are structured, the majority of private rents across a broad area are (by definition) likely to be in excess of the level allowable for benefit.

Some individuals will be affected by a number of these factors – for example, a couple with two earners living in a house with a 'spare bedroom' in a desirable part of a local area could be affected by three separate restrictions – so we cannot simply add up all of the individual totals. But we estimate that even ignoring the limits on eligible rents across a rental market area, a total of 5.5 million adults are 'at risk' of being unable to pay their rent in the event of losing a wage. This represents nearly three quarters of all working renters.

[3] 'Local Housing Allowance' is the name given to the housing benefit system for private renters

The total of 5.5 million renters at risk compares with a figure of 2 million ten years earlier, an increase of well over 3 million people in a decade. Given that we have not included estimates of the move from basing local housing allowance rates on the 50th percentile of local rent levels to the 30th percentile, we can say with some confidence that the number of 'renters at risk' has certainly more than doubled and probably trebled in the last decade[4].

Survey evidence suggests that very few of these renters are covered by an income protection policy or unemployment cover which could provide a monthly income if they became ill and were unable to work or lost their job through no fault of their own. This means that millions of renters are exposed to the risk of running into arrears and eventually losing their home.

[4] For simplicity, we have also excluded the impact of a number of other housing benefit restrictions introduced between 2003 and 2013. These include the abolition of higher LHA rates for properties above four bedrooms, the national caps on LHA rates for properties of different sizes and the introduction of a household benefit cap.

1. The benefit system for renters

Those living in rented accommodation who find themselves on a low income can apply to their local authority for assistance with their rent. In years to come, help with rent will be delivered through the new 'Universal Credit' system run by the DWP, but at present most help comes via the local authority.

However, there are a number of circumstances in which the housing benefit system may fail to meet the full rental costs of a household which suffers the loss of a wage through unemployment or sickness. This report attempts to quantify the number of people who are in this position and how that number has changed in recent years.

The main situations in which benefit is unlikely to cover the full level of rent are as follows:

a) Excess income

Those who have no income and very little in the way of savings will generally find that all of their eligible rent will be covered by the housing benefit system (subject to the restrictions below). But for anyone with income above basic benefit levels, help is withdrawn at the relatively rapid rate of 65 pence in the pound, beyond a very modest 'disregarded' amount of earnings. This means that someone with an income £1 above basic benefit levels will be expected to find 65p towards their rent, someone £2 above benefit levels will have to find £1.30 and so on.

One consequence of these rules is that if a couple rent a property on the strength of two wages and then lose one of them due to unemployment or sickness, they can easily find that the remaining wage disqualifies them wholly or largely from housing benefit.

b) Single people aged under 35

The DWP takes the view that because many younger people start off living in shared accommodation until they can afford to live in a home of their own, those on benefit should be in the same position. As a result, if a single person under 35 with no dependents loses their job, the housing benefit system will only pay benefit based on the cost of renting a room in a shared house. Given that many single people rent a flat or house of their own, this group could find that, if they were to lose their job, there is a very large gap between the rent that they are paying and the amount of rent that would be covered by the benefit system. This 'shared accommodation rate' was first applied to the under 25s from 1996, but was extended to the under 35s from 2012.

c) 'Spare Bedrooms' – private renters

The housing benefit system for private renters is based on a system of 'local housing allowances' (LHA) where the amount of rent eligible for benefit depends on the size and composition of the household and not the size of property which is being occupied. Under the rules, each couple and each single adult is entitled to a bedroom of their own, but children of primary school age or below are expected to share two to a bedroom. Teenagers are not expected to share with a sibling of the opposite sex but are expected to share with one sibling of the same sex. This means, for example, that a couple with a boy and a girl at primary school living in a three bedroom house or flat would be deemed to have a 'spare' bedroom because the two children could be sharing a bedroom. Their housing benefit would be based on the 'local housing allowance' rate for their area for a two bedroom property, not a three bedroom property.

d) 'Spare Bedrooms' – social renters

The principle of adjusting eligible rent based on bedroom 'need' was initially only applied to private renters. But from April 2013 this principle was applied to working age tenants renting from local authorities or housing associations[5]. Those with one spare bedroom were expected to contribute 12% of their gross rent from their own resources and those with two spare bedrooms were expected to find 25% of the gross rent. Local authorities were given significant sums to top-up the housing benefit of those in particular need as a result of this change, though such payments were at the discretion of the local authority and were not intended to be a long-term subsidy.

e) Caps on eligible private rents across a Broad Rental Market Area (BRMA)

The local housing allowance system for private renters takes account of the rental market in the local area. The country is divided into BRMAs and rental levels for different sizes of property are used to set caps on eligible rent for housing benefit purposes. In order to ensure that those on benefit were not able to live in better accommodation than those in low-paid work, the last Government reduced the limit for eligible rent to the 30th percentile of actual rent levels for a property of that size across the BRMA. The impact of this is that those who rent in more desirable parts of a rental market area could find that the rent which would be covered by benefit was well below the actual rent that they are currently paying. Prior to April 2011, LHA rates were based on the median or 50th percentile of local rents[6].

If households are unable to find the money to make up the shortfall between the rent covered by housing benefit and the actual rent, they could find themselves having to move out and look for accommodation in a much cheaper area, potentially many miles away.

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[5] This change was dubbed by critics as the 'Bedroom Tax'
[6] Some indication of the impact of this change can be found in the publication 'Shadow 30th percentile LHA rates' on the Valuation Office Agency website which compared estimated 30th percentile rates in the run up to April 2011 with the actual LHA rates which were in force at the time. There is more information on the impact of this change in Table 5 which follows.

2. How many people are at risk?

In this section we consider each of the groups who may not get full housing benefit to see how many are 'at risk' of losing their home due to unemployment or absence from work due to sickness. We use data from the Family Resources Survey for 2013/14 and compare this with equivalent data from the 2003/04 survey to see how the numbers affected have changed over time.

a) Excess income

The main group who could be excluded from housing benefit altogether or who would be expected to make a large contribution to their rent in the event of the loss of a wage are those households which currently have two earners. If a property has been chosen on the basis that the rental level is sustainable with two wages coming in, then the loss of one wage could leave the couple financially stretched. But the benefits system reduces support very rapidly for those who have income above basic benefit levels. To be more precise, for every pound of earnings above levels of Jobseekers Allowance (aside from a modest disregarded amount), help with rent is reduced at a rate of 65p in the pound. This means that a couple who lose one wage could still find that the remaining wage takes them out of housing benefit altogether or leaves them having to cover most of the rent from their remaining income. This may not be sustainable if the loss of the second wage persists.

Figure 1 shows our estimate for 2003/04 and 2013/14 of the number of adults living in rented accommodation where there are currently two earners (either both full-time or one full-time and one part-time) who might, as a result, qualify for little or no housing benefit in the event of the loss of one wage. The data underlying the chart is shown in Table 1 along with subtotals for families with dependent children only.

Figure 1: Number of adults in two earner-couples living in rented accommodation, 2003/04 and 2013/14

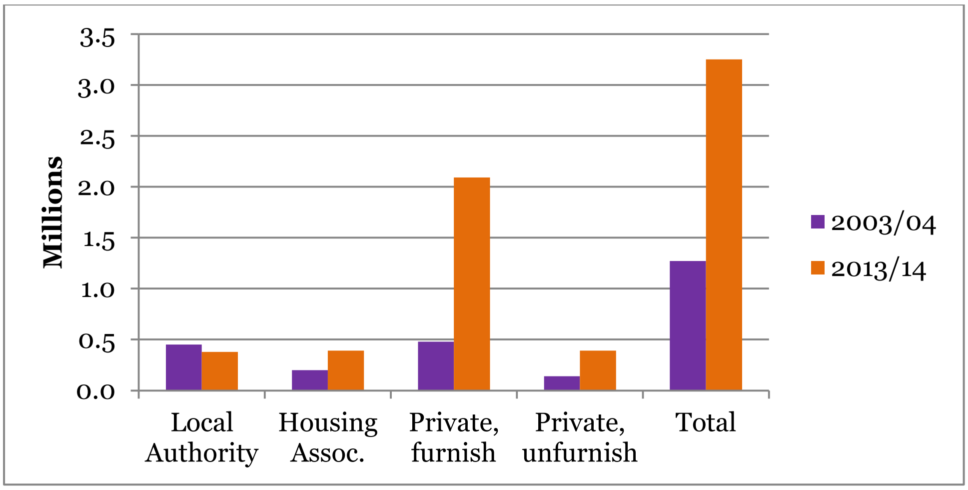

Table 1: Number of adults in two earner-couples living in rented accommodation, 2003/04 and 2013/14 (millions)

Table 1 (a) Number of adults at risk

	Local Authority	Housing Assoc.	Private, furnished	Private, unfurnished	Total
2003/04	0.45	0.20	0.48	0.14	1.27
2013/14	0.38	0.39	2.09	0.39	3.25

Table 1 (b) Families with dependent children only – number of adults at risk

	Local Authority	Housing Assoc.	Private, furnished	Private, unfurnished	Total
2003/04	0.23	0.10	0.17	0.02	0.52
2013/14	0.20	0.23	0.82	0.07	1.32

Source: Royal London estimates based on FRS 2003/04 and 2013/14

These results show a dramatic increase in the number of adults at risk of struggling to pay their rent if one partner in a couple were to lose their wage. The total numbers in this category increased by just under 2 million from 1.27 million in 2003/04 to 3.25 million in 2013/14. The subtotals indicate that the large part of this growth is due to many more people renting privately in furnished accommodation. This is partly due to a rise in employment levels but mainly due to an increase in the size of this sector.

A group of particular concern might be those with dependent children. Whereas adults might be able to relocate more easily, moving children could lead to disruption to schooling, friendships and childcare arrangements. Table 1(b) shows that there are now more than twice as many adults with dependent children who might miss out on housing benefit as there were a decade earlier, with 1.32 million adults in this position in 2013/14. Further analysis suggests that there are just over one million children in such families.

b) Single people aged under 35 living in private rented accommodation

In 2003 single people aged under 25 and without dependents would only receive housing benefit in line with the rental for a room in a shared house. From 2013 the rules were changed to apply to adults aged under 35. Table 2 shows our estimates of the number of single people in 2003 and in 2013 who would be caught by the rules if they were to lose their wage.

Table 2: Single people living alone in private rented accommodation who would only be eligible for the 'shared accommodation rate' if they lost their job

2003/04	66,000
2013/14	320,000

Source: Royal London estimates based on FRS 2003/04 and 2013/14

As will be apparent from Table 2, the impact of the 'shared room rate' policy has increased dramatically. This reflects both the growth in the size of the private rented sector and the extension of the policy from the under 25s to the under 35s.

c) 'Spare' bedrooms – private renters

In this section we present our estimates for the number of adults living in private rented accommodation who would be deemed by the benefits system to have 'spare bedrooms'. Adults in this situation would find that the 'local housing allowance' rate to which they would be entitled reflected local rents on properties smaller than the one in which they were living.

Table 3: Working adults living in private rented accommodation who are deemed to have 'spare' bedrooms (millions)

	Private, furnished	Private, unfurnished	Total
2003/04	0.79	0.21	1.00
2013/14	2.57	0.40	2.97

Source: Royal London estimates based on FRS 2003/04 and 2013/14

As Table 3 shows, the number of adults potentially affected by the rules on spare bedrooms has nearly tripled over a ten year period from around 1 million in 2003/04 to nearly 3 million in 2013/14. The bulk of this growth has occurred in furnished private rented accommodation.

d) 'Spare' bedrooms – social renter

Rules on 'spare bedrooms' for social renters of working age were first introduced in 2013. Table 4 shows our estimate of the number of working adults who would be affected by the new rules if they were to lose their job and claim housing benefit.

Table 4: Working adults living in social rented accommodation who are deemed to have 'spare' bedrooms (millions)

	Local Authority	Housing Assoc.	Total
2013/14	0.43	0.41	0.84

Source: Royal London estimates based on FRS 2003/04 and 2013/14

Around 840,000 working adults are living in social rented accommodation which would be deemed to have one or more spare bedrooms, split roughly evenly between local authorities and housing associations. Note that this is the number 'at risk' of being affected by the policy, in that if they were to lose their job and claim housing benefit then restrictions would apply. It is not the actual number of current housing benefit recipients being affected, as relatively few of these are currently in paid work.

e) Rental limits across 'Broad Rental Market Areas'

Unfortunately, our data does not provide sufficient local detail to enable us to estimate how many workers in the private rented sector are living in properties above the 30th percentile rent for their wider area. However, when the transition from the 50th to the 30th percentile was made in April 2011 estimates were published of notional pre- and post-reform LHA rates for each BRMA and each property size. Table 5 shows that the rate for smaller properties typically fell by 6-7%, whilst for larger properties by around 11%.

Table 5: Illustrative reductions in LHA rates resulting from move from 50th percentile to 30th percentile

	Property Type
Shared Room	-7.6%
1 Bedroom	-6.6%
2 Bedrooms	-7.0%
3 Bedrooms	-8.1%
4 Bedrooms	-11.1%

Note: Estimates are unweighted average of changes across all BRMAs in England

Source: Royal London calculations based on Valuation Office Agency estimates of 'shadow' 30th percentile rates, September 2010.

When the LHA rate was based on the 50th percentile of rents across a BRMA, this meant that one half of all private tenants had rents above this level and one half below. But it does not follow that this was true for the group in which we are particularly interested – tenants in paid work. It is possible that tenants in paid work, and especially those not in receipt of housing benefit, would have an incentive to opt for cheaper accommodation since they were meeting the full costs themselves. In this case, a cap at 50% of local rents might have limited impact on our target group.

However, when that cap was further reduced in line with the percentages shown in Table 5 it seems reasonable to suppose that more workers would find that they were paying rent in excess of the LHA rate for their area. Whilst we cannot put a precise figure on the effect of this change, it does suggest that our aggregate estimates in the next section of this report of the growth in the numbers for whom housing benefit provides incomplete coverage between 2003 and 2013 will clearly be an underestimate.

f) Total numbers of renters at risk

An individual or a couple could be affected by one or more of the gaps in the housing benefit system identified above. For example, a couple where both are working could find they do not get benefit if they lose one wage because their income remains too high for benefit. But they might also be living in accommodation deemed to have a spare bedroom. And they might be living in a more desirable part of their neighbourhood where rents are above LHA levels. We therefore need to repeat our analysis to strip out those adults who are counted in more than one category in order to obtain a grand total for 'renters at risk'. This is shown in Table 6, together with a breakdown for Scotland, Wales, Northern Ireland and the English regions.

Table 6: Working renters at risk of gaps in housing benefit cover for one or more reasons in 2003/04 and 2013/14

	2003/04	2013/14	Increase
North East	60,000	190,000	130,000
North West	170,000	530,000	360,000
Yorks & Humber	160,000	510,000	350,000
East Midlands	160,000	310,000	150,000
West Midlands	150,000	400,000	250,000
East	200,000	490,000	290,000
London	340,000	980,000	640,000
South East	280,000	710,000	430,000
South West	200,000	620,000	420,000
Scotland	140,000	460,000	320,000
Wales	80,000	150,000	70,000
Northern Ireland	30,000	150,000	120,000
UK	**1,970,000**	**5,490,000**	**3,520,000**

Combining our analysis shows that the number of working adult renters at risk of having to pay some or all of their rent even if they were to lose their job has risen dramatically between 2003/04 and 2013/14. Nearly one million of the 5.5 million people in this position in 2013/14 live in London, with a trebling of the numbers since 2003/04. We provide a further breakdown of the figures for London in the Appendix.

We are also able to provide estimates for the numbers of children in households at risk, shown in Table 7.

Table 7: Dependent children in working families with 'renters at risk' in 2003/04 and 2013/14

2003/04	640,000
2013/14	1,520,000

Source: Royal London estimates based on FRS 2003/04 and 2013/14

As Table 7 shows, the number of children living in rented accommodation with parents at risk of finding their rent not covered by housing benefit now stands at just over 1.5 million, more than double the figure a decade earlier.

3. Conclusions

For those buying a home with a mortgage, it is quite common at least to have a conversation about how the mortgage would be paid if a breadwinner were to suffer a loss of income through unemployment or sickness. But there is much less of a culture among renters of preparing for the eventuality of coping on a reduced income.

In the past it might have been a reasonable assumption to think that the state would have picked up all or most of the rent in the event of a loss of income. But this research shows that this assumption is increasingly risky. Indeed, we now find that nearly three quarters of all working renters are at risk of not having their rent covered by housing benefit in the event of the loss of a wage.

In particular:

- The growing number of two-earner households may find that although the loss of one income leaves them struggling to pay the rent, the benefits system may regard them as too well off to qualify for help;
- Younger single adults will increasingly find a gap between the rent that they are paying in the property in which they live and the 'shared accommodation rate' which would be covered by the benefits system;
- The growing number of private renters will find that the rules on bedroom 'need' mean the rent considered for housing benefit purposes is below the rent that they are actually paying, even if they do not live in a particularly sought-after part of their local area;
- Social tenants of working age are now also brought within the scope of the 'spare bedroom' rules.

Being forced to move because paying the rent has become unsustainable is likely to be costly and disruptive, especially where children are involved. Much more needs to be done to make working renters aware of the gaps in the housing benefit 'safety net' which could leave millions struggling to remain in their current rental accommodation in the event of the loss of a wage.

Appendix 1: Additional analysis for 'renters at risk' in London

As London accounts for nearly 1 million of the 5.5 million 'renters at risk' across the UK, we have looked in more detail at the characteristics of this group, given the particular features of the London rental market.

Table A1 shows the age distribution of London's 'renters at risk' in 2003/04 and 2014/15

	2003/04	2013/14	% Rise
16 to 24	53,000	43,000	-19%
25 to 34	147,000	511,000	247%
35 to 44	79,000	223,000	181%
45 to 54	38,000	135,000	256%
55 to 59	11,000	35,000	211%
60 and over	10,000	28,000	187%
Total	339,000	976,000	188%

Just over half of the 'renters at risk' in London in 2013/14 are those in the 25-34 age group, and the size of this group has more than doubled in ten years. The number of renters at risk in the very youngest age group has actually fallen slightly, probably reflecting the growing numbers of younger people living at home with parents rather than renting independently. But there are above average increases in the older age groups, notably the 45-54 and 55-59 groups who are likely to have been long-term renters. This suggests that this is not only an issue for those who are renting as a stepping stone to home-ownership, but is also a long-term issue for those for whom renting is likely to be their lifelong tenure.