

LANDLORDS' STRATEGIES TO ADDRESS POVERTY AND DISADVANTAGE

Low-rent housing has contributed significantly to reducing poverty in England. However, welfare reform is weakening the link between rent and benefit levels. Much new affordable housing supply is funded through higher rents for new tenancies. Rents have also risen above inflation and faster than earnings, presenting major challenges for social landlords. How are they responding to these challenges? This study across 15 local authorities examines landlords' written strategies, business plans and other policies.

Key points

- Rather than directly mentioning poverty, the majority of documents referred to a wider social mission, including addressing disadvantage and providing housing for those in need.
- The development of Affordable Rents (which are usually higher than social rents) has increased focus on the issue of rent setting. Around half the social landlords in the study said that they aimed to maximise rental income where practical, but similar numbers reported that they aimed to minimise rent or service charges when possible.
- Developing housing associations were increasingly focusing on building housing for market sale or rent, either as a commercial activity to generate cross-subsidy for social homes, or in some cases as an alternative way of fulfilling a social need.
- Almost all housing associations stated that they were building new homes at Affordable Rents. However, the actual levels of these rents varied, given that most local authorities had policies that sought to restrict rents charged and the circumstances in which social housing could be converted to Affordable Rent.
- In terms of social housing allocations, some housing associations were moving away from focusing primarily on those in most severe need, in favour of a wider range of people, including those on middle incomes.

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INTRODUCTION

The provision of low-rent housing has contributed significantly to reducing poverty and the effects of low incomes in the UK. Housing benefit has reduced the impact of rents on poverty levels. However, welfare reforms have diminished this effect to some extent, as the connection between rent and benefit levels has been weakened. Also, developing housing associations are having to think through the full implications of lower capital grants to provide new housing, making up the difference by charging higher 'affordable' rather than social rents. This has little impact in areas where social and market rents are similar, but in high-cost areas can result in much higher rents for those on low incomes. It is not just that no new grant-supported housing is being built at social rents, but that for landlords to fund development, substantial numbers of social rented properties are being converted to Affordable Rents.

This paper summarises the interim findings of a poverty-focused review of housing organisations' strategic and business plans. The interim report, *The role of housing organisations in reducing poverty: a review of strategic and business plans*, is available at: www.cchpr.lanedecon.cam.ac.uk/Projects/Start-Year/2013/Poverty-Focused-Review

Context

In 2013, there were 23,500 lettings of Affordable Rent properties in England, comprising 12 per cent of total social housing lettings. Housing associations face increased demand in high-value areas, as private rents increase and home ownership becomes unaffordable for many. There is some logic in associations looking harder at how far they continue to house principally those in the most need, compared with housing larger numbers of people in lesser need but who still cannot afford to buy or rent in the open market. This could potentially leave the private rented sector as the 'tenure of last resort' for those most in need, rather than the social rented sector.

For this review, to ensure a representative coverage of housing organisations and housing markets in England, the study selected 15 local authority areas as case studies (see <http://www.jrf.org.uk/publications/role-housing-organisations-reducing-poverty>). The study analysed documents from all 81 social landlords in these areas, alongside a sample of 100 of the letting agents and private landlords advertising property for rent within these local authority areas.

The local authorities and social landlords – taken here to cover all affordable housing providers, including local authorities, arms-length management organisations (ALMOs), housing associations, housing co-operatives and almshouse charities – had produced a wide variety of housing strategy documents and business plans. By contrast, private landlords and letting agencies had very few written documents, though several had some information on their policies and practice on their websites. This was despite local authorities' increasing use of private landlords to discharge their statutory duties to house homeless households.

How far does tackling poverty and deprivation feature in plans?

JRF's definition of poverty is when a person's resources are insufficient to meet their basic needs, including social participation. In this sense, only a small number of social landlords mentioned a specific commitment to reduce poverty. Instead, they mentioned a wider social mission, including addressing disadvantage and providing housing for those in need:

“[We will] develop joint working to maximise the positive impact of public sector interventions to address rural disadvantage.”

East Riding of Yorkshire Council, *Rural strategy 2013–2016*, p28.

“[We will] stop disadvantage being passed from one generation to the next.”

West Midlands Housing Group, *Different perspectives: residents corporate plan 2011–2015*, p5.

However, there was no correlation between an articulated strategy of reducing poverty and the presence of detailed actions and plans to combat it. Those social landlords with the most documentation around what they were doing to tackle poverty did not necessarily state this to be a core aim of their organisation.

Rent setting

Rent setting clearly impacts critically on the poverty of many tenants, but is not the only influence that landlords have over their tenants' finances. Many landlords – including private landlords – also levy service charges. These can apply to many types of property, and are often higher in supported housing.

However, the social landlords in the study had rarely published clear statements on their rent-setting policy, for new-build or existing stock. Letting agencies' only mention of rent setting was usually aimed at potential private landlords, and focused on maximising rental income.

Around half of the social landlords who indicated the overall aim of their rent setting mentioned a desire to maximise rental income while ensuring that tenants could claim full housing benefit to help them with their rent if needed. Similar numbers mentioned minimising rent or service charge increases wherever possible. These statements often related to Affordable Rent, where social landlords had more discretion over rents charged. The development of Affordable Rent had clearly made some of them start to give more attention to the issue of rent setting and what would or would not be affordable to their tenants.

Local authorities and housing associations faced different pressures, reflected in their stance on rent setting and conversions to Affordable Rent. Local authorities have statutory duties to homeless households and faced pressure from those in housing need on their waiting lists, but often relied on nomination arrangements with housing associations to house their applicants. Housing associations, in contrast, faced significantly different priorities and pressures arising from their need to reduce the risks of unpaid rent to ensure their business viability and fund future development of new housing:

“[We will] ... enhance our financial viability so that we can continue to develop and grow as an independent housing provider with or without subsidy.”

Southern Housing Group, *Value for money statement 2012/13*, p2.

“The key priority for Waterloo Housing Group's use of surplus is development of new affordable homes.”

Waterloo Housing Group, *Value for money strategy 2012–15*, p3.

While higher rents offer much greater potential for funding development and therefore for serving a larger number of people who need help, the risk for social landlords seeking to address poverty is that they may make their housing unaffordable to those in greatest poverty. Some social landlords tacitly admitted this in restricting Affordable Rented housing to those who could afford it or were employed:

“It is important to ensure that households moving into Affordable Rent homes can afford to pay their rent, sustain the tenancy and look after the property for the long term.”

Southern Housing Group, *Annual review 2012/13*, p5.

Most local authorities had policies which sought to restrict rents charged and the circumstances in which housing associations could convert social housing to Affordable Rent. Conditions imposed covered a wide range of exclusions, from size of home to housing market conditions, and followed no

clear patterns. Housing associations' responses to this dilemma varied. A small number had started to place less emphasis on helping those in the severest poverty. At the opposite end of the spectrum, a few had rejected increasing rents altogether, deciding instead to cut back their development programme.

Increasing tenants' disposable incomes

Many social landlords saw maximising tenants' incomes as a key way to address poverty. Three-quarters provided at least one form of advice or assistance to help tenants find work or training; a third mentioned three or more services, including providing work experience opportunities and individual support with accessing work or training opportunities. No private landlords or letting agencies had written strategies mentioning this kind of service.

Unlike rent reductions, focusing on energy efficiency does not result in any loss of income to landlords. It also helps all tenants, even if housing benefit meets their rent in full. Unsurprisingly, therefore, much of the anti-poverty work mentioned in landlords' strategies focused on energy efficiency. However, government grants funded wholly or mainly many of the programmes mentioned, some of which have since been scaled back. Improving home insulation was a key focus, but other activities featured included solar water heating, heat pumps and helping tenants find the cheapest energy supplier. Some local authorities also worked with the wider community, not just their own tenants; the most pro-active included private landlords and home-owners.

Numerous social landlords referred clients to other organisations' advice or support services rather than providing them in-house. These referrals varied substantially, from jointly-provided services and formal referral schemes to simple signposting. Written strategies were usually unclear about whether this was part of a formal partnership agreement, or merely signposting to local services.

Decisions over what and where to build

Most housing associations and local authorities had a focus on building new housing, or supporting its construction. Only one association explicitly stated that it was not seeking to expand its housing stock; even then, this was only temporarily during internal restructuring. Most strategies were not explicit about the types of areas where landlords planned to develop. Just two housing associations were looking to develop in poorer areas; two others indicated a focus on high-value/high-demand locations.

The growing emphasis among developing associations was clearly on building market housing for market sale and/or rent; many mentioned this type of development. Only one social landlord was specifically not planning to diversify its activities into areas such as market housing. Some landlords were explicit that this was a commercial activity intended to generate cross-subsidy to help in fulfilling their social objectives:

"We rely heavily on student accommodation to generate commercial surpluses."
Derwent Living, *Business plan 2012–2014*, p9.

However, some saw the development of market housing as also fulfilling a social need, by providing housing for local people:

"There is a growing need for [private] rented accommodation for those unable to access home ownership or social housing."
AmicusHorizon, *Strategic plan 2013–16*, p15.

"We believe that increasing our market rent portfolio will directly support our social purpose, as we concentrate on growth of these homes in less expensive areas, so that London has more quality and affordable rented stock for people who need it."
Notting Hill Housing Association, *Value for money self-assessment as at 31 March 2013*, p2.

For housing associations with charitable status (which the majority have), their work to develop housing for market sale or rent must legally be explicitly an investment activity to generate returns

to support their provision of affordable housing programmes. Similar restrictions usually also apply to local authorities and ALMOs.

The great majority of developing housing associations were building at least some homes for letting at Affordable Rent. Most were not explicit about what proportion of their new housing would be at Affordable Rent, or whether or not they would develop any future social rented housing. Only two associations specified that they were not going to build housing at Affordable Rent, to avoid having to raise rents on their existing stock.

Housing associations' main focus of asset management was to consolidate stock in areas where it could be most efficiently managed. Such consolidation usually involved transfers among social landlords, which would have little net impact on poverty. However, some associations' strategy was to sell social housing stock in areas of lower demand, where the stock was failing to generate sufficient income (which would generally be low-wage, low-rent areas), or where it was expensive to maintain/improve the stock to a sufficient standard. This strategy could increase the supply of cheaper private-rented housing in these areas, while helping to create more mixed communities by locating new affordable housing in higher-demand areas.

In contrast, the policy of a few housing associations, all in London and the South East, was to sell social housing in higher-priced areas to generate profits in order to build more affordable housing elsewhere. Provided the rents of the resulting new housing could be kept low enough to be affordable to those on low incomes, this may produce a net gain in homes at rents affordable to those in poverty. However, this policy could run counter to aims of creating a mix of tenures in high-demand areas and locating housing near to jobs.

Allocations and prioritisation for housing

The housing associations comprised two key groups, roughly equal in numbers:

- those re-asserting their traditional role as social landlords – that is, of housing those most in need;
- those seeking to diversify and include a wider range of people housed, on occasion openly raising the possibility that they would no longer focus on those on the lowest incomes.

This diversifying approach was sometimes linked to a focus on increasing neighbourhood variety:

“A mix of sub-market rental opportunities could increase aspiration, improve mobility and encourage a wider cross-section of people into our neighbourhoods.”
Peabody, *Business plan 2011–14*, p6.

“We have ... adopted more commercial advertising methods to attract ‘economically active’ working people.”
Places for People, *Annual review 2012–13*, p10.

The idea of moving away from housing those in greatest poverty to housing a wider range of households was exclusively found among housing associations, and never among local authorities, whether stock-owning or not. There was also a clear link with organisation size; smaller organisations were significantly more likely to focus on those households in the most need. However, there was no link between the strategic decision on whom to house and referring to reducing poverty as a strategic goal. Landlords altering their strategy towards housing people further up the income scale were just as likely to talk about reducing poverty as those emphasising their commitment to housing those in the greatest need.

Social landlords in higher-pressure housing markets and in the south of England were much more likely to focus on housing a wider range of people, in other words moving away from their more traditional client group, those in most poverty. The next phase of the research for this study will explore the reasons behind these differences in approach.

Local authorities, with their statutory obligation to house local homeless households, were much less interested in housing those with lesser levels of need. They were more likely than housing associations to:

- give greater priority to applicants with a local connection;
- use secure tenancies where possible;
- give high priority to downsizers in their allocations scheme.

They were also less likely to:

- means-test applicants before allocation to ensure that they could afford their housing.

Large social landlords, regardless of their strategic aims regarding poverty, made more mention of support services such as those helping tenants into work. However, this may have been because they were more likely to report on their activities in written documents.

Around half of the social landlords' allocations policies excluded those on higher incomes from applying for social housing. A similar number said that they checked that their new tenants could afford their rents (with housing benefit if necessary). There was little overlap between these two groups – those who imposed upper income limits were less likely to exclude tenants in greater poverty. Local authorities fell largely within the first group, imposing upper income limits but being less concerned to ensure that new tenants could afford the rent.

Letting agents employed no upper income limits, but typically required spending of no more than 33 to 40 per cent of net income on rent for a property to be considered affordable (by comparison, a 2013 JRF report, *Monitoring poverty and social exclusion*, found that the poorest fifth of private renters spent on average 56 per cent of their income on rent, while middle-income private renters spent on average 30 per cent). Usually left unstated was whether benefit income could be included in this net income figure. A few of the letting agency websites stated that they would not let to people on benefits, or who could not afford the rent (without the use of housing benefit); three specified that they would only consider doing so if the private landlord allowed it.

Of the 61 affordable housing allocation schemes examined, eleven indicated that they gave some additional priority to those in employment, or in one case those defined more broadly as “making a positive contribution to the community”. This suggests only limited enthusiasm as yet for using the government's new freedoms granted to prioritise on such a basis.

Many housing associations were using the fixed-term or ‘flexible’ tenancies they can now offer new tenants. Most were not explicit about the circumstances in which they would renew these tenancies, but some stated that they would not renew for tenants who could afford private rented housing, and/or if the tenant was under-occupying. In most cases, they did not spell out how they would determine whether tenants could afford private rented housing.

Making use of the private-rented sector for people who were homeless or high priority on the housing register was widespread. Of the 15 local authorities' strategies examined, 13 specified that they would discharge their duties for at least some homeless applicants by securing them housing in the private sector; the other two did not state whether or not they would do this.

Conclusion

These findings are based on analysis of written policy and strategy documents, which may differ from actions in practice. Nevertheless, a picture has emerged of a diverse sector, with a wide range of ways of dealing with an environment of rapid economic and policy change, and a variety of competing visions of their social mission.

While few of the social landlords had documents specifically describing their role in combating poverty, most remained keen to stress their wider social mission, which included actions to tackle deprivation in their area and improve the housing and lives of people on low incomes. However, there was no clear link between explicitly mentioning a goal of alleviating poverty and having detailed strategies to carry out activities which might achieve such a goal.

Operating in very different regulatory frameworks, there were huge differences between social and private landlords in terms of having written strategies covering allocations, housing management, investment or overall mission or purpose. The private rented sector in all 15 of the case study areas was largely owned by small-scale landlords and managed by small-scale letting agencies, who had only very limited documentation detailing their plans or strategies. The focus of what documentation letting agents had was generally framed around ensuring a good service to both landlords and tenants. They generally saw 'good tenants' as those who could pay their rent, meaning that many agencies placed minimum income limits on new tenants, which might or might not include benefit income. This was in sharp contrast to most social landlords, the bulk of which articulated some wider social objective for their work, usually including a focus on providing housing for those in need.

The next stage of the research will explore the extent to which policies and strategies actually reflect practice, the driving forces behind any change in strategies, and future direction of travel in terms of strategies. The final stage will enable further exploration of the relationship between strategy and practice by interviewing the staff of housing organisations, including landlords of all types.

About the paper

This *Round-up* draws on the JRF programme on housing and poverty, which is exploring the relationship between housing and poverty to identify housing solutions for people living in poverty. The research team for this study comprised Anna Clarke, Sanna Markkanen, Sam Morris, Chihiro Udagawa and Peter Willimans (from the Cambridge Centre for Housing and Planning Research) and Richard Hewson, Mervyn Jones and Mark Lupton, from Savills.

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