

# **Affordable rent to buy homes**

## **Proposed methodology for assessment of need**

Rentplus

November 2017

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## 1.0 Introduction

- 1.1 This report has been prepared by Lichfields on behalf of Rentplus, and it accompanies representations being made by Rentplus on the Government's proposed new standard housing need methodology. The report provides a proposed approach for assessing the need for a new housing tenure known as "affordable rent to buy" at a local authority level.
- 1.2 "Affordable rent to buy" housing provides a route to home ownership for people who are currently unable to purchase a property on the open market but are not considered a priority for social or affordable rented accommodation.
- 1.3 The proposed methodology within this report is based upon the housing product offered by Rentplus but its principles are applicable to the affordable rent to buy tenure as a whole.

### The Rentplus affordable rent to buy model

- 1.4 The Rentplus model provides an accessible route to home ownership for those who cannot currently purchase a house on the open market for a variety of reasons, including the inability to provide a deposit<sup>1</sup>, but who would otherwise not be considered a priority, or qualify for social or affordable rented homes.
- 1.5 Rentplus has provided the following details regarding its affordable rent to buy product:
- 1 Rentplus homes are made available on five year renewable assured shorthold tenancies (AST) at an affordable rent and are managed by a housing association, which also provide a full repair and maintenance service. Prospective tenants/purchasers are assessed for eligibility for a Rentplus home based on their current income and future prospects. This is also used to determine when they will have the opportunity to buy their home at either 5, 10, 15 or 20 years at which time it is expected the home will be purchased by the tenant at open market value with a benefit of a 10% gifted deposit from Rentplus to add to their own savings.
  - 2 The Rentplus model aims to assist purchasers in saving for their purchase costs and to add to the Rentplus deposit as well as improving the credit rating by paying a reduced (affordable) rent rather than a private market rent for the duration of the tenancy. The rent charged on a Rentplus property is an Affordable Rent and is set at the lower of 80% open market rent or LHA and includes services charges. Tenants have no repair or maintenance responsibilities whilst they are renting the property.
  - 3 If the tenant is not able to buy their home at the date agreed at the start of the tenancy arrangements are in place to manage this. Either Rentplus will substitute the planned purchase with that of a tenant who originally planned to buy their home at a later date but is able to bring forward the purchase of their own home. This allows the first tenant to remain in their home with a further five year AST and more time to prepare for their purchase. If this is not possible, Rentplus will offer the property for sale to the managing housing association with a 10% discount on the open market value. The housing association will then determine the most suitable use for the property as an affordable home, which could be to continue to rent to the current tenant or to offer the home under a shared ownership model. If neither the tenant nor the housing association purchases the property, the property will be sold on the open market and 10% of the sales proceeds net of Rentplus' costs will be paid to the local authority to reinvest in new affordable housing provision.

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<sup>1</sup> Rentplus website, FAQs

## Policy context

- 1.6 Paragraph 50 of the National Planning Policy Framework (NPPF) requires local planning authorities to, inter alia:
- 1 Widen opportunities for home ownership;
  - 2 Plan for a mix of housing based on factors such as demographic and market trends ; and,
  - 3 Identify the tenure of housing that is required in particular locations, reflecting local demand.
- 1.7 The Planning Practice Guidance (PPG) further emphasises the importance of planning for a mix of housing types and tenures that reflects local demand (ID: 2a-021):
- “Plan makers should look at the household types, tenure and size in the current stock and in recent supply, and assess whether continuation of these trends would meet future needs.”*
- 1.8 Affordable rent to buy housing can contribute towards these NPPF requirements by offering an additional route to home ownership, a type of housing that responds to demographic and market trends, and a new tenure option that reflects local demand.

## 2.0

## Methodology

### PART A: Current situation

2.1 Affordable rent to buy housing is likely to be particularly attractive to those aged 25-34, given that the majority of first-time buyers are within this cohort.

2.2 An analysis of the average age of tenants at six Rentplus affordable rent to buy developments within the south of England<sup>2</sup> indicates the following age distribution:

Table 2.1 Demographic profile of tenants at six Rentplus developments: age of oldest household member

Age group	% of total households
18-24	7%
25-34	64%
35+	26%
Unknown	2%
Average age	32.6 years

Source: Lichfields analysis of Rentplus data (provided October 2017)

2.3 This analysis indicates that 71% of tenants at the identified affordable rent to buy developments were aged below 34, with 64% falling into the 25-34 age cohort which is known to have been most severely affected by affordability constraints.

2.4 The problem of declining affordability for younger households is acknowledged within the Explanatory Notes supporting the new Housing and Planning Act 2016 (paragraphs 7 and 8):

*“Although now abated, the long-term downward trend in owner occupation has disproportionately affected younger households. Of those households that do own their home 75% are over the age of 45 and nearly half (46%) of households in the 25-34 age group live in the private rented sector (only 21% were renting privately in 2003-04). Over the last twenty years, the proportion of under 40 year olds who own their home has fallen by over a third from 61% to 38% and, in 2014, the Office for National Statistics (ONS) reported that 3.3 million people between the ages of 20 and 34 were still living with their parents (accounting for 26% of the age group).*

*“The number of first-time buyers since the financial crash of 2007-08, as measured by the number of mortgages issued to first-time buyers, has fallen significantly. Throughout the 1980s and 1990s the number of mortgages to this group averaged over 400,000 per year but between 2008 and 2014 the average annual number of loans has been fewer than 300,000”.*

2.5 This evidence reflects that set out in the English Housing Survey which notes that the average age of a first-time buyer in England was 32 in 2015/16. Nearly two thirds (64%) of first-time buyers were aged 25-34 and 29% were older (aged 35+)<sup>3</sup>. Although it would be too simplistic to suggest that the number of young people (and households) can be taken to reflect the need for affordable rent to buy housing in an area, it is likely that the need will be greater in an area with more young adults and where the existing housing supply is oriented towards larger and more expensive properties.

<sup>2</sup> Palmerston Heights, Plymouth; Corelli Estate, Sherbourne, Dorset; Moorgate, Lechlade; Flanders Close, Bicester; Saxon Fields, Cullompton; and Knighton Road, Wembury.

<sup>3</sup> English Housing Survey 2015/16, Table AT1.8



- 2.6 The English Housing Survey indicates that the average (mean) deposit for first-time buyers in England was £48,831 in 2015/16, and two thirds (65%) of first time buyers were earning in the top 40% of all households<sup>4</sup>. Whilst house prices and hence the level of deposit required varies across the country, it is notable that households living at five Rentplus developments<sup>5</sup> had average savings of just over £2,000, demonstrating that saving for a deposit represents a major barrier to home ownership for many people.

## Demographic and household profile

- 2.7 An assessment of need for any type of affordable rent to buy housing should commence with an overview of the current situation within the local area in respect of the demographic profile, housing stock and market signals. Consideration of existing and projected future population levels and household need and composition provides a baseline through which key pressure points can be identified and drawn out by further research. The key metrics that should be considered are summarised below:

Table 2.2 Demographic and housing profile metrics

Metric	Issues to consider	Data sources
Population by age cohort	<ul style="list-style-type: none"> <li>Total population in local authority</li> <li>Number of persons by age cohort</li> <li>Proportion of total population within different age cohorts</li> </ul>	ONS Mid-Year Population Estimates
Population projections	<ul style="list-style-type: none"> <li>Projected level (and proportion) of future population change</li> <li>Projected level (and proportion) of future change in different age cohorts</li> </ul>	ONS Sub National Population Projections
Household composition	<ul style="list-style-type: none"> <li>Profile of households by type (e.g. single person, couple, family with dependent children, family with non-dependent children, other)</li> <li>Profile of households by age of head of household</li> </ul>	2011 Census data
Household occupancy	<ul style="list-style-type: none"> <li>Level of over and under-occupancy of housing within local authority, in terms of number of spare bedrooms within property)</li> </ul>	2011 Census data
Projected household growth	<ul style="list-style-type: none"> <li>Projected number of additional households expected in next 20-25 years</li> <li>Projected change in household composition (age and occupancy structure)</li> </ul>	CLG Household projections

## Housing stock

- 2.8 The current stock of housing will influence the ability of newly forming households to access a suitable property. Indicators such as the overall housing stock, number of new completions, and the size, type and average cost of housing will all be relevant and should be considered by way of

<sup>4</sup> English Housing Survey 2015/16, Table AT1.8 and AT1.9

<sup>5</sup> Palmerston Heights, Plymouth; Corelli Estate, Sherbourne, Dorset; Flanders Close, Bicester; Saxon Fields, Cullompton; and Knighton Road, Wembury. No household savings information is available for the scheme at Moorgate, Lechlade.

background to the assessment of need for affordable rent to buy housing. The key metrics that should be considered are summarised below:

Table 2.3 Housing stock metrics

Metric	Issues to consider	Data sources
Dwelling stock	<ul style="list-style-type: none"> <li>Number of houses in local authority</li> <li>Number of recent housing completions</li> </ul>	CLG Live Tables 100 and 253 Local Authority Annual Monitoring Report
Housing Type and size	<ul style="list-style-type: none"> <li>Profile of dwelling stock (e.g. detached, semi-detached, terraced, flats)</li> <li>Profile of dwelling stock by number of bedrooms and number of habitable rooms</li> </ul>	2011 Census data 2001 Census data (to provide comparison of change over time)
House Prices	<ul style="list-style-type: none"> <li>Median and lower quartile house prices</li> <li>Change in house prices over time</li> <li>Median and lower quartile house prices per type of dwelling</li> </ul>	HM Land Registry Data ONS House Price Statistics for Small Areas
Sales Turnover	<ul style="list-style-type: none"> <li>Number of transactions in local authority by year and type of dwellings</li> </ul>	HM Land Registry Data
Affordability	<ul style="list-style-type: none"> <li>Ratio of median income to median house prices</li> </ul>	CLG Live Table 576
Rental Levels	<ul style="list-style-type: none"> <li>Average rental value for different house sizes</li> </ul>	VOA Private Market Rental Statistics

## PART B: Assessment of need

- 2.9 The assessment of the need for all types of affordable rent to buy home should be undertaken within the context of the full objectively assessed housing need (FOAN) for the relevant local authority area. The identification of the FOAN is therefore the starting point when calculating the need for this tenure. This position will not change following any revision to the NPPF and PPG in response to the Government's new standardised housing need methodology.

### Full objectively assessed housing need

- 2.10 The current process for calculating FOAN is established within the NPPF and PPG. The FOAN represents a level of housing delivery that meets the needs associated with population and household growth, addresses the needs for all types of housing, including affordable housing, and caters for housing demand (NPPF 159). Plan makers should not apply constraints to the overall assessment of need (PPG ID: 2a-004).
- 2.11 The starting point is for Local Plans to meet the FOAN of their area in full (NPPF 16, 17, 47, 156 and 158). The assessment should be viewed within the context of the NPPF requirement for local planning authorities to *"boost significantly the supply of housing"* (NPPF 47).
- 2.12 The current versions of the NPPF and PPG require the following key steps to be taken in order to arrive at a robustly evidenced and objective assessment of housing need:
- 1 The most recent housing projections published by DCLG should provide the starting point for any estimation of housing need but adjustments should be made to reflect local demography, household formation rates, market signals and the need for affordable housing (PPG ID: 2a-015, 2a-020 and 2a-029).

- 2 Consideration should also be given to the likely level of future growth in employment. Particular consideration should be given to the scale and location of new housing where the labour force supply is less than projected job growth (PPG ID: 2a-018).
- 3 Where an authority is unable to meet its objectively assessed development needs, it must be demonstrated under the statutory duty-to-cooperate that the unmet need will be met by other local authorities in order to fully meet development requirements across housing market areas (NPPF 179 and 182).

2.13 In addition, High Court and appeal decisions have determined that:

- 1 A distinction exists between FOAN (“policy-off”) and housing requirements (“policy-on”)<sup>6</sup>.
- 2 The FOAN should not be constrained. Consideration of constraints is only acceptable when assessing the ability of an area to satisfy the FOAN, but this should be dealt with through the Local Plan process<sup>7</sup>.
- 3 The “policy-on” exercise that is undertaken as part of the assessment of housing requirements does not have any bearing upon the FOAN but rather upon the extent to which this need can be satisfied<sup>8</sup>.
- 4 In assessing the FOAN for any area, economic considerations, migration trends, second homes and vacancy rates should all be taken into account. Judgment is required in respect of these matters but such judgment does not constitute a policy-on decision<sup>9</sup>.
- 5 Rather than the inclusion of employment trends within the FOAN calculation being policy-on, quite the opposite is true, such that failing to accommodate the additional workers drawn to an area by increased employment opportunities would be a policy-on decision which would affect adjoining authorities<sup>10</sup>.
- 6 Consideration should be given to the need for affordable housing in seeking to ascertain the FOAN<sup>11</sup>.

2.14 The appropriate process that should be followed when seeking to determine the FOAN can be summarised as follows.

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<sup>6</sup> (1) Gallagher Homes Limited and (2) Lioncourt Homes Limited v Solihull Metropolitan Borough Council [2014] EWHC 1283.

<sup>7</sup> Hunston Properties v Secretary of State for CLG and St Albans City and District Council (2013) EWHC 2678, and R v City and District of St Albans (2013) EWCA Civ 1610.

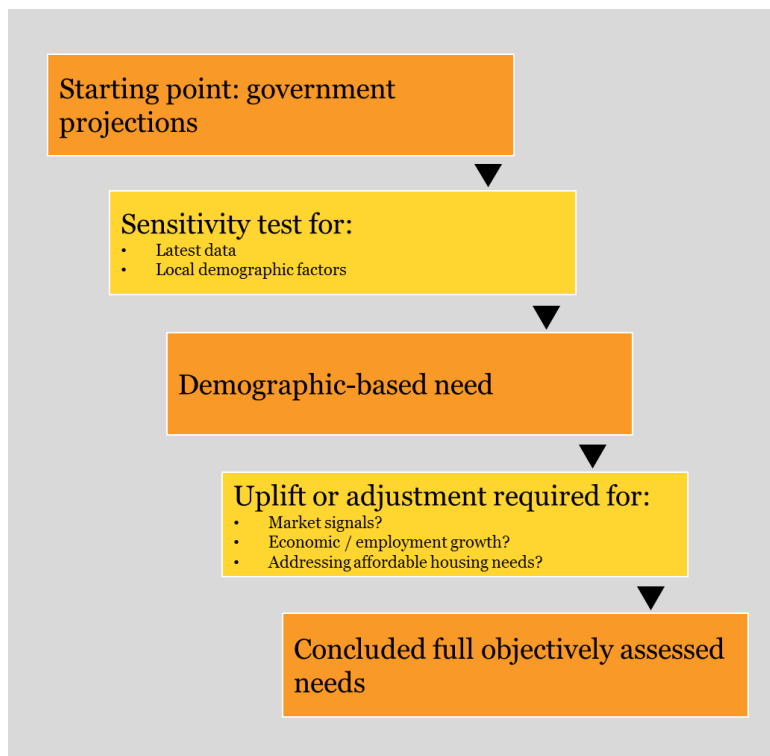
<sup>8</sup> Ibid.

<sup>9</sup> Land at Pulley Lane, Newland Road and Primslan Way, Droitwich Spa (APP/H1840/A/13/2199085) and Land north of Pulley Lane, Newland Road and Primslan Way, Droitwich Spa (APP/H1840/A/13/2199426) (2 July 2014).

<sup>10</sup> Oadby and Wigston Borough Council v Secretary of State for Communities and Local Government and Bloor Homes Ltd (2015). EWHC 1879.

<sup>11</sup> Borough Council of Kings Lynn and West Norfolk v Secretary of State for Communities and Local Government and Elm Park Holdings Ltd. (2015). EWHC 2464.

Figure 2.1 NPPF and PPG Approach to Objectively Assessing Housing Need

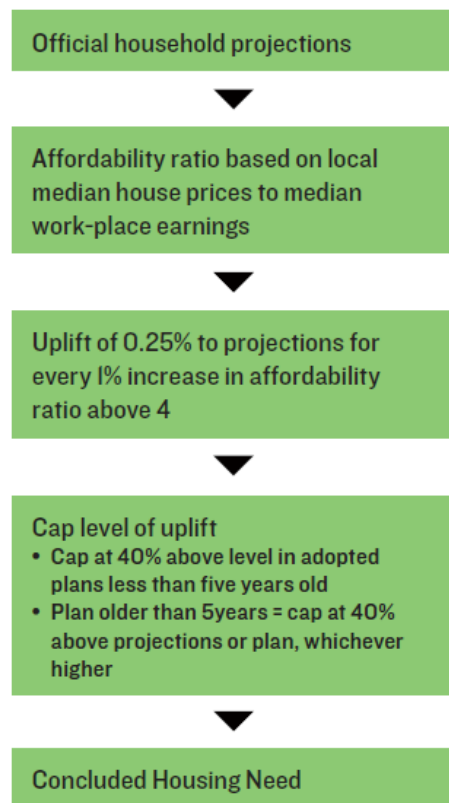


Source: Lichfields based on NPPF / PPG

2.15

The Government's new proposed methodology for the assessment of housing need is summarised below in figure 2.2. This approach is substantially simplified. It also starts with the latest official household projections, then considers whether an uplift should be applied based on local levels of affordability.

Figure 2.2 Department for Communities and Local Government: Proposed new housing need methodology



Source: Lichfields

- 2.16 Whilst this proposed change to the current arrangements for the assessment of FOAN would not affect the suggested methodology below, it may have an impact on the assessed level of need for affordable rent to buy homes in different areas of the country. Hence, it is important to establish the local context for any assessment of need for affordable rent to buy (see Part A above) and to test the appropriateness of the assessed need for each local area.

### Need for affordable rent to buy

- 2.17 Once the FOAN has been established, the PPG requires local planning authorities to provide a breakdown of total housing need by tenure (ID: 2a-002). The determination of need for affordable rent to buy housing would therefore form a part of this assessment. The assessment should be performed at a local authority level, in order to align with the FOAN, as a reasonable proxy for the number of newly-forming households in the area.
- 2.18 The consultation document that accompanies the standardised methodology for assessing housing need also requires consideration to be given to disaggregate the total need for housing to different types and tenures in the area, including affordable housing. Accordingly, the need to have a robust approach to assessing the need for affordable rent to buy housing (and other housing products) will remain even following the introduction of the standard methodology. This proposed methodology is reliant upon available data sources containing information at a local authority level. Further refinement of this approach may be appropriate if additional data becomes available in order to better reflect local circumstances and the needs of first-time buyers.

**Newly-forming households able to afford open market housing**

- 2.19 Affordable rent to buy housing is aimed at households that are unable to purchase a home on the open market. Those that are already able to buy an open market property should not be included in the assessed need for this tenure. Therefore, it is first necessary to identify the number of households in this category in order that they can be removed from the need figure.

*Step 1: Identify median house price*

- 2.20 Whilst the PPG details the process for assessing the number of households specifically in need of affordable housing, there is no standardised approach for assessing the number of households that can afford to access property on the open market. One of the tests for affordable housing need is to set household income against lower quartile house prices (ID: 2a-25). However, it should not be assumed that all households with the necessary incomes to support the purchase of a lower quartile priced home will be able or willing to do so. There is a general correlation between house prices and sizes, the implication of which is that the cheapest properties that might be within the reach of those on lower incomes may be too small to meet the needs of some households (e.g. those with families), and many will require refurbishment, which a large proportion of first-time buyers will be unable to finance.
- 2.21 In the light of this, for an affordable rent to buy assessment, it is more appropriate to assess the ability of a first-time buyer household to purchase a property on the open market against the median house price for the area. Median house prices can be identified from ONS's ratio of house price to residence-based earnings data. This data is provided at a local authority level.
- 2.22 This approach in testing affordability against median house prices is also consistent with DCLG's proposed standard housing need methodology, which applies an affordability ratio based on median earnings and median house prices.

*Step 2: Gross household income required for open market purchase*

- 2.23 This stage undertakes an affordability test for those able to purchase a home on the open market at the median price for the local authority area. In order to understand what income would be required to sustain ownership or occupation of such properties, it is necessary to consider how much households can afford to spend on their housing.
- 2.24 The former CLG SHMA Guidance (2007; now revoked) sets out that a household can be considered able to afford to buy a home if it costs 3.5 times the gross household income for a single earner or 2.9 times the gross household income for a dual-income household. In December 2016, the Council of Mortgage Lenders identified that the average income to loan multiple for purchases was 3.57. Given that this is a more up-to-date source, it is considered to be preferable.
- 2.25 Using this figure, it is possible to calculate the gross household income required to support the purchase of a property at the median house price identified in Step 1. In so doing, an assumption would need to be applied regarding the scale of deposit that such households might have, and this could be subject to sensitivity testing. We would suggest that a range of figures between 10% and 25% should be applied.

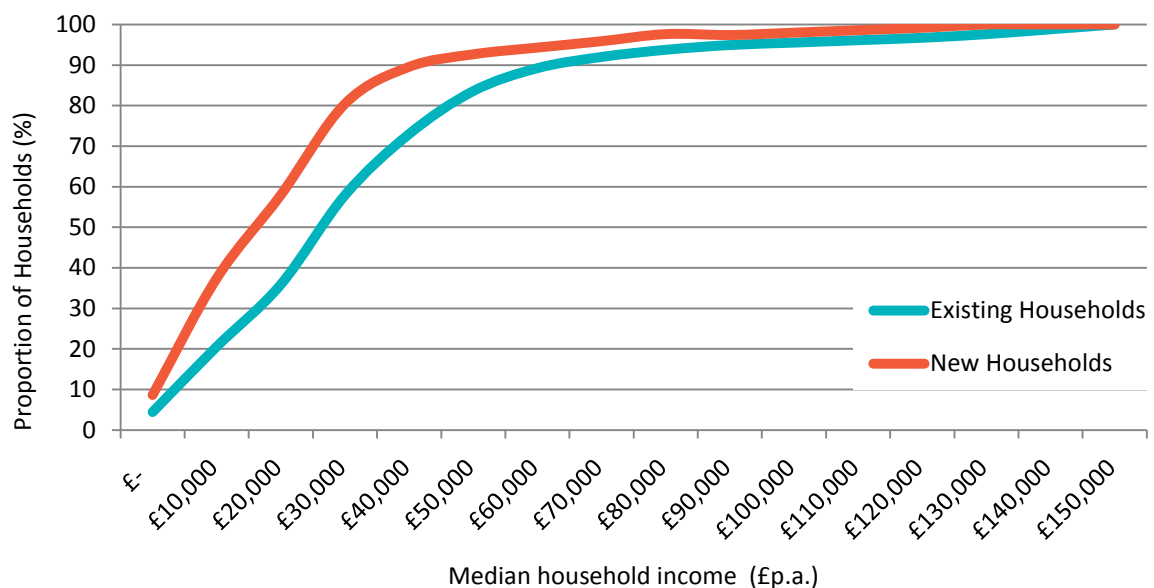
*Step 3: Gross household income distribution analysis (open market purchase)*

- 2.26 In order to calculate the number of newly-forming households that are in receipt of the minimum gross household income identified in Step 2, it is necessary to analyse the gross income distribution for households in the relevant local authority area.
- 2.27 Whilst data on individual incomes can be obtained from the ONS Annual Survey of Hours and Earnings (ASHE), household income figures are not currently freely available. However, this

data can be purchased from economic forecasting companies, such as Experian. It may also be feasible to estimate gross household income using ASHE data on individual earnings, through the application of appropriate assumptions on the number of earners per household<sup>12</sup>.

- 2.28 It is important to note that the income distribution of newly-forming households is different to that for all households, with earnings approximately 33% below those for existing households<sup>13</sup>. Therefore, the gross household income distribution should be adjusted to account for this difference. This can be illustrated on a graph that shows the proportion of new and existing households earning different amounts. An example graph is shown below.

Figure 2.3 Affordability modelling



Source: Experian income data, Rightmove, VOA and Lichfields analysis

- 2.29 *Step 4: Remove newly-forming households able to purchase open market housing*
- 2.30 Following on from the previous steps, it will be possible to identify the proportion of newly-forming households that earn enough to access a house on the private market and that would therefore not require affordable rent to buy housing. This number of households should be removed from the total FOAN in order to focus on the target market for the affordable rent to buy tenure.

### Rental affordability

- 2.31 Affordable rent to buy housing is not suitable for every household that cannot afford to purchase its own home on the open market, and it does not replace the need for social rented homes, not least because it will be unaffordable for a proportion of households.
- 2.32 The next step in assessing the need for affordable rent to buy is therefore to undertake an affordability test, similar to that which is conducted in the calculation of affordable housing need outlined in the PPG (ID: 2a-025). This step identifies the minimum level of household income needed in order to support an affordable rent to buy home.

<sup>12</sup> Shelter Private Rent Watch Report one: Analysis of local rent levels and affordability (October 2011).

<sup>13</sup> This comes from the 2004/05 English Housing Survey published in October 2006. This data is no longer collated but represents a buoyant point in the economy, there is no newer evidence and there is nothing to suggest that the situation for newly forming households has improved.

*Step 5: Average annual rent for an affordable rent to buy home*

- 2.33 In the case of the Rentplus product, the rent charged is set at “80% of the local market rents or the Local Housing Allowance (Housing Benefit) level whichever is the lower.” (Rentplus website FAQs). This level of rent could be taken as a proxy across the affordable rent to buy tenure.
- 2.34 In making this assumption, the affordable rent to buy assessment should first identify the annual median market rent for the relevant local authority, using Valuation Office Agency (VOA) Private Rental Market Statistics and then calculate 80% of this rent. This figure represents the approximate annual rent that could be charged for an affordable rent to buy property in the local area.
- 2.35 For the purposes of the assessment of need, it is more appropriate to apply 80% of the market rent than identifying an average level of Local Housing Allowance (LHA) within a local authority area, given that this allowance varies depending upon the size of the property and the Broad Rental Market Area in which the property is located.

*Step 6: Gross household income required for affordable rent to buy*

- 2.36 The next step is to calculate the level of household income required in order to access an affordable rent to buy home.
- 2.37 The 2015/16 English Housing Survey found that the national average proportion of gross household income (including state assistance) spent on rent was:
- 1 35% for the private rented sector;
  - 2 27.6% for those living in local authority housing; and,
  - 3 28.6% for those living in housing association properties<sup>14</sup>.
- 2.38 Other sources also suggest broad rules of thumb between 25% and 35% of gross income as being the appropriate threshold<sup>15</sup>.
- 2.39 The issue of how much households should be expected to pay for their housing as a proportion of their average income has also been considered by two recent Local Plan Inspectors. Whilst the focus of this consideration has been upon affordable housing need it is directly relevant to the determination of need for affordable rent to buy properties.
- 2.40 In paragraphs 17 and 18 of his report, the Inspector into the East Hampshire Joint Local Plan stated:

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<sup>14</sup> CLG English Housing Survey 2015/16, Annex Table 1.13

<sup>15</sup> Shelter Private Rent Watch Report one: Analysis of local rent levels and affordability (October 2011).



*“17. National guidance advises that, in assessing the need for affordable housing, plan makers should identify the minimum household income required to access lower quartile housing. The SHMA assumes that households will spend 25% of their income on renting a house, an assumption it says ‘draws upon widely established and utilised benchmarks’. The SHMA goes on to say that; ‘In some cases it may be that in the face of acute housing affordability pressures, households choose to stretch their finances in order to access housing. This may reduce the level of affordable housing need, suggesting affordable needs may be fully met even at lower levels of housing delivery.....albeit with adverse consequences for those households in terms of discretionary income’. The SHMA then goes on to recommend that a 30% income threshold would appear reasonable based on data that indicates that households are actually spending more than that on rent.*

*18. So, instead of planning positively to help assuage acute housing affordability pressures by, say increasing supply, the SHMA appears to advocate an approach which down plays demand. It may well be that, in order to live in a decent home; people are forced to spend more. However, it is not right, in my view, to plan on the basis that it is acceptable for those in need to have their already limited incomes squeezed just so they can live in a decent home (and the need for affordable housing reduced for the purposes of plan making). (Lichfields emphasis)*

2.41 This issue was addressed by the Eastleigh Local Plan Examination Inspector’s report which states at paragraphs 32 and 33 that:

*“The PUSH SHMA assumes (EBC/H4A, 8.6) 30% of gross income spent on housing is the threshold for households in need of affordable housing. Many developer interests consider that this is too high and highlight the reference to a 25% threshold in the 2007 DCLG SHMA Guidance. But that document has been cancelled. National Policy Guidance (the Guidance) does not specify a threshold. I note that 30% of the estimated income required to access market housing in Eastleigh would be (just) insufficient to rent an entry level two bedroom property. Three bedrooms would be out of reach. Thus a proportion of families would not be able to secure accommodation of adequate size when spending 30% of income on housing (SHMA Appendices, Table 23, p73 and Figure 18, p70). A 30% threshold should thus be seen as the upper end of a possible range.*

*“Using the SHMA methodology, a 25% income threshold would increase the identified need for affordable housing to about 624 dpa for Eastleigh (prior to any role assigned to the PRS). This highlights the sensitivity of the threshold used. Accordingly, the figure in the SHMA of 509 dpa should be seen as a baseline, with actual needs recognised as potentially greater. In this context, I see no justification for the Council assuming that more than 30% of income could reasonably be spent on housing. Some households may be forced to do so, but that does not make it a justified approach to assessing need” (Lichfields emphasis).*

2.42 A number of local authorities have sought to argue that a higher proportion (35%) should be applied but it is worth noting that 35% of gross income would represent an even more significant proportion of net income which households actually receive, likely getting close to 50%. In the light of this, and on the basis of the above remarks, it is considered that 30% would be an appropriate starting point upon which to base the assessment of the ability of local people to access the housing market, although the precise figure should be selected on a case-by-case basis, taking account of local affordability issues. Indeed, eligible households may opt to “stretch” themselves to take advantage of the opportunity to secure a home that they will eventually own.

- 2.43 This threshold should be applied to the annual rent for an affordable rent to buy property in the local authority area (calculated in Step 5) in order to identify the gross household income required in order to access an affordable rent to buy home.

*Step 7: Proportion of remaining newly-forming households able to access affordable rent to buy*

- 2.44 Using the same gross household income data and approach applied in Steps 2 and 3, it is possible to identify the proportion of remaining<sup>16</sup> newly-forming households that are in receipt of the required gross household income identified in Step 5. These households would therefore be able to access an affordable rent to buy home in the relevant local authority area. Any households earning less than this figure would not be able to afford a rent to buy home and so would not be included within the identified need.

### **Affordable rent to buy eligibility**

*Step 8: Remove any newly-forming households earning £80,000 pa or more*

- 2.45 The Government's Help to Buy Shared Ownership eligibility criteria should be used as a proxy for eligibility for affordable rent to buy homes. Based on this criteria, any newly-forming households earning £80,000 pa or more (or £90,000 or more in London) should be removed from the total affordable rent to buy housing need figure. However, depending upon the location, it is not anticipated that there will be a large number of households that pass through Step 4 that would achieve this level of income.
- 2.46 The principle of this eligibility criteria is considered to be appropriate for all affordable rent to buy homes, given that the tenure is aimed at those households that are in need of financial support in order to access home ownership.

### **Summary**

- 2.47 Table 2.4 provides a summary of the steps required in order to assess the need for affordable rent to buy housing in any given local authority area.

Table 2.4 Assessment of need for affordable rent to buy housing

<b>Assessment stages</b>	
<b>Starting point: FOAN</b>	
<b>Newly-forming households able to afford open market housing</b>	
1.	Identify median house price
2.	Gross household income required for open market purchase
3.	Gross household income distribution analysis (open market purchase)
4.	Remove newly-forming households able to afford open market housing
<b>Rental affordability</b>	
5.	Average annual rent for an affordable rent to buy home
6.	Gross household income required for rent to buy
7.	Proportion of remaining newly-forming households able to afford rent to buy
<b>Affordable rent to buy eligibility</b>	
8.	Remove any newly-forming households earning £80,000 pa or more

<sup>16</sup> Following the removal of those that can afford open market housing in Step 4

2.48 The approach therefore starts with the determination of FOAN for the area (using the relevant approved methodology), before then identifying the number of households that can afford to access housing on the open market, and the proportion of households that could not afford an affordable rent to buy property and those that are ineligible for the tenure. The remaining number of households (that can access affordable rent to buy but cannot compete on the open market) represents the need that exists in the local area for an affordable rent to buy property.

2.49 This calculation can be summarised as follows:

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Table 2.5      Assessment of need for affordable rent to buy housing (equation)

FOAN <i>minus</i> newly-forming households able to afford open market housing
<i>multiplied by</i>
% of remaining newly-forming households able to access affordable rent to buy
<i>minus</i>
Newly-forming households earning £80,000 pa or more

## 3.0 Conclusion

3.1 In the foreword to the Housing White Paper, the Prime Minister stated:

*“Our broken housing market is one of the greatest barriers to progress in Britain today. Whether buying or renting, the fact is that housing is increasingly unaffordable – particularly for ordinary working class people who are struggling to get by.*

*“Today the average house costs almost eight times average earnings – an all-time record. As a result, it is difficult to get on the housing ladder, and the proportion of people living in the private rented sector has doubled since 2000.*

*“These high housing costs hurt ordinary working people the most. In total more than 2.2 million working households with below-average incomes spend a third or more of their disposable incomes on housing.*

...

*“I want to fix this broken market so that housing is more affordable and people have the security they need to plan for the future.*

*“The starting point is to build more homes...*

*“We need to build many more homes, of the type people want, in the places they want to live. To do so requires a comprehensive approach that tackles failure at every point in the system.”*

3.2 Following on from this recognition of the need to provide more homes, the DCLG’s consultation paper, *“Planning for the right homes in the right places”* highlights the importance of providing an appropriate housing mix at paragraph 88:

*“It is important that local planning authorities do not just plan for the right number of homes, but also the different size, type, tenure and range of housing that is required in their area.”*

3.3 The affordable rent to buy tenure provides an innovative solution to the challenges that faces the housing market in this country. By focusing upon aspiring home owners that are currently unable to compete within the open market and unable to save for a mortgage, it provides an alternative to the private rental sector which is characterised by high rents, an insecurity of tenure and below-average living conditions. Crucially, the model also provides an opportunity for households that would not qualify for affordable housing. Accordingly, it provides a response to recognised pressures at a number of points in the system in a way that is not otherwise being provided.

3.4 The potential contribution of affordable rent to buy can be most effectively understood through a demonstration of the level of need that exists for the product. This report has set out a robust methodological approach to undertake such an assessment of need. This approach draws upon the policy contained within the NPPF and guidance set out in the PPG, together with the conclusions of relevant High Court and Court of Appeal judgments and appeal decisions, and Lichfields’ considerable experience in assessing the overall need for housing in local authority areas (FOAN) and affordable housing need. It is an approach that draws upon readily available data sources and which benefits from transparency and clarity.

3.5 By demonstrating that a need exists for affordable rent to buy properties, and that this represents a distinct component of the overall housing need for an area, it will be possible to build a strong case in support of any planning application for development. This will be supplemented by an explanation of the economic and social benefits of this type of development,

which can be very significant to a local area and the people that will benefit from this innovative form of housing tenure.

- 3.6 The assessment of the need for affordable rent to buy housing should be undertaken within the context of the FOAN for each local authority area and should contribute towards meeting this overall need. In particular, affordable rent to buy homes are helping to address the specific needs of a given section of the population whose needs are currently not being met by the traditional housing tenures.

## Appendix 1: Data sources

Information	Data sources
Population by age cohort	ONS Mid-Year Population Estimates
Population projections	ONS Sub National Population Projections
Household composition	2011 Census data
Household occupancy	2011 Census data
Projected household growth	CLG Household projections
Dwelling stock	CLG Live Tables 100 and 253 Local Authority Annual Monitoring Report
Housing type and size	2011 Census data 2001 Census data (to provide comparison of change over time)
House prices	HM Land Registry Data ONS House Price Statistics for Small Areas ONS ratio of house price to residence-based earnings data
Sales turnover	HM Land Registry Data
Affordability	CLG Live Table 576
Rental levels	Valuation Office Agency (VOA) Private Market Rental Statistics
Gross household income distribution	Economic forecasting companies, e.g. Experian ONS Annual Survey of Hours and Earnings (ASHE)

