



Rent affordability in the affordable housing sector. A Literature Review



PEOPLE, COMMUNITIES AND PLACES

Executive summary

This literature and evidence review, the first stage of a larger project, studies rent affordability in the social and mid-market rented housing sectors. We have conducted a search and evaluation of the available and most recent (at the time of writing) literature on definitions, measurements, data and policies related to social rent affordability which have been used to identify knowledge gaps. Rent affordability is increasingly an issue in housing, and is at the centre of several Scottish Government's strategies, such as the Tackling Child Poverty Delivery Plan and Housing Beyond 2021.

Definitions and measures of rent affordability in the affordable sector

There is no one universally accepted definition of rent affordability in the literature. Different definitions depend on the purpose of each study, the person (household type and income) and the property (type, size and location of dwelling). However, all definitions agree that affordable housing should secure affordable rents for a given standard of housing in terms of quality. Similarly, there are several measures of rent affordability described in the literature. The most commonly used method is the rent-to-income ratio, because of its simple and easy-to-compare formula. In the calculations of income, some analysts (including the Scottish Government) take into account net income, the household income after tax and benefits, including housing benefits, while others consider gross household income. This ratio has been criticised as simplistic and other methods have been suggested, such as the housing expenditure-to-income ratio, which reflects better the differences across household type, and the residual income approach, which measures the difference between income and housing costs. A combination of objective ratios with more subjective indicators of economic hardship could lead to better understanding of the affordability issues experienced by tenants in the affordable housing sector.

Housing and poverty

Rent affordability plays a crucial role in tackling poverty. Research suggests that high housing costs are one of the biggest drivers of poverty in the UK, especially affecting single adults and families with children. Poverty rates are different before and after housing costs have been taken into account. The housing-cost-induced poverty

phenomenon, i.e. poverty after considering the housing costs, means more households live in relative and absolute poverty in Scotland every year. The level of poverty appears to be acute among children, especially after housing costs are taken into account. The relationship between housing costs and poverty is also influenced by tenure, with social tenants more likely to live in poverty after housing costs have been considered. Poor housing conditions may have a negative impact on people's health, wellbeing and life chances, especially for children increasing the risk for health problems during development and early childhood, as well as the risk for mental health and behavioural issues and the risk for low educational attainment, unemployment and poverty.

Social rents

Recent evidence highlights a cumulative increase of 12.2 percentage points in social rents in Scotland over the five financial years from 2013/14 to 2017/18, which equates to an increase of 6.9% in real terms, i.e. over and above the level of CPI inflation over these years. Scotland has the largest social housing sector in the UK and lower social rents compared to England and Wales, but higher compared to Northern Ireland (only in the case of local authority social housing). In 2017/18 the average social rent in Scotland was £76.23 per week and varied based on household size, provider (local authorities offer lower rents) and location (Edinburgh registers the highest rents). Mandatory services, such as lighting maintenance, are included in the rent, while optional services, such as heating, are not. Service charges may impact on future affordability as they are expected to increase along with increasing domestic fuel costs, and also charges for new builds appear to be higher than for the existing stock.

Mid-market rent

Mid-market rent (MMR) is part of the affordable rented sector and is an affordable alternative to the private rented sector. MMR is not covered in as much detail as social rent in the literature. MMR rent levels can be set by providers in a variety of ways, including 80% of the Local Housing Allowance, 80% of the local median private rent, 33% higher than a comparable social rented property or a rent-to-income ratio of 30%. Based on the evidence from one research project, MMR could attract more families if there were enough affordable family-size homes (there is a

mismatch in supply and demand) and young people did not always consider MMR as an affordable housing option.

Rent setting mechanisms

As there is no national rent policy in Scotland, landlords use other mechanisms to set their rents, such as comparing their rents to local/national averages and rents from other social landlords. Landlords are allowed to increase their rent, but they first need to consult with their tenants and offer them viable alternatives. However, evidence suggests that just half of the tenants were informed by their landlords about annual rent increases, and the majority were not presented with alternative options to these increases. Finally, social rents should satisfy national social rent benchmarks.

Policies with an impact of rent affordability

Scotland. In Scotland, a series of policies and benefits (most of which are reserved to the UK government) aim at supporting low-income households with rent payments. However, there are also some policies beyond the control of the Scottish Government, namely the Benefit Cap and Bedroom Tax, that might negatively affect rent affordability. The Scottish Government is currently mitigating these reforms, for example through Discretionary Housing Payments and Universal Credit Scottish Choices. The Child Poverty (Scotland) Act 2017 acknowledges housing as a significant element of households' income and aims at reducing family housing costs in order to eradicate child poverty. The Fuel Poverty (Scotland) Bill 2018 aims to reduce fuel costs.

England. In England, according to recent studies, social housing is now tending towards a safety net role and there is a shift from social to affordable housing. Social landlords in England have been constrained by the Housing Revenue Account subsidy rule over the last two decades, which gave little incentive to consider affordability. In an England-based study, the Chartered Institute of Housing recommended the adoption of a common definition for social housing, the increase in the supply of affordable housing and to link rents to local incomes using rent setting mechanisms.

Wales. In Wales, there is a need for public investment to tackle shortage of supply in social housing and meet housing quality standards. Following Scotland's example of the Housing (Scotland) Act 2014, Wales abolished the Right to Buy in 2017.

Suggestions to improve social rent affordability include a re-emergence of local authorities as social housing providers and a need for a re-think of the existing housing stock, as there is a shortage in required housing types and an excess supply in dwellings with reduced demand.

Northern Ireland. In Northern Ireland, the Bedroom Tax is mitigated, and the housing element of Universal Credit is paid directly to landlords, unless otherwise requested by social tenants. Suggestions to improve affordable housing include a developer contribution to boost supply in affordable housing and local authorities to undertake small scale development on public estates as a solution to lengthy planning approvals.

Gaps in Knowledge

A few gaps in knowledge have been identified through this literature review:

- The literature examines the meaning of rent affordability for social **tenants** but suggests that further research is needed to investigate this topic. An identified gap in the literature is that there is not enough evidence of what rent affordability means for tenants and whether housing benefits and lower housing costs can fully mitigate rent affordability issues. The impact of rent increases on households has not been studied enough from the tenants' subjective perspective.
- There is a gap in knowledge around how social **landlords** set and increase their rents and service charges and what factors lead to such changes. There is also not enough evidence on whether service charges will make newly built social rented sector housing less affordable and whether standard requirements for social housing might lead to rent and service charges increases. To contribute to the tackling of child poverty and housing-costs-induced poverty overall, we need to explore the reasons for social rent increases and the ways to reduce them and ensure affordable rents, especially for families with children.
- The lack of literature regarding the **mid-market renting sector** suggests a knowledge gap. The review identified a gap in evidence on MMR rents,

mechanisms of MMR rent setting, accessibility and type of supply, as well as to how affordable MMR is.

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1. Introduction

1.1 Purpose of review

Rent affordability is an important aspect of several long-term Scottish Government strategies. The **Tackling Child Poverty Delivery Plan: *Every Child, Every Chance*** (ECEC) includes a set of actions to make progress on the three main drivers of child poverty - income from work and earnings, costs of living and income from social security. As rent is a substantial component of costs of living, there are two specific actions mentioned in the child poverty delivery plan 2018-2022¹: 'to ensure that future affordable housing supply decisions support our objective to achieve a real and sustained impact on child poverty' and 'to work with the social housing sector in 2018 to agree the best ways to keep rents affordable' (Scottish Government 2018). Stakeholder engagement on **Housing Beyond 2021** is also underway (at the time of writing), focused on developing a vision for how our homes and communities should look and feel in 2040 and the options and choices to get there. The approach to housing supply beyond 2021 will need to consider affordability across all tenures, as well as the role of social and affordable housing in particular. **Housing improvement programmes**, such as Fire and Smoke Alarms changes and the Energy Efficiency Standard for Social Housing post-2020 (ESSH2), require investment from social sector landlords, which could have a knock-on impact for rent levels (but usually with reductions to energy costs in the latter case). Finally, as part of work on **Fuel Poverty**, the Scottish Government is proposing a new definition which has two parts. Firstly, whether households would be required to spend 10% or more of their income, after housing costs, on required fuel bill spend. Secondly, whether the household residual income, after deducting housing, fuel and any (paid) childcare costs is sufficient to maintain an acceptable standard of living, when compared to the corresponding Minimum Income Standard (MIS). This means that more affordable rents may lead to higher residual incomes for households, which in some cases may be sufficient to lift them out of fuel poverty.

This literature and evidence review, the first stage of a larger study on rent affordability, aims at enhancing our knowledge and understanding of rent

¹ For more information: <https://www.gov.scot/publications/child-chance-tackling-child-poverty-delivery-plan-2018-22/pages/5/>

affordability in the affordable sector and its impact on tenants and Registered Social Landlords (RSLs), as well as the role of policies on rent affordability. At the end of this report, we have identified gaps in knowledge. The review is not exhaustive and focuses on the most influential, pertinent or recent (at the time of writing) studies on rent affordability in the affordable sector. The affordable sector is defined here as the sum of social rented and mid-market rented housing.

1.2 Structure of review

The first part of the review focuses on the definition of the term *affordability* across different studies and institutions (chapter 2). The third chapter concerns the various ways that rent affordability can be measured – the chapter reviews different measures, some more objective and others more subjective. The relationship between housing and poverty across time, household type and housing tenure is then examined in chapter 4. Whether intermediate housing provides an affordable source of housing is discussed in chapter 5, while chapters 6 and 7 present recent evidence on affordable rents across Scotland and the UK and on the changes in rents across time. The final chapter lists policies with an impact on rent affordability across the UK regions. The conclusions of this review include key findings and identify gaps in knowledge.

2. Definitions of rent affordability in the affordable housing sector

It has been argued that housing affordability plays a key role in the housing problems of today (Meen 2018), whilst several European countries have recently agreed that new housing should include a proportion of affordable housing (Bramley 2012). The 'Affordable Housing Supply Programme' from the Scottish Government plans to deliver at least 50,000 affordable homes by 2021 – a 67% increase in the affordable housing supply, from which 35,000 will be for social rent in order to support people on low/modest incomes to rent high quality accommodation at affordable prices. This chapter aims at exploring what *affordable housing* means, and whether affordable housing has a universal meaning or means different things to different sub-groups of the population.

There are two major concepts of affordability, depending on the market studied. The first regards the housing market, i.e. home-owners and potential buyers; and the other regards rental properties. In the prime mortgage market, affordability can be distinguished between purchase, repayment and income affordability (Gan and Hill 2009; Meen 2018). Purchase affordability considers whether a household has the borrowing capacity to purchase a property, repayment affordability considers the capacity of repaying the mortgage, and income affordability measures the ratio of house price to income (Gan and Hill 2009). As the focus of this project is on rent affordability, further discussion of the housing market is out of scope.

2.1 Definitions of rent affordability

Rent affordability concerns both the private rented sector (PRS), as well as the affordable housing sector. The focus of this report is on the affordable housing sector, which has three main characteristics; lower rents compared to the PRS, greater security from eviction, and priority for vulnerable tenants.

A House of Commons Library briefing paper examined the definition of affordable housing in England and found that there is not one standard definition, but many different ones based on the purposes of each study (Wilson and Barton 2018). The same paper argued that “historically, the term affordable housing tended to be interchangeable with references to social housing”, but now the term is regarded as ambiguous (Wilson and Barton 2018, p. 5). A reason for this may lie in the fact that

there is a larger variety of affordable housing nowadays, in addition to social rented housing. Traditionally the most common type of affordable housing is social rented housing. However, according to a [Shelter \(England\) blog](#) written by John Bibby in 2015², the majority of the new affordable housing and new builds in England are affordable rented housing, instead of social housing, such as shared ownership (mostly used in England) and mid-market rent.

Some of the definitions for rent affordability in the affordable housing sector are listed below:

- In the context of Scottish Planning Policy³, affordable housing is defined as housing of a reasonable quality that is affordable to people on modest incomes; and this includes social rented accommodation, mid-market rented accommodation (both in scope of this project), shared ownership, shared equity, discounted low cost housing for sale including plots for self-build, and low-cost housing without subsidy.
- A Chartered Institute of Housing (CIH) report from 2013, argued that there cannot be a single definition of affordability as it depends on the household composition and size, income, benefits and tax credits regimes (CIH 2013).
- A UK Collaborative Centre for Housing Evidence (CaCHE) report defined affordable rent as “rents well below market rents and also well below Local Housing Allowance rent levels in the PRS, and other rents associated with affordable or mid-market supply” (Serin, Kintrea et al. 2018, p. 10).
- According to the Scottish Federation of Housing Associations (SFHA)⁴, “for a rent (including service charges) to be affordable, a household with one person working 35 hours or more should only exceptionally be dependent on Housing Benefit in order to pay it” (SFHA’s Rent Setting Guidance, January 2010⁵).
- The National Planning Policy Framework (NPPF) defined affordable housing for rent as follows: “meets all of the following conditions: (a) the rent is set in accordance with the Government’s rent policy for Social Rent or Affordable

² Shelter England blog on August 10, 2015 by John Bibby, “What is ‘affordable housing’?”.

³ <https://www.gov.scot/publications/scottish-planning-policy/>

⁴ For the consultation paper of “Rethinking Affordability” published by SFHA in 2014, see <https://www.sfha.co.uk/mediaLibrary/other/english/8440.pdf>

⁵ For more information on SFHA approach on affordability: https://chcymru.org.uk/uploads/events_attachments/Rent_What_does_Affordability_Really_Mean.pdf.

Rent, or is at least 20% below local market rents (including service charges where applicable); (b) the landlord is a registered provider, except where it is included as part of a Build to Rent scheme (in which case the landlord need not be a registered provider); and (c) it includes provisions to remain at an affordable price for future eligible households, or for the subsidy to be recycled for alternative affordable housing provision” ([NPPF July 2018](#), p. 64).

- “During the October 2010 Spending Review the [UK] Coalition Government announced an intention to introduce a new ‘intermediate rent’ tenure. Under this model, which is known as ‘affordable rent’, housing associations can offer tenancies at rents of up to 80% of market rent levels within the local area” (Wilson and Barton 2018, p. 6).
- According to a Shelter (England) blog by John Bibby (2015), the definition of affordable housing is usually based on two separate aspects: the **person**, i.e. what the tenant(s) can afford to pay for housing and the **property**, i.e. what type of accommodation is offered. Shelter, focusing on the tenant, classifies a home as affordable when “you can afford to live in it: if you can pay the rent or mortgage without being forced to cut back on the essentials or falling into debt”. The threshold is set at 35% of the net household income; however this has a different meaning and level of difficulty for low-income and high-income households.
- The threshold ratio between rent and household income has often been at the centre of attention of housing associations, policy makers and stakeholders. This ratio is used to distinguish between affordable and unaffordable housing. According to the National Housing Federation⁶, this ratio should not exceed 25% in affordable housing (Chaplin and Freeman 1999). For more information on this ratio, see chapter 3, section 3.1.
- Affordability usually refers to low-income households renting their property and is concerned “with securing some given standard of housing at a rent which does not impose, in the eyes of some party – usually government – an

⁶ The National Housing Federation is “A professional body that represents the interests of housing associations and other registered social landlords in England, which are responsible for providing the vast majority of new social housing units” (Chaplin and Freeman 1999, p. 1953).

unreasonable burden on household income” (Chaplin and Freeman 1999, p. 1949).

- According to Eurostat, a household is considered having housing affordability issues when spending more than 40% of their equivalised⁷ disposable income on housing: “The housing cost overburden rate is the percentage of the population living in households where the total housing costs ('net' of housing allowances) represent more than 40% of disposable income ('net' of housing allowances)”⁸.

Housing affordability cannot be separated from a discussion on housing standards (Meen 2018, pp. 13-14). In fact, housing may appear affordable for low-income households that consume low levels of housing (in terms of household type, size and location), while at the same time it might appear unaffordable for those on high incomes that consume high levels of housing (Meen 2018). However, social tenants often do not have a choice on their home; rather, it is allocated to them by social landlords and might not be able to reduce some of their housing expenses. Housing standards may also include fuel consumption, as well as furniture and decoration. A further discussion on housing and non-housing costs can be found in chapter 3, section 3.2.

2.2 Summary

In summary, we can see that there is no universal definition of rent affordability, as it depends on the household type and composition, household income, including housing benefits, location and size of the property and other factors. Ideally, the term would be flexible, i. e. adaptable to tenants' and social landlords' needs and characteristics and also reasonably simple to calculate and understand.

⁷ The unequivalised income does not take account of the number of people living in the household.

⁸ https://ec.europa.eu/eurostat/statistics-explained/index.php/Glossary:Housing_cost_overburden_rate; https://ec.europa.eu/eurostat/statistics-explained/index.php/Housing_statistics#Housing_affordability

3. Measurements of rent affordability

This chapter outlines existing measures of rent affordability suggested by several reports and academic papers in the UK and internationally⁹.

3.1 Rent to income ratio

The oldest and most commonly used measure of rent affordability internationally, because of its simple formula, is based on the **ratio of house prices** (in terms of rents) **relative to income/earnings** (affordability ratio = rent / income), which measures the proportion of a household's income that is spent on rent (Fenton et al. 2011; Young et al. 2017; Wilson and Barton 2018). Fenton et al. (2011) argued that the problem of affordability lies in the combination of a high rent-to-income ratio and a low income.

Traditionally, 'one week's pay for one month's rent' (a U.S. expression from the 19th century) was used to define rent affordability as roughly the 25% of the household earnings (Meen 2018, p. 7). The affordability ratio can vary between 25-50% of household income (Bramley 2012, p. 134). In Canada and the U.S., a ratio of 30% is considered acceptable, while in Australia it is 25% (Fenton et al. 2011). In the UK, there is no official benchmark for this ratio, although, according to the National Housing Federation, housing is affordable if the ratio is up to 25%, and according to CIH, if the ratio ranges between 20-30% (CIH 2013). Based on research, a rent can be considered affordable when housing costs do not consume more than 30-40% of households' incomes (Stephens et al. 2015).

Among the main advantages of this measure are the data availability, which allows for comparisons across time and countries, and the limited need for pre-defined assumptions. It is easy to use for predictions and leads to rather simple and easy-to-understand stories about rent affordability (Meen 2018). However, according to some researchers, this measure is too simple, arbitrary and can be misleading (amongst others Chaplin and Freeman 1999; Stephens et al. 2015; Meen 2018). The ratio provides us with an aggregated overview of housing affordability, but gives no insights on particular groups of tenants or on the quality of the accommodation (Fenton et al. 2011; Meen 2018). Affordability is more complex and ought to take into

⁹ This is a satisfactory, but not exhaustive, list of rent affordability measures in the literature.

consideration the needs of different households, as well as the type and location of households (Chaplin and Freeman 1999; Young et al. 2017; Meen 2018). For instance, “two households, one with a rent of £20/week and an income of £100/week, and the other with a rent of £200/week and an income of £1000/week would share the same 20 per cent ratio” (Chaplin and Freeman 1999, p. 1950). Another ambiguity of the ratio measure is whether Housing Benefit¹⁰/Universal Credit payments are included in household income or not. Although there are plenty of criticisms of the traditional ratio affordability measure, Bramley (2012), with the use of the British Household Panel Survey (BHPS) in England during 1997-2003, argued that it is the best objective measure, followed by the residual income ratio (discussed later in this chapter).

Together with the rent-to-income ratio, two other descriptive statistics can be used to measure rent affordability: the **headcount** and the **mean** (Chaplin and Freeman 1999). The headcount is based on the number of households with a rent/income ratio that exceeds a predefined benchmark. This statistic provides insights on the number of poor households, but not on the depth of their poverty (Chaplin and Freeman 1999). Some European countries, such as Germany, the Netherlands and Austria, use the mean of the affordability ratio calculated by household types to determine the level of housing allowance (Chaplin and Freeman 1999).

As an alternative to the ratio, headcount and mean ratio statistics, Chaplin and Freeman (1999) suggested the use of the **Foster, Greer and Thorbecke (FGT) statistic**¹¹. This statistic takes into account the depth of poverty, the income gap, the number of poor households, the household income, the poverty line below which a household is considered poor and the total headcounts. In this way, it calculates the distance between each household’s rent-to-income ratio and the poverty line (Chaplin and Freeman 1999).

¹⁰ “Housing Benefit is a personal subsidy which enables non-working households and those on low income to pay for rented accommodation” (Wilson and Barton 2018, p. 28). The Housing Benefit scheme in the UK intends to protect households’ incomes after housing costs, protect poor private renting households from rent deregulation, and protect the income stream of landlords (Stephens et al. 2015).

¹¹ For more information, see Foster J.E., Greer J., Thorbecke E., 1984, A class of decomposable poverty measures, *Econometrica*, 52, pp. 761-766.

3.2 Housing expenditure to income ratio

An alternative to the rent-to-income ratio is the **housing expenditure-to-income ratio**. This measure better reflects the affordability changes across time because it includes the changes in interest rates (Meen 2018). The measure is based on the budget constraint formula:

$$\text{Consumers' expenditure (excl. housing) + housing costs + saving from current income} = \text{post-tax household earned income + post-tax income from net financial assets}$$

Table 3.1 shows the median ratio of housing costs to (unequalised¹²) income by housing tenure and time. Owners (outright or with mortgage) presented the lowest ratios, while ratios for social housing were just under 25%, with very slight differences based on the type of provider. High ratios were also registered for private renters.

Table 3.1 – Median ratio of housing costs to net unequalised income, by tenure and year, Scotland

	2006/07 to 2008/09		2009/10 to 2011/12		2012/13 to 2014/15		2015/16 to 2017/18	
	Ratio	Base	Ratio	Base	Ratio	Base	Ratio	Base
Local Authority Housing Associations	22%	1994	22%	1613	22%	1318	24%	1152
Social sector	25%	1310	24%	1129	25%	831	25%	792
Private rented	23%	3304	23%	2742	24%	2149	24%	1944
Owned with mortgage	25%	1090	28%	1333	25%	1211	27%	1035
Owned outright	13%	4367	10%	3555	9%	2537	8%	2088
	3%	3710	3%	3746	3%	8856	3%	3076

Source: Reproduced by CAD 2019, p. 92; Family Resources Survey
For the base figures see the "Supporting files" <https://www.gov.scot/publications/social-tenants-scotland-2017/>.

The above measure reflects better the differences across household types. However, it might result in a more optimistic image than reality, especially regarding the private market, because it does not take into account credit market constraints, such as loan and deposit restrictions, as well as the quality and location of the property.

¹² The unequalised income does not take account of the number of people living in the household. Equalised income values are adjusted depending on the number of people in the house to reflect the notion that larger households require higher incomes (CAD 2019).

Low-income households might lower their housing standards in order to increase their non-housing consumption or the opposite, with possible dangerous effects on social outcomes, such as health (Bramley 2012; Meen 2018). However, we need to keep in mind that often social tenants do not have a choice on the quality, size and location of the property offered to them by social housing providers, and thus do not always have control on some of their housing costs.

3.3 Residual income measure

Another approach on housing affordability identifies “housing as being unaffordable when the cost of housing of an adequate size and standard reduces income to a level whereby essential non-housing consumption cannot be met” (Stephens et al. 2015, p. 9). The **residual income** is another measure of rent affordability, which is based on the above formula but also includes non-housing costs and shows the difference between income (net or gross of Housing Benefit/Universal Credit) and housing costs. This approach is based on housing and non-housing consumption standards (Bramley 2012). “This residual income approach subtracts from disposable income the monetary value of a pre-defined standard of non-housing needs; this, therefore, determines how much is affordable for housing” (Meen 2018, p. 15). For example, the Joseph Rowntree Foundation (JRF) claimed that a household of a single working age person needs £10,192 per year after housing costs¹³ (Green et al. 2016). In other words, if a household over-spends on housing, then its non-housing consumption will be inadequate, and vice versa. However, defining a standard for non-housing needs is not straightforward as it depends on the household type and size.

[Lydia Marshall from NatCen](#) presented a new residual income approach based on the Minimum Income Standard (MIS) at the 2016 European Network for Housing Research conference. She defined a home as unaffordable when the housing costs are high and the residual income is not sufficient to reach the MIS. JRF’s MIS was introduced in the UK in 2008 and is used to calculate how much income households need in order to afford an acceptable standard of living. The MIS is regularly updated by JRF to reflect changes in the cost of living and social norms. It is crucial that it is

¹³ This is the Minimum Income Standard (MIS) calculated by JRF for a single working person household excluding rent, council tax, water charges, household insurance, gas, electricity and other bills, household services and other housing costs.

often updated based on the required goods and services, as well as on price changes and inflation¹⁴. It has often been used by stakeholders and policy makers with the aim of defining a Living Wage. The main UK MIS has been calculated based on people's needs in urban areas (outside London), but the research has also been extended in rural England, London, remote rural Scotland and Guernsey (Davis et al. 2018). Hirsch et al. (2013) studied the MIS in remote rural Scotland and concluded that households in this part of Scotland required significantly higher incomes to achieve the level of MIS as those living elsewhere in the UK. The reasons for this lie mostly in the higher prices of buying the same goods as elsewhere, the extra cost of heating (often no gas heating is available) and the extra costs of transportation.

According to Fenton et al. (2011), there are two indicators that define the affordable residual income standard: the poverty line standard and a budget standard. In the UK the poverty line threshold is set at 60% of the median household income, while the budget standard defines the residual income remaining after housing costs are covered (there is no specific threshold for the budget standard) (Fenton et al. 2011). Low-income households often receive Housing Benefit or the housing element of the Universal Credit, which covers either all or part of their rent. As mentioned above, when measuring rent affordability in the affordable housing sector, housing benefits can be incorporated into the calculation as an addition to the household income or as a rent reduction (Meen 2018, p. 8). In recent publications¹⁵ the Scottish Government has used the housing costs-to-(net) income ratio. Housing Benefit payments are included in the net household income: "net income is the total income received by the households excluding taxes such as income tax and council tax. Net income has not been adjusted ("equivalised") for family size. Housing costs include rent gross of Housing Benefit, as well as water rates and service charges where applicable" (CAD¹⁶ 2019, p. 91).

As seen above, the most common ways of measuring affordability are as a proportion of the income spent on housing (ratios) or as the income left after paying for housing (residual income measure). According to SFHA, "Recent research

¹⁴ <https://www.lboro.ac.uk/research/crsp/mis/>; <https://www.jrf.org.uk/income-benefits/minimum-income-standards>

¹⁵ Among others: CAD 2019; Scottish Housing and Regeneration Outcome Indicators Framework.

¹⁶ CAD is the Communities Analysis Division of the Scottish Government.

suggests the benefit of combining a traditional, low income-based threshold (25%) with information on financial hardship or looking at the joint incidence of a high rent-to-income ratio and low residual income”¹⁷.

3.4 Rent affordability measure and household composition

A more comprehensive, yet more complex, measure of rent affordability would include household characteristics, such as household type, size and location. Bramley argued that although there was strong rent affordability variation across different age groups and household types, there was not such strong regional variation (Bramley 2012). His research stressed the importance of demographic characteristics, such as type of household (lone parent, single adult, number of children, etc.), when studying affordability (Bramley 2012, p. 146). An example of different ways to measure affordability of a rent of £82/week for different types of households earning a minimum wage of £232/week is presented below (CIH 2013, p. 8).

Table 3.2 emphasizes the differences of rent affordability based on household composition. The same rent represents 32% of the income of a single adult and 18% of the income of a family including two adults and two children. However, when income is adjusted according to the number of household members (equivalised), to capture the average living costs, the same rent represents 21.5% of the single person’s income and one quarter (25.4%) of the family’s income (CIH 2013, p. 8).

¹⁷ <https://www.sfha.co.uk/mediaLibrary/other/english/8440.pdf>, p. 2

Table 3.2 – How affordability can be measured in different ways

	Income after tax/NI/tax credits (Gross of £232.11) (£week)	HB payable at rent level of above: (£week)	Affordability of rent at £82 Min rent HB payable (Proportion of Income)	Rent at 25% of income (£week)	Equivalisation Factor	Equivalised Income (Based on 2 adult household=1)	Affordability of rent at £82 (Proportion of Income)
Gross Minimum Wage	£232.11	N/A	35%	£58.02	N/A	N/A	N/A
Pat	£254.00	£118.95	32%	£63.50	1	£381.00	21.5%
Pat and Chris	£302.00	£112.00	27%	£75.50	1.5	£302.00	27%
Pat, Chris and 1 child	£385.00	£124.00	21%	£96.25	1.8	£320.00	25.6%
Pat, Chris and 2 children	£451.00	£83.00	18%	£112.75	2.1	£322.00	25.4%

Source: Reproduced by CIH 2013, p. 8

*HB = Housing Benefit; NI = National Insurance

3.5 Rent affordability from the tenants' perspective

Most of the above measures of rent affordability consider affordability as merely an economic term and measure it from a purely economic perspective. An interesting way of measuring rent affordability from the perspective of the tenants has been used by the Centre for Regional Economic and Social Research (CRESR) at Sheffield Hallam University, which carried out a survey for the Flagship Group housing association in order to study how affordable were the housing options of the association in the East of England (Green et al. 2016). They conducted a survey of Flagship tenants (including social tenants, affordable rent and shared ownership customers) using paper and online questionnaires. The questionnaire included information on key household and property characteristics, rents, income and the economic condition of households. The sample of this survey was robust and representative of tenants' age, type of property, tenure, income and benefits, and household composition¹⁸. They defined affordability as “the ability of a household to

¹⁸ The paper questionnaire was distributed to just under 20,000 Flagship tenants, including social rent, affordable rent, market rent and shared ownership customers. An online version of the survey was also available. In total there were 2,628 valid responses to the survey: 2,570 paper and 58 online. “Analysis confirmed the respondents to the survey were largely representative of Flagship’s

pay their rent” (Green et al. 2016, p. 7). They adopted a measure of affordability, which is sensitive to tenants characteristics, namely the tenant’s perception of rent affordability, the tenant’s assessment of their overall financial condition and whether the tenant was responsible for paying the rent or whether she/he received housing benefits paid directly to the landlord (Green et al. 2016, p. 7). Based on this measure, they divided the respondent households into three categories:

- **affordable rent** included those who thought their rent was affordable and had enough money to cover their living costs or were on full housing benefits paid directly to their landlord (59% of interviewed tenants);
- **at risk of unaffordable rent** included those who thought their rent was affordable, but were not able to cover their living costs (32% of tenants);
- **unaffordable rent** (6% of tenants) referred to those who found their rent unaffordable and were not able to pay for their housing costs (Green et al. 2016, p. 8)

They then compared the above measure against the conservative rent-to-income ratio. The ratio over-estimated the percentage of unaffordable rent. According to the ratio, 20% of the tenants paid rent above the threshold of 35% of their total household income and were therefore classified as part of the unaffordable rent category. However, a large proportion of tenants who claimed to have an unaffordable rent, were paying less than 35% of their household income for their rent. This highlights a possible problem when using ratio measures that do not take into account personal characteristics of the tenants, especially those belonging to low-income groups.

Similarly, Bramley studied the subjective self-reported housing payment problem indicators, in combination with the objective ratio measure (Bramley 2012). He used the BHPS (1997-2003) question on housing payment difficulties “Many people these days are finding it difficult to keep up with their housing payments. In the last 12 months would you say you have had any difficulties paying for your accommodation?”, together with questions on borrowing money, being behind with payments and the persistence of these problems across time. In an attempt to

customer base. However, minor adjustment weights were used in the analysis to correct for biases in relation to property type and the age of respondents” (Green et al. 2016, p. 4).

identify the most appropriate ratio threshold, he tested different threshold values using two approaches: giving different values to different household types and assigning higher values to high-income households (Bramley 2012, p. 138). Based on the results of his research, he claimed that the traditional ratio – set at a threshold of 25% - can predict better self-reported payment problems compared to the residual income approach. The high individual variance that remained unexplained in the regression model, highlighted that other factors (individual and contextual) played an important role in explaining affordability. Bramley then validated the measure by analysing a set of items derived from studies on poverty¹⁹ in the UK and used in the UK Family Resources Survey and the European Union Statistics on Income and Living Conditions (EU-SILC): households were asked which of the following things they could not afford: a) keep home adequately warm; b) a week's annual holiday away from home; c) replace worn furniture; d) buy new, rather than second hand, clothes; e) eat meat, chicken or fish at least every second day; f) have friends or family for a drink or meal at least once a month (Bramley 2012, p. 140). Households with a high rent-to-income ratio, as well as households with self-reported payment problems, were more likely to face one or more of the above hardship. Overall, he concluded that the best affordability measure consists of a combination of ratio and self-reported payment problems.

Finally, Meen (2018) suggested two new measures of affordability that focus on the needs of the groups that are more affected by housing unaffordability; namely the low-income renters and the first-time buyers (out of scope in this study). The first measure is based on the relationship between **financial stress and affordability** and primarily concerns low-income renters. Among other reasons, affordability has become the centre of attention because of its potential impact on household stress and wellbeing (Meen 2018). Although there is little evidence on how stress levels change with affordability, affordability is highly linked with wellbeing (Meen 2018, p. 18). Meen's study (2018) assumed that any household with difficulties in paying rent faced some level of household stress. Household stress was explained by the variable "whether the household is spending more than a threshold percentage of income (25%) on housing after the subtraction of housing benefits" (Meen 2018,

¹⁹ Bramley (2012) used questions derived from UK poverty research including Townsend (1979) and the Millennium Poverty (PSE) Survey studies.

p. 19). Meen (2018) argued that in England in 2016 the impact of affordability on household stress level sharply declined with income. Households with high net housing costs were more likely to face stress, especially if they were low-income households. However, in low-income households, housing costs are reduced by housing benefits. Meen (2018) then tested the same measure including and excluding housing benefits. The results, as expected, showed that low-income households were almost 20% more likely to be under stress, while top income households were not affected at all, since they usually are not in receipt of benefits (Meen 2018, p. 20).

3.6 Summary

In summary, some key points arose from the literature on the various ways to measure rent affordability. The first is conceptual and concerns the measure's perspective: some measures are economic-centred (based on incomes and rents) and others are from the tenants' perspective (based on self-reported financial problems and household levels of stress and wellbeing). A combination of the two approaches leads to more comprehensive results from which we are able to draw a wider picture. Affordability measures strongly depend on household characteristics, namely household composition and income, as well as property location and size.

4. The relationship between housing and poverty

“Housing can both mitigate and exacerbate the experience of poverty; and it can be both a charge on income (rent and mortgage payments) and a source of income (benefits and rents)” ([JRF 2013, p. 6](#)). The relationship between housing and poverty has two dimensions: the impact of housing costs on poverty and the impact of poverty on housing conditions. Housing costs can lead to poverty (section 4.1) and poverty can lead to poor housing conditions that often lead to health and wellbeing issues, especially for children (section 4.2).

4.1 Impact of housing costs on poverty

Housing costs, such as rent and bills, take up a large proportion of households' income (Tunstall et al. 2013). Low-cost housing might prevent poverty and material deprivation, as housing costs have a significant and direct impact on poverty and material deprivation (Tunstall et al. 2013, p. 70). Low-rent accommodation, such as social housing, as well as housing benefits aim to reduce housing-cost-induced poverty, i.e. the poverty after considering housing costs (Tunstall et al. 2013).

Housing-cost-induced poverty

Poverty rates tell a different story before and after housing costs have been taken into account. Professor Philip Booth [wrote in 2017](#) “High housing costs are the single biggest driver of poverty in the UK”. Housing costs can lead to poverty or move households out of poverty (CAD 2015). For example, in 2013/14 280,000 people became poor only after housing costs were taken into account, of which 24% were social tenants (CAD 2015). Families with children and single adults are most likely to be led into poverty by housing costs (CAD 2015).

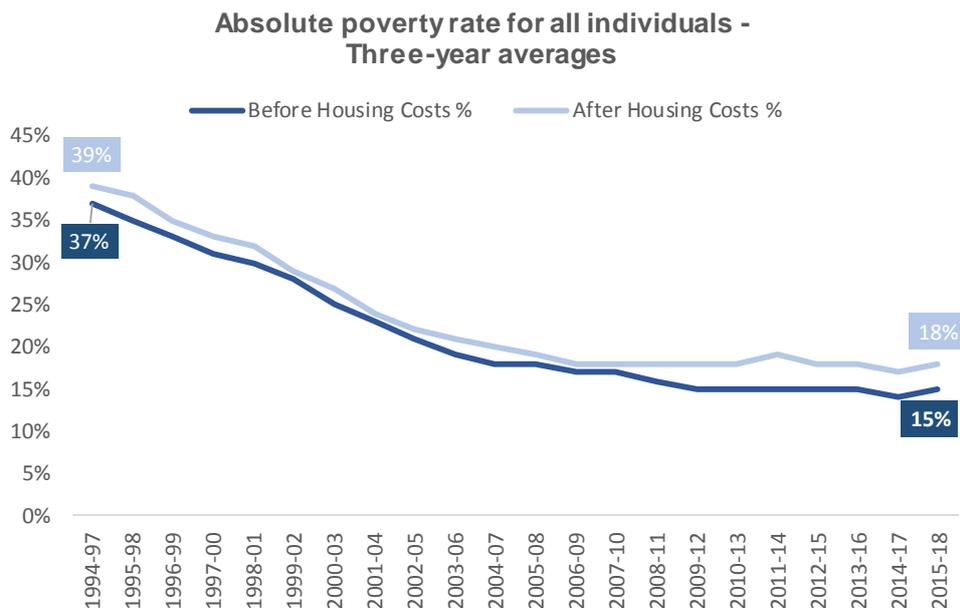
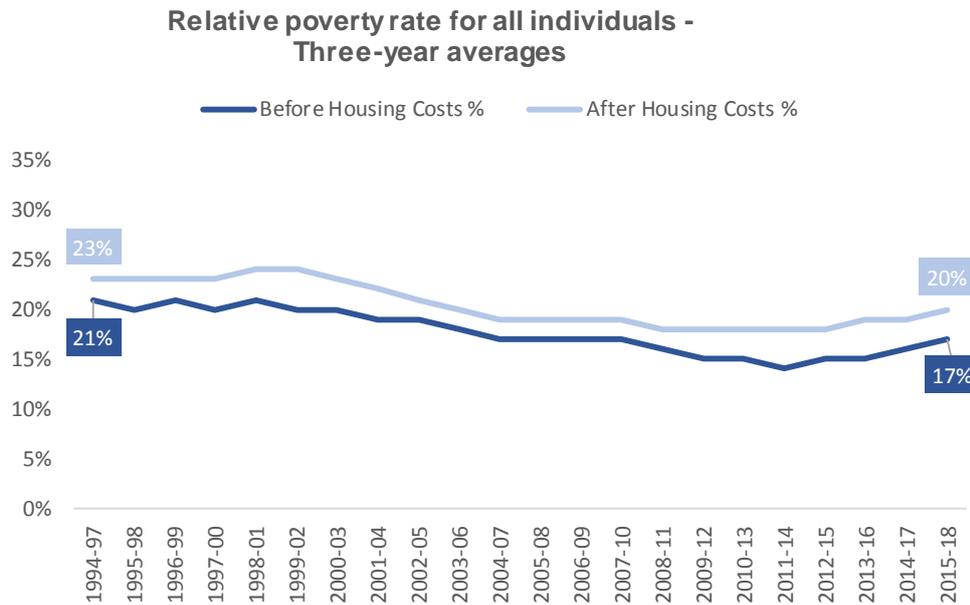
The most widely used definition of poverty is relative income poverty, a measure of whether the incomes of the poorest households are keeping pace with middle-income households across the UK. Individuals are considered to be in relative poverty if they are living in households with a household income below 60% of the UK median, taking into account the number of adults and children in the household. Figure 4.1 demonstrates that, between 2015-18, 900,000 (17%) people lived in relative poverty before housing costs in Scotland, which increased to more than 1

million people (20%) after housing costs were taken into account (Scottish Government 2019).

Absolute poverty refers to individuals living in households whose equivalised income is below 60% of the inflation adjusted median income in 2010/11²⁰. Focusing on the absolute poverty rates, before housing costs, 15% of the Scottish population, equivalent to 780,000 people, lived in absolute poverty in 2015-18, which rose to 18% - 930,000 people - when housing costs were taken into account.

²⁰ Definition retrieved from <https://www.gov.scot/publications/poverty-income-inequality-scotland-2015-18/pages/16/>. Absolute poverty refers to the UK median in 2010/11, therefore the absolute poverty threshold is fixed, whereas relative poverty thresholds change every year along with household incomes.

Figure 4.1 – Relative and absolute poverty rates for all individuals across time, Scotland



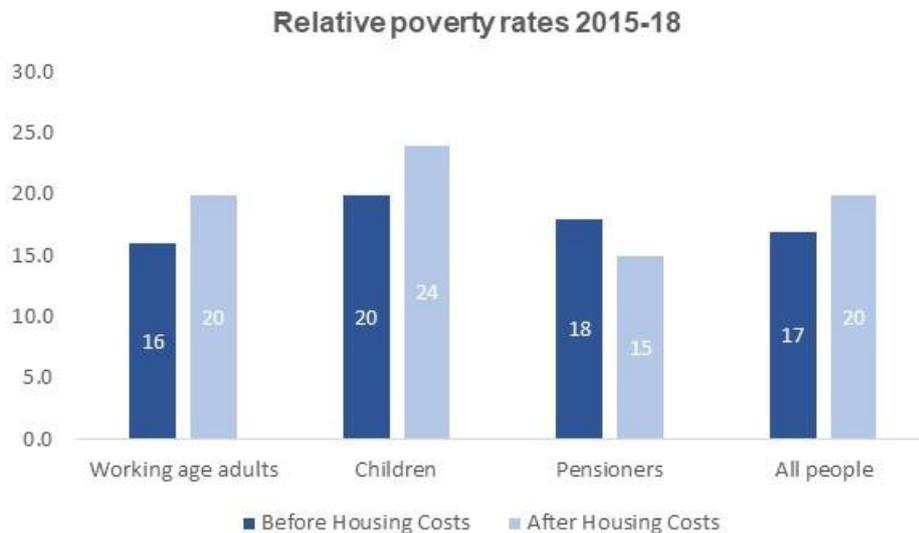
Source: Reproduced by Scottish Government report on Poverty and Income Inequality in Scotland: 2015-2018 (Scottish Government 2019), retrieved from <https://www.gov.scot/publications/poverty-income-inequality-scotland-2015-18/>. Source: Households Below Average Income, DWP.

Note: Relative poverty is defined as below 60% of UK median income, while absolute poverty as below 60% of inflation adjusted 2010/11 UK median income.

Disaggregating the 2015-18 indicator of relative poverty by age group, the level of poverty, especially after housing costs, appeared to be acute among children: 1 out of 5 children (200,000 children in absolute values – 20%) lived in poverty before

housing costs, rising to nearly one quarter (equivalent to 240,000 children – 24%) when housing costs were taken into consideration (Figure 4.2).

Figure 4.2 – Relative poverty rates before and after housing costs by type of person 2015-2018, Scotland



Source: Reproduced by Scottish Government report on Poverty and Income Inequality in Scotland: 2015-2018 (Scottish Government 2019), retrieved from the <https://www.gov.scot/publications/poverty-income-inequality-scotland-2015-18/>²¹. Source: Households Below Average Income, DWP.

Housing costs and poverty by tenure type

The relationship between housing costs and poverty is strongly influenced by tenure type. Table 4.1 shows the proportion of people in each housing tenure who live in relative poverty after housing costs, and demonstrates the high percentage of social renters, and private renters living in relative poverty after housing costs. As seen above, during the years 2015/16 and 2017/18, 20% of Scotland’s population were living in poverty after housing costs. Broken down by housing tenure, 40% of social tenants were living in relative poverty after housing costs, compared with 34% of the private renters, 12% of those who own outright and 8% of owners with a mortgage.

²¹ For the data access this Excel file: <https://www2.gov.scot/Resource/0054/00546867.xlsx>

Table 4.1 – Percentage of people in relative poverty (below 60% of UK median income) after housing costs by housing tenure, Scotland

	All people	Rented from council or housing association	Rented privately	Owned outright*	Owned with mortgage
2003/04 - 2005/06	20%	43%	38%	12%	8%
2004/05 - 2006/07	19%	41%	35%	12%	9%
2005/06 - 2007/08	19%	39%	36%	12%	9%
2006/07 - 2008/09	19%	40%	36%	11%	9%
2007/08 - 2009/10	19%	40%	38%	11%	9%
2008/09 - 2010/11	18%	39%	36%	10%	8%
2009/10 - 2011/12	18%	36%	35%	10%	8%
2010/11 - 2012/13	18%	33%	36%	10%	8%
2011/12 - 2013/14	18%	34%	36%	9%	8%
2012/13 - 2014/15	18%	35%	35%	9%	9%
2013/14 - 2015/16	19%	37%	34%	8%	9%
2014/15 - 2016/17	19%	39%	34%	9%	8%
2015/16 - 2017/18	20%	40%	34%	12%	8%

Source: Households Below Average Income, DWP. Retrieved from

<https://www2.gov.scot/Topics/Statistics/Browse/Social-Welfare/IncomePoverty/povertytable>
(Supplementary poverty tables excel file – Table 3a)

* Due to a single very large household in the sample in this group in 2017/18, the latest estimate is significantly higher than those in previous years. However, further data points are required to confirm whether this marks an increasing trend in poverty.

Table 4.2 shows the tenure composition of those living in relative poverty. Of those living in relative poverty in Scotland between 2015/16 and 2017/18, 41% were social renters, 26% were private renters and the rest (33%) home owners.

Table 4.2 - Composition of people in relative poverty after housing costs by housing tenure, Scotland

	All people	Rented from council or housing association	Rented privately	Owned outright*	Owned with mortgage
2003/04 - 2005/06	100%	51%	16%	13%	20%
2004/05 - 2006/07	100%	48%	17%	14%	22%
2005/06 - 2007/08	100%	45%	19%	15%	21%
2006/07 - 2008/09	100%	45%	20%	15%	21%
2007/08 - 2009/10	100%	43%	23%	15%	19%
2008/09 - 2010/11	100%	43%	23%	15%	19%
2009/10 - 2011/12	100%	41%	26%	15%	18%
2010/11 - 2012/13	100%	38%	29%	15%	18%
2011/12 - 2013/14	100%	39%	30%	14%	18%
2012/13 - 2014/15	100%	39%	30%	13%	18%
2013/14 - 2015/16	100%	41%	29%	12%	18%
2014/15 - 2016/17	100%	43%	28%	14%	16%
2015/16 - 2017/18	100%	41%	26%	19%	14%

Source: Households Below Average Income, DWP. Retrieved from

<https://www2.gov.scot/Topics/Statistics/Browse/Social-Welfare/IncomePoverty/povertytable>
(Supplementary poverty tables excel file – Table 3b)

* Due to a single very large household in the sample in this group in 2017/18, the latest estimate is significantly higher than those in previous years. However, further data points are required to confirm whether this marks an increasing trend in poverty.

Table 4.3 shows the proportion of children living in relative poverty after housing costs by housing tenure. In 2015-18, the percentage of children living in relative poverty after housing costs was similar in the social and private rented sectors (respectively 45% and 42%), 15% for those owned outright and 10% for those owned with mortgage. The proportion of children living in the social housing sector who were in relative poverty decreased overall between 2004-07 and 2015-18, but has seen a small rise since 2014-17.

Table 4.3 - Proportion of children in relative poverty after housing costs by tenure, Scotland

Year	Rented from Council or Housing Association	Rented privately - furnished or unfurnished	Owned outright*	Owned with mortgage	All children
2004-07	52%	44%	12%	11%	25%
2005-08	51%	43%	17%	11%	24%
2006-09	52%	45%	16%	10%	25%
2007-10	52%	44%	17%	10%	25%
2008-11	50%	40%	15%	10%	24%
2009-12	44%	35%	14%	9%	22%
2010-13	40%	36%	10%	9%	21%
2011-14	39%	39%	7%	10%	21%
2012-15	38%	41%	6%	10%	22%
2013-16	39%	43%	5%	11%	23%
2014-17	43%	44%	6%	10%	24%
2015-18	45%	42%	15%	10%	24%

Source: Households Below Average Income, DWP. Retrieved from

<https://www2.gov.scot/Topics/Statistics/Browse/Social-Welfare/IncomePoverty/povertytable>
(Supplementary child poverty tables excel file – Table 7a)

Notes: These tables provide numbers and percentages of people in relative and severe poverty in Scotland after housing costs. Individuals are in relative poverty if their equivalised household income is below 60% of the UK median income after housing costs. Individuals are in severe poverty if their household income is below 50% of the UK median income after housing costs.

These figures are calculated using three years of pooled data and cover the period from 2004/05-2006/07 to 2015/16-2017/18. Using three years of data helps to ensure that sample sizes are sufficient to give robust statistics which is particularly important when considering poverty rates amongst relatively small groups. Note however that even using three years of data, most small changes over time will not be statistically significant. Care should be taken when comparing rates. Comparisons over longer time periods may offer a better indication of real change.

Numbers in poverty have been rounded to the nearest 10,000 people and percentages have been rounded to the nearest whole percentage point.

* Due to a single very large household in the sample in this group in 2017/18, the latest estimate is significantly higher than those in previous years. However, further data points are required to confirm whether this marks an increasing trend in poverty.

Housing and non-housing costs

According to the definitions and measures outlined in chapters 2 and 3 we have seen that affordability is not only measured based on housing costs, but also on non-housing consumption. Housing costs determine not just the quality of the home that people can afford, but also the amount of money that they have available to maintain their standard of living. Households with unaffordable housing would be at risk for a 'trade-off' between these two costs; lower the housing standards in order to afford more non-housing costs and vice versa. The poverty measure before housing costs recognises the fact that some households may spend more on housing in order to live in a better quality home (House of Commons Library 2018). However, according to the same report, spending more on housing costs does not necessarily mean that one lives in better quality home, since the quality of accommodation varies greatly within the UK. Therefore, the poverty measure after housing costs draws a better picture of the actual poverty in the UK.

A longitudinal study of the relationship between housing and poverty

Stephens and Leishman (2017) argued that the relationship between housing and poverty has been mostly studied using cross-sectional evidence referring to people's experiences at a specific time point. Their research aims to overcome this burden using longitudinal data from the British Household Panel Survey (1991-2008) in order to study the long-term nature of the relationship between housing and poverty in the UK. Treating poverty as a static phenomenon tells us a different story from long-term or persistent poverty. They classified poverty as temporary, recurrent and chronic. They claimed that housing costs varied significantly between and within regions and different tenures and it was complicated to use one threshold for everyone. They treated the housing costs for renters (social and private) as 'Rent *minus* Housing Benefit + water rates/charges + service charges' (Stephens and Leishman 2017, p. 8). Among other findings, they highlighted that there is a very clear relationship between housing pathways (changes of housing tenure across time) and poverty in the UK. Persistent poverty was most strongly associated with social renters, where below market rents and housing benefits were not enough to

keep people out of poverty, while home-owners were more associated with temporary poverty. The survey was conducted with people that were present in all 18 waves of the study, which means that those with more stable life circumstances are over-represented in the sample.

4.2 Impact of poverty on housing conditions

As mentioned above, poverty can have an impact on housing conditions, as it often leads to poor housing conditions.

Impact of housing conditions on health and wellbeing

Poor housing conditions²² may have a negative impact on people's health, wellbeing and life chances, especially for children ([Shelter Scotland blog 2018](#)²³), which might lead to even higher rates of poverty. Housing conditions can have direct and indirect impacts on health. Living in low-quality households, i.e. cold and damp, overcrowded, with indoor pollutants and infestation, can have a serious impact on adult health and child development (amongst others Healy 2004; Liddell and Morris 2010). The effects of living in low-quality homes are seen in physical health problems (such as arthritis and frequent colds) and mental health issues (such as anxiety and depression) (Liddell and Morris 2010). People who spend a high proportion of time in the home, including older people, children, people who are disabled and people with long-term conditions, can be disproportionately affected (Shelter 2006). The relationship is complex since poor housing conditions often co-exist with socio-economic circumstances, which are independently associated with poor health. Poor housing conditions might also lead to accidents and domestic fires (Shelter 2006).

Impact of poor housing conditions on children

More than 90,000 children in 2009 in Scotland lived in overcrowded homes, one in ten lived in fuel poverty, and two thirds of social housing which children lived in had failed the Scottish Housing Quality Standard (Shelter 2009). Poor housing conditions affect children's health, increasing the risk for health problems by 25% during childhood and early adulthood, including the risk for meningitis, asthma and slow

²² Poor housing conditions are defined as overcrowded, not weather tight, structurally unsafe, damp, cold, infested and/or lacking in modern facilities.

²³ Shelter Scotland blog on March 29, 2018 by Jessica Husbands, "The uncomfortable truth: unaffordable housing is pushing an extra 50,000 children into poverty".

growth, and the risk for mental health and behavioural problems (Shelter 2006). Moreover, poor housing affects the life chances of children and opportunities in adulthood lowering their educational attainment and increasing the likelihood of unemployment and poverty (Shelter 2006). In fact, in England and Scotland, parental home-ownership was found to contribute positively to children's educational attainment (Tunstall et al. 2013, p. 56).

4.3 Summary

To sum up, there is evidence that housing costs can lead to housing-cost-induced poverty. Poverty in Scotland becomes more pronounced after housing costs are taken into account and poverty after housing costs is more acute among children. For this reason, the Scottish Government's plan to tackle child poverty aims at reducing family housing costs (see section 8.1). Based on recent evidence, social renters are more likely to be in poverty after housing costs, as well as in persistent poverty. Finally, there is strong evidence suggesting that poor housing conditions might have a negative impact on people's health, wellbeing and life chances, especially for children.

5. The role of mid-market rent in the concept of affordability

Mid-market rent (MMR) is a type of affordable housing located mainly in larger urban centres²⁴, with rents being lower than in the private market, but higher than in the social housing sector (Serin et al. 2018). MMR aims to help households on modest incomes, who have difficulty accessing social rented housing, buying their own home, or renting privately. According to a CACHE report, “Mid-market rent housing provides an alternative to the private rented sector but with high quality, grant-funded new units with rents at or around the same level as the Local Housing Allowance” (Serin et al. 2018, p. 10).

5.1 Mid-market rent tenants

The MMR housing option is popular with people on incomes that are not quite enough to afford owner occupation but who can afford to pay more than a social rent. Based on housing associations’ policy documents, to qualify for MMR tenants must be employed (or have a job offer) and their gross yearly household income must be between £20-40,000. These criteria may vary between housing providers. MMR tenants are typically single people and couples in work with modest earnings (Evans et al. 2017). The majority of MMR homes are accessed by young adults (aged 20 to 35).

The intermediate housing market, as defined²⁵ by Wilcox (2005) in the UK, has three sub-sectors:

- working households unable to afford a social rent without the aid of housing benefits;
- households able to buy only at lowest decile house prices;
- working households that can afford a social rent without recourse to housing benefit but cannot purchase at lowest decile house prices for two- and three-bedroom dwellings (Wilcox 2005, p. 23).

MMR tenants usually transit from the private rented sector - typically they were renting a flat in the private market and were in need of more affordable

²⁴ MMR initiatives are mainly located in Aberdeen, Dundee, Glasgow and Edinburgh (Young and Donohoe 2018).

²⁵ Other studies define the intermediate housing sector as a form of shared ownership, commonly used in England (Wilcox 2005).

accommodation and/or a better quality or size of flat. They can be also private tenants on the waiting list for social renting or social tenants looking for a different size of flat or a different location.

The most common type of MMR homes is a 2-bedroom flat (Evans et al. 2017), however due to increasing demand, a greater number of 2-3 bedroom homes are being delivered.

5.2 Mid-market rent demand

The Scottish Government's [Housing Need and Demand Assessment \(HNDA\) Tool](#) is an Excel spreadsheet which allows local authorities to estimate future housing need and demand and to split this need into a number of tenures including MMR (termed 'Below Market Rent' in the Tool). The HNDA tool uses rent-to-income ratios to measure affordability using rent, income and house prices data. According to a 2016 Scottish Government [article](#), based on standard affordability criteria (traditional affordability ratio), the need for "below market rent" is anticipated as around 2,000-2,500 additional households yearly for the period 2016-2021.

5.3 Mid-market rent expansion

One of the main housing goals of the Scottish Government is to include in housing planning, together with market housing, a proportion of affordable housing. "As part of the More Homes Scotland approach, launched on 29 February 2016, and to contribute to the target to deliver at least 50,000 more affordable homes by 2021, the Scottish Government announced that it would invite prospective MMR providers to submit proposals for expanded mid-market rented (MMR) housing"²⁶. The successful applicant from the MMR Invitation was the Places for People Capital MMR Fund which will deliver 1,000 additional MMR homes across Scotland²⁷. MMR housing completions have grown from 16 in 2007/08 to 1,133 units in 2017/18 in Scotland, an annual increase of 27 percentage points (Rettie 2018). MMR expansion is supported through the mainstream grant-funded Affordable Housing Supply Programme, as well as through innovative guarantee and loan models, including the National Housing Trust (NHT) initiative and the Local Affordable Rented (LAR) Housing Trust.

²⁶ <https://www.gov.scot/Topics/Built-Environment/Housing/supply-demand/mid-market-rent-offer>

²⁷ <https://www.gov.scot/publications/more-homes-scotland-mid-market-rent-proposal/>.

Based on a [Rettie report](#), “the use of the National Housing Trust (NHT) and Mid Market Rent (MMR) has contributed over 1/3rd of affordable housing starts in 2016/17” in Edinburgh (Rettie 2018, p. 6). Mid-market funds and initiatives help the Scottish Government to meet the goal of more affordable housing in Scotland, with little or no public subsidy (Edinburgh City Council 2010).

5.4 Mid-market sector and rent affordability

For a study commissioned by CIH Scotland and the Wheatley Group, Evans et al. (2017) used a range of research methods: a literature review, secondary data analysis, consultation with stakeholders, research with 16 current MMR tenants, a telephone survey of 100 potential customers and three focus groups with young people, families in the private rented sector and older owners in housing need. One of their findings highlighted that MMR with rents based on the Local Housing Allowance²⁸ (LHA) were affordable at the 25% ratio, in line with the Scottish Government’s policy to ensure that MMR is an affordable housing tenure. However, according to the same report, LHA pricing regulations do not take into account small local markets with higher needs. They argued that there were 3,000-4,000 MMR homes across 21 local authority areas in Scotland with tenants, in most of the cases single people or couples with a household income of £20-30,000. They concluded that MMR could attract more families if there were enough affordable family-size properties (at the moment most MMR properties are two bedroom flats²⁹). The report stressed that although there are affordable flats in most areas of Scotland, it might be a challenge, especially for families, to identify an affordable flat of the required size, in the preferred location that satisfies certain housing standards. Even though there seem to be some eligibility criteria of households corresponding to specific size properties (based on number of bedrooms), exact criteria were not stated, as they might be local council-specific. Furthermore, young people face great difficulties in finding affordable accommodation, especially in the private market and often MMR

²⁸ Housing benefit for tenants in the private rented sector is called Local Housing Allowance (LHA). The rate of LHA depends on the location and size of the rented property.

²⁹ A similar trend was observed in 2017 in Scotland for social rented dwellings: 50% had two bedrooms, 26% one bedroom and 21% three bedrooms (CAD 2019, p. 22). The UK offers small accommodation by floor area compared to the rest of Europe, especially when new-builds are taken into account (Morgan and Cruickshank 2014).

does not represent an affordable option for them, particularly for those living in social renting (Evans et al. 2017; Hoolachan et al. 2017).

5.5 Summary

Overall, MMR is part of affordable housing in Scotland and its expansion increases the supply in affordable accommodation, funded mostly by the private sector with support from the Scottish Government. The aim of MMR is to offer an alternative to private renting and at the same time to offer affordable high quality and secure homes.

MMR tenants are usually households with a low/modest income, mostly single people and couples in work. Based on one research project, MMR could attract more families if there were more family-size dwellings available to rent and more young people if it was more affordable for them.

6. Rents in the affordable housing sector

The purpose of this chapter is to examine rents in the affordable housing sector (social and MMR) and disaggregate them by size and location of the property and other characteristics. Most of the data refer to Scotland for the most recent year available at the time of writing or in the form of time series, and sometimes comparisons between the UK regions are presented and discussed.

6.1 Social rents

In the Scottish Government's annual statistical publication on social tenants in Scotland³⁰, it is claimed that 1.14 million people lived in social rented housing in 2017 (CAD 2019). Social rented homes in Scotland represented 23% of total accommodation in 2017, in contrast with only the 17% in England and 16% in Wales (CAD 2019). More than half of the social rented homes (593,841 units in total) were publicly-owned by local authorities (53%), while the remainder (47%) was owned by housing associations.

Social rent-to-income ratio

Information on the income of social rented households aims at drawing a general idea of the economic situation of social tenants, which is then compared to social rent levels. Almost 7 out of 10 social rented households had in 2017 a net income below £20,000, compared to 44% of private rented households (CAD 2019). In detail, 3% of the social rented households had in 2017 a net household income under £6,000, 14% of social rented households had a net household income between £6-10,000, 29% between £10-15,000, 22% had an income between £15-20,000, 13% between £20-25,000, 8% between £25-30,000, while 11% were earning over £30,000 (CAD 2019, p. 88; Chart 5.9). Overall, during the 3-year period from 2015/16 to 2017/18, in Scotland 42% of social rented households earned less than £15,000, compared to 34% in England (CAD 2019, p. 89).

During 2015-2018 social renting households in Scotland spent on average 24% of their net income on housing costs (rent gross of Housing Benefit, water and any service charges), while households in England spent 30% and in Wales 29% (Figure

³⁰ The latest publication on social housing from the Scottish Government was published in April 2019.

6.1). For the same period private rented households in Scotland spent an equivalent of 27% (CAD 2019, p. 93). Overall, the rent-to-income ratio was lower in Scotland compared to England and Wales.

Figure 6.1 – Median ratio of housing costs to net unequivalised household income, 2015/16 to 2017/18 by tenure and country



Source: Reproduced by CAD 2019, p. 93; Family Resources Survey

Using the median ratio of housing costs to net unequivalised household income, analysts of the Scottish Government estimated how many households are spending more than 30% of the income on housing costs. Slightly more than 3 out of 10 social rented households spent more than 30% of their net income on housing costs during 2015/16-2017/18, while the same rent-to-income ratio corresponded to 49% of social rented households in England and 48% in Wales for the same time period (CAD 2019, p. 93).

Social rents by provider and UK region

The average weekly rent for socially rented properties in 2017/18 in Scotland was £76.23, which means on average £3,659 per year, an increase of 2.4% on the previous year (CAD 2019, p. 4). Social accommodation managed by local authorities is generally cheaper than housing associations’ rents: £70.73 compared with £82.28 respectively in 2017/18 in Scotland (Table 6.1). Moreover, in 2017/18 local authority average weekly social rent in Scotland (£70.73) was lower compared to England

(£86.71) and Wales (£84.56). Similarly, the average weekly social rent offered by housing associations in Scotland (£82.28) was lower compared to England (£95.59) and Wales (£87.10) (CAD 2019, p. 5).

Table 6.1 – Average weekly social rents, 2014/15 to 2017/18, by social rent provider and country

	2014/15	2015/16	2016/17	2017/18
<u>Housing Association Properties</u>				
Scotland	£76.92	£78.86	£80.24	£82.28
England (Private Registered Providers of social housing stock)	£95.89	£97.84	£96.61	£95.59
Wales	£79.16	£82.05	£83.93	£87.10
Northern Ireland (rent gross of service charges)	£97.99	£101.71	n/a	n/a
<u>Local Authority Properties</u>				
Scotland	£65.78	£67.60	£69.22	£70.73
England (includes affordable rents as well as social rents)	£85.89	£87.93	£87.36	£86.71
Wales	£75.19	£78.44	£81.15	£84.65
Northern Ireland (Northern Ireland Housing Executive)	£63.46	£66.60	£66.61	£66.60

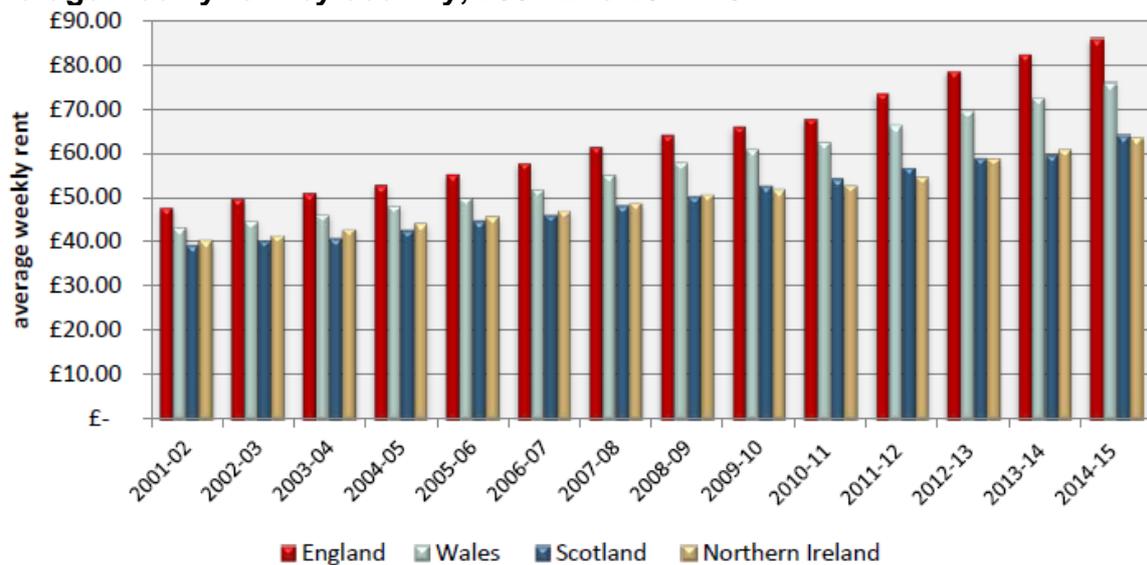
Source: Reproduced by CAD 2019, p. 84; Scottish Housing Regulator Reports on the Scottish Social Housing Charter Findings; MHCLG live tables on rents, lettings and tenancies (Table 702 and 704); StatWales tables on social housing stocks and rents; Northern Ireland Housing Statistics 2017/18.

In Scotland, over the five financial years from 2013/14 to 2017/18, average weekly social rents (provided both by councils and housing associations) have increased cumulatively by 12.2% (which equates to a real terms increase of 6.9% over and above the level of CPI³¹ inflation over these years) - from £67.96 in 2013/14 to £70.99 in 2014/15, £72.90 in 2015/16, £74.44 in 2016/17 and £76.23 in 2017/18 (CAD 2019, pp. 81-82).

As seen by Figure 6.2, besides the overall increase in council rents, there was also an increased divergence in social rents provided by local authorities across the regions of the UK. Council rents in England have (since 2001) been higher compared to the rest of the UK, followed by those in Wales. The differences between regions have widened between 2010-2015, when council rents in Scotland and Northern Ireland showed smaller increases than those registered for England and Wales. An increase in all the social rents provided by local authorities can be observed, with a sharper increase registered in England.

³¹ Consumer Price Index (CPI).

Figure 6.2 – Local authority and Northern Ireland Housing Executive average weekly rent by country, 2001-2 to 2014-15

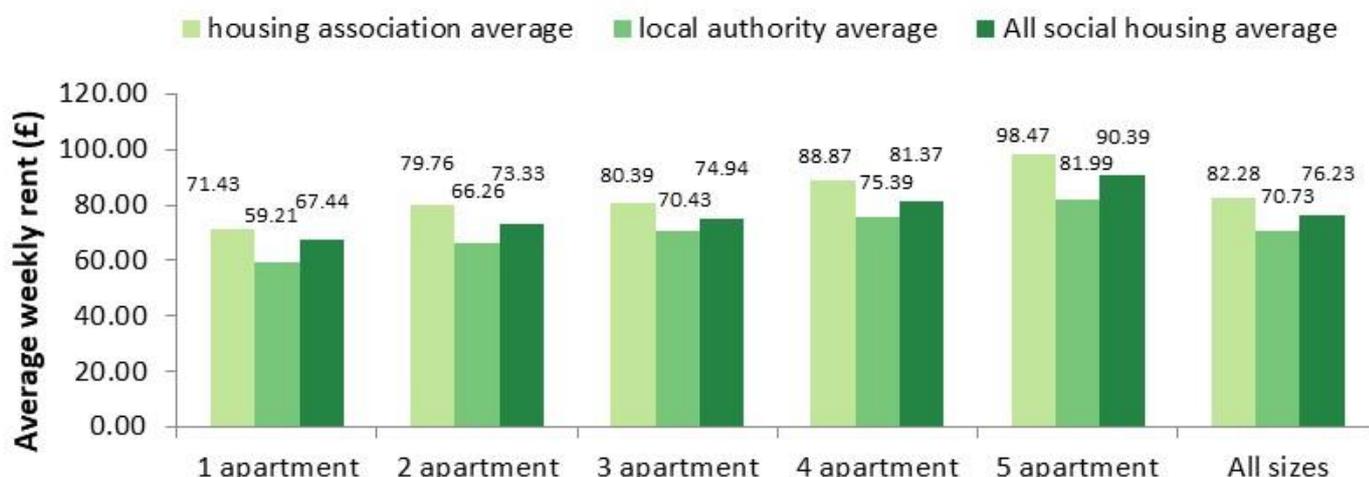


Source: Reproduced by Young, Wilcox et al. 2017, p. 19 (DCLG Live Tables -Table 701, accessed September 2016; note 2014-15 are provisional)

Social rents by property size

As mentioned above, the average rent for social rented households was £76.23 per week in Scotland in 2017/18. This average rent varied from £67.44/week for a 1-bedroom apartment to £73.33 for a 2-bedroom, £74.94 for a 3-bedroom, £81.37 for a 4-bedroom and £90.39/week for a 5-bedroom apartment (CAD 2019, p. 81; Figure 6.3).

Figure 6.3 – Average weekly rents by social landlord type and property size, Scotland 2017/18



Source: Reproduced by CAD 2019, p. 81; Scottish Housing Regulator Reports on the Scottish Social Housing Charter Findings. Note that apartment size categories are based on a count of the number of bedrooms and living/dining rooms. Kitchens, bathrooms, toilets and utility rooms are not included.

Table 6.2 displays the average weekly social rents by type of provider and size of property across time. Since 2014/15 there has been an increase in social rents, proportional to the size of the property. This increase was balanced across all types of properties (based on number of bedrooms) and did not appear more pronounced for a particular type, with the only exception being the 1-bedroom flats provided by local authorities, which did not register any increase in their rent.

Table 6.2 – Average weekly rent by landlord type and property size, Scotland

Average weekly rent	RSLs		LAs		All Landlords				Min	Max
	Avg.	Avg.	Avg.	Avg.	Avg.	Avg.	Avg.	Avg.		
	16/17	17/18	16/17	17/18	14/15	15/16	16/17	17/18		
1 Apt	£69.86	£71.43	£59.71	£59.21	£64.06	£65.97	£66.48	£67.44	£30.91	£110.88
2 Apt	£77.81	£79.76	£64.90	£66.26	£68.53	£70.38	£71.64	£73.33	£48.78	£104.01
3 Apt	£78.30	£80.39	£68.89	£70.43	£69.59	£71.54	£73.11	£74.94	£57.35	£119.92
4 Apt	£86.65	£88.87	£73.66	£75.39	£75.68	£77.60	£79.40	£81.37	£54.10	£112.47
5+ Apt	£96.32	£98.47	£80.15	£81.99	£84.05	£85.98	£88.39	£90.39	£51.62	£126.75
Total	£80.24	£82.28	£69.22	£70.73	£70.99	£72.90	£74.43	£76.23	£53.48	£99.45

Source: Scottish Social Housing Charter Data of Scottish Housing Regulator

London is a unique example of a housing market in the UK and among European countries, comparable perhaps to Paris. We present the London Affordable Rent

(LAR) benchmarks - introduced by mayor Sadiq Khan as part of the 2016 Affordable Homes Programme - to highlight the difference in social rents between average rents in Scotland and London. While the maximum rent for a one-bedroom social property in Scotland is £111 (Table 6.2), the equivalent LAR equals to £144 (Table 6.3).

Table 6.3 – London Affordable Rent (LAR) benchmarks for 2017-18

Bedroom size	2017-18 Benchmark (weekly rents, exclusive of service charge)
Bedsit and one bedroom	£144.26
Two bedrooms	£152.73
Three bedrooms	£161.22
Four bedrooms	£169.70
Five bedrooms	£178.18
Six or more bedrooms	£186.66

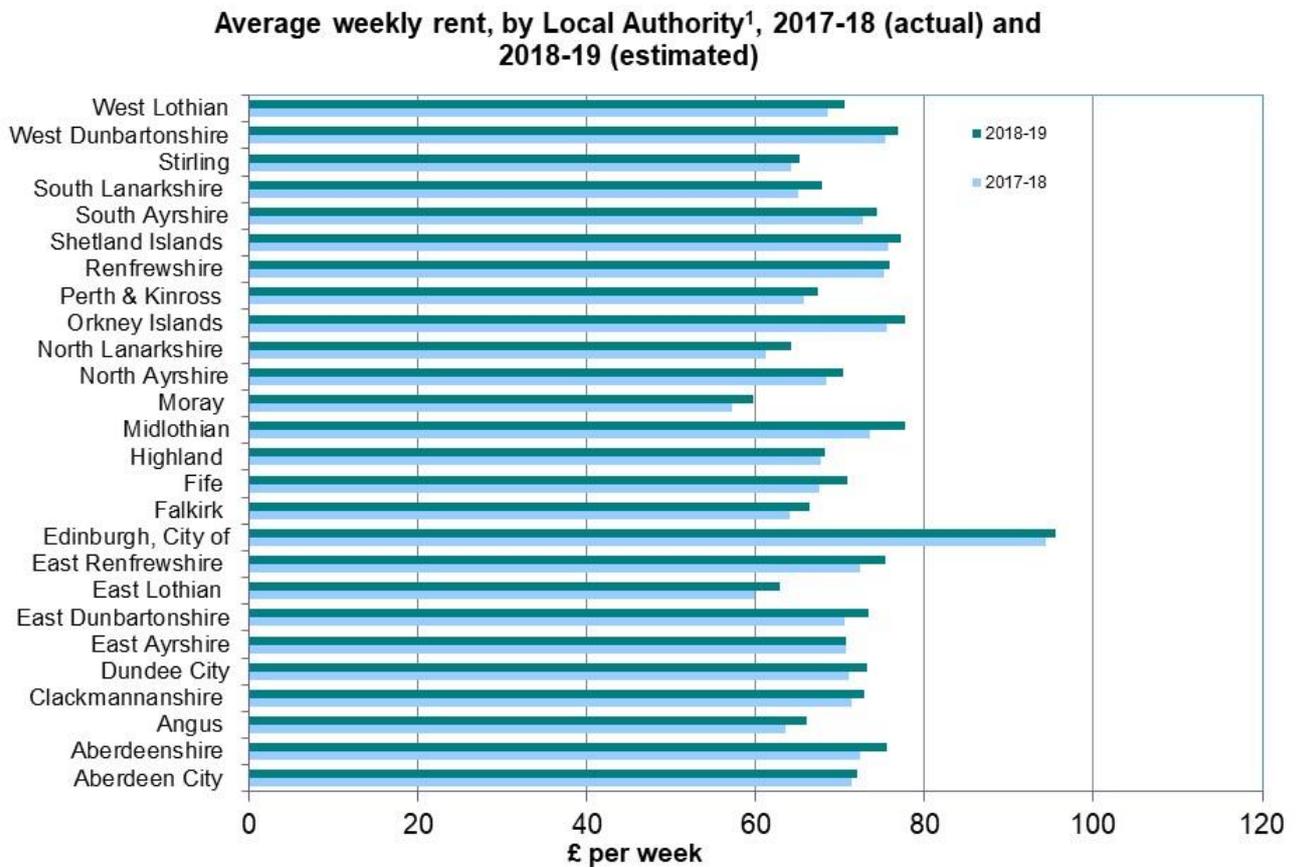
Source: Reproduced by Wilson and Barton 2018, p. 8.

Social rents by property location

The rents of social accommodation vary based on the location of the property. In particular, in 2018/19, estimated average weekly rents for social housing provided by local authorities ranged from £59.69/week in Moray to £95.58 in the City of Edinburgh ([Housing Revenue Accounts 2017-18](#), published in the website of the Scottish Government; Figure 6.4) The actual average weekly rents for 2017/18 ranged in the same way, from £57.23 in Moray and £59.86 in East Lothian to £94.27 for Edinburgh ([Housing Revenue Accounts 2017-18](#)). The same figure for the City of London in 2017/18 was £104.62, while social rents for housing provided by Private Registered Providers was £126.83/week in 2018 ([Live tables on rent, lettings and tenancies](#) published at the website of the UK Government³²).

³² <https://www.gov.uk/government/statistical-data-sets/live-tables-on-rents-lettings-and-tenancies>, Tables 702 and 704.

Figure 6.4 – Average weekly rent of council homes, by Local Authority, Scotland



Source: Scottish Government, Communities Analysis Division – based on Housing Revenue Account return provided by Local Authorities.

Note: Six councils transferred their housing stock to the housing association sector, therefore HRA information is not available for them.

6.2 Service charges

Service charges are charges added to the rent for services provided, such as stair-cleaning, maintaining the garden, lifts, building security, utility bills, council tax, phone bills, heating and lighting of communal areas. Service charges usually include the charges for the service provided plus administration costs, and should be listed in tenancy agreements. Services can be mandatory, such as lighting and maintenance of communal areas, and optional or else services to individual homes, such as heating, hot water and lighting and water charges. Mandatory services are usually considered as part of the rent, while optional or individual services are kept out of the rent. Service charges are usually property-specific.

Housing Benefit covers part of the service charges, but not charges for heating, hot water, lighting, laundry or cooking (Stephens et al. 2015). In Scotland, many landlords provide only service charges that are covered by Housing Benefit, such as communal heating (Young et al. 2017). For example, Ochil View, a housing association in Alloa, Clackmannanshire, reports that all their service charges are eligible for Housing Benefit³³. Most housing associations adopt a rent and service charges setting policy in line with the Scottish Housing Regulator Performance Standards for RSLs AS1.6 and AS1.7, in order to set affordable rents and service charges that enable the associations to maintain their properties at high standards. Scottish Housing Regulator Performance Standard AS1.6 states that rents should be set after taking into account affordability, the costs of managing and maintaining properties, comparability with other social landlords of the area, while AS1.7 states that services to the tenants and recover costs should be priced in a fair and accountable manner. Some housing associations, such as Berwickshire Housing³⁴, have committed to not increase rents in order to cover the cost needed to meet the Energy Efficiency Standard for Social Housing (ESSH).

Service charges and rents are reviewed annually, for example Berwickshire Housing increased rents and service charges in 2018/19 by 2%. The service charges, as well as rents, of new builds differ from the stock transferred to the associations by local authorities. For instance, in the case of Berwickshire Housing, for all new builds completed after April 2015 there will be a standard rent + 9% charge.

According to a CIH report, “abolishing service charges makes it easier to measure affordability in terms of looking at the overall cost for the accommodation” (CIH 2013, p. 13).

6.3 Mid-Market rents

Mid-market rents are, by definition, lower than private market rents but higher than social rents. Usually MMR rent levels range between 20% above social rents and 80% of the LHA rate or else 80% of the local median private rent, and they never

³³ See Ochil View Rent and Service Charge Policy document here: <http://www.ochilviewha.co.uk/sites/default/files/downloads/public/Tenant%20Handbooks/13P-Rent-2015.pdf>

³⁴ See Berwickshire Housing Rent and Service Charge Policy document here: <https://www.berwickshirehousing.org.uk/wp-content/uploads/2018/05/Rent-and-Service-Charge.pdf>

exceed the LHA. Similarly, according to an England-based housing association, the intermediate market rent in England is usually set at 80% of the market rent value, including service charges³⁵. Market (or private) rents are defined based on the open market, or the average private rent level for similar properties in a specific location. According to research commissioned by the Highland Council and conducted by Heriot-Watt University, intermediate rental affordability was defined as a rent-to-income ratio of 30%³⁶.

However, more precise calculations of MMR depend on the characteristics of the providers and the tenants and there is not a lot of evidence in the literature.

6.4 Housing benefits

The final part of this chapter presents data on housing benefits and claimants in Scotland and across the UK.

The housing benefit scheme is designed to protect household incomes after taking into account housing costs. To protect household incomes from rent increases, housing benefits increase when rent increases (Stephens et al. 2015). However, in some occasions, tenants might not have their incomes fully protected (Stephens et al. 2015). These occasions include eligible tenants not claiming for their benefits, service charges not (fully) covered by housing benefits, and UK Government reforms such as the Bedroom Tax and Benefit Cap (see section 8.1 for more information).

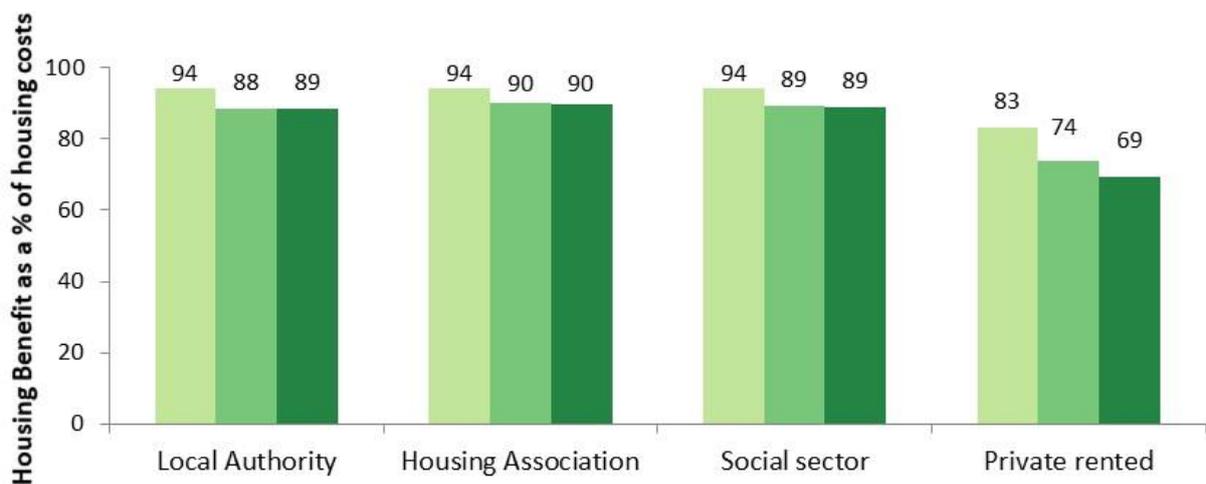
Only 3 out of 10 social rented households self-reported that they managed well financially in 2017 (CAD 2019, p. 97). Overall, in 2017, 59% of social rented households in Scotland received Housing Benefit (CAD 2019, p. 95). 60% of housing association households and 58% of local authority households were in receipt of Housing Benefit in 2017 (CAD 2019). Housing Benefit aims at supporting low income households to pay their rent; the benefit covers part of the rent (or the full rent) and cannot be used to cover other expenses. Universal Credit will eventually replace six types of benefits, including Housing Benefit. The housing element of the Universal Credit aims at supporting households with rent payments (see more information on section 8.1).

³⁵ See Notting Hill Genesis housing association Rent and Service Charge Policy document here: <https://www.nhhg.org.uk/residents/rent-and-service-charge/how-are-tenant-rents-set/#panel2621>

³⁶ The report can be accessed here: www.gov.scot/resource/0038/00387053.docx

In Scotland between 2015/16 and 2017/18, Housing Benefit covered a median value of 94% of housing costs (which may include more expenses than just the rent) of eligible social rented households, compared to 89% in England and in Wales (to interpret with caution due to small sample size) (CAD 2019, p. 96; Figure 6.5). Housing benefits can meet 100% of the rent or part of it, as well as all the marginal costs of housing. Approximately 67% of social rented households had their rent fully covered by Housing Benefit (CAD 2019, p. 96).

Figure 6.5 – Median percentage of housing costs covered by Housing Benefit for claimants in Scotland, 2015/16 to 2017/18



Source: Reproduced by CAD 2019, p. 97; Family Resources Survey

Table 6.4 displays Housing Benefit claimants by age groups at the start of 2018, comparing the average age groups and mean weekly award amount in Scotland and the UK. The percentage of claimants increased between ages 25-44, then decreased and then increased again for people aged 70 years old or above (around 25%). This trend is similar for both Scotland and the UK. Around 9% of people between 45 and 69 years old were Housing Benefit claimants, while this was less than 5% for those under 25. Even though we have previously seen (Figure 6.5) that housing benefits covered a higher percentage of the housing costs in Scotland compared to the rest of the UK, in Scotland claimants received a lower amount of Housing Benefit overall compared with the whole of the UK: £71 compared to £90

respectively. This is due to lower social rents in Scotland. The highest amount of Housing Benefit was received by those under 25 years old.

Table 6.4 – Age (in bands) of Housing Benefit claimants and Mean weekly award amount, January 2018

Age	Scotland		UK	
	Housing Benefit Claimants %	Mean of Weekly Award Amount	Housing Benefit Claimants %	Mean of Weekly Award Amount
Under 25	3.9	£81.29	3.9	£110.13
25 to 34	12.7	£72.22	13.5	£93.97
35 to 44	14.6	£72.88	15.2	£94.03
45 to 49	8.6	£70.58	8.6	£91.6
50 to 54	9.3	£69.21	8.8	£89.09
55 to 59	9.0	£68.47	8.1	£86.37
60 to 64	8.6	£68.19	7.7	£84.7
65 to 69	9.1	£70.96	8.8	£86.59
70 plus	24.3	£70.32	25.4	£85.65
Total	100	£70.98	100	£89.86

Source: DWP Stat-Xplore, <https://www.gov.uk/government/statistics/housing-benefit-caseload-statistics>

Finally, local authorities may administer Discretionary Housing Payments (DHPs) to tenants on Housing Benefit/Universal Credit who require further assistance with housing costs where Housing Benefit does not cover all the rent; where Universal Credit does not cover all the housing costs; where tenants need help with removal costs or where tenants need help with a rent deposit. DHPs can also be used to provide support to claimants affected by some of the key welfare reforms, including the introduction of the household Benefit Cap, the removal of the Spare Room Subsidy in the social rented sector (RSRS, also known as the ‘Bedroom Tax’) and reductions in LHA ([Discretionary Housing Payments in Scotland: 1 April 2017 to 31 March 2018 Report](#)). Based on the same report (p. 4), the Scottish Government’s total published budget for DHPs in 2017/18 is £57.9m, including two funding streams for DHPs, “Bedroom Tax Mitigation” (£47m) and “Other DHPs” (£10.9m).

6.5 Summary

Scotland had in 2017 the largest and most affordable social rented sector in the UK. The average social rent in Scotland in 2017/18 was £76.23/week. The rent levels varied greatly by Local Authority area, with the City of Edinburgh showing the highest social rent equal to £94.27/week in 2017/18. Overall, social housing provided by local authorities is more affordable than social housing provided by housing associations. Over the five financial years from 2013/14 to 2017/18, there has been

an increase in social rents, an increase equal to 6.9% in real terms. On top of rent, social rented households face service charges, which are not necessarily covered by housing benefits and which might increase for new builds and in light of investments to satisfy housing standards. Around 60% of social rented households were in receipt of housing benefits in 2016/17, with 67% having their rent fully covered.

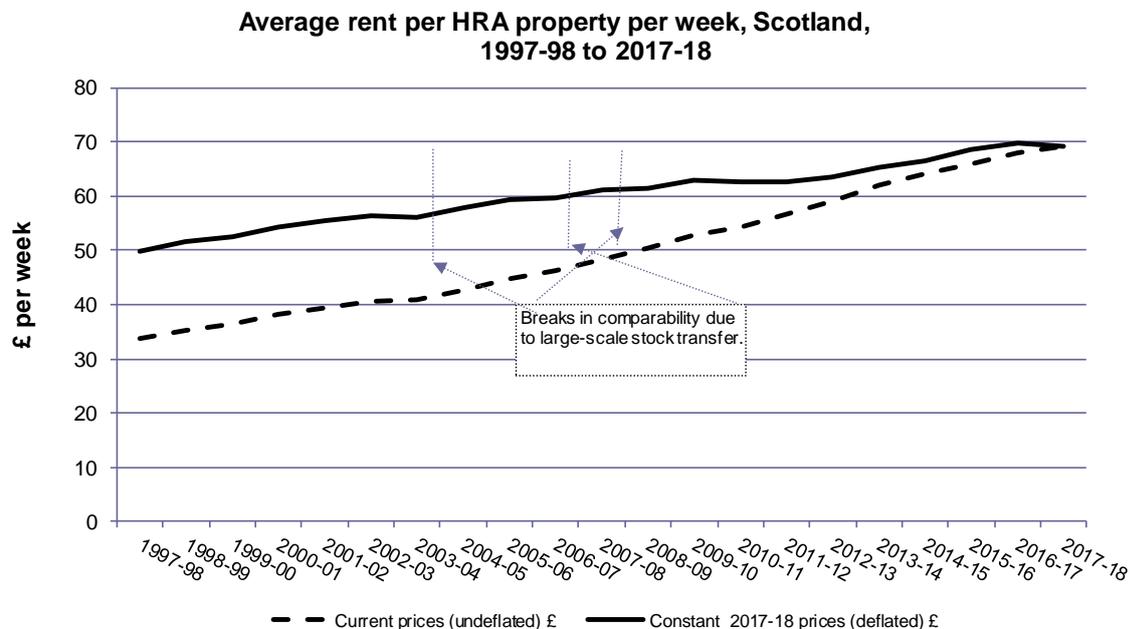
7. Social rent setting mechanisms

This chapter looks at literature assessing how social rents have changed over time in order to provide an overview of social rents in Scotland, and discusses the mechanisms that RSLs use to set, raise and control their rents. Finally the chapter focuses on the impact of housing standards on rent increases. The data in this chapter confirm the overall increase in social rents discussed in the previous chapter.

7.1 An overview of changes in social rents

Figure 7.1 presents data on council rent changes across time and different landlord types. Over the last decade (since 2007/08) the average weekly council rent for social housing has increased by £8 per week or 13% in real terms which is over and above general inflation ([Housing Revenue Account Statistics: Scottish Local Authority Housing Income and Expenditure](#)). The average council rent per dwelling (including let and un-let properties) was £69 per week in 2017-18, an increase of under £1.50 since 2016-17.

Figure 7.1 – Average council rent per Housing Revenue Account (HRA) property per week, Scotland 1997-98 to 2017-18



Source: Scottish Government, Communities Analysis Division – based on [Housing Revenue Account return provided by Local Authorities](#). Consumer Price Index (source – ONS) CPI all Items Index. (2015 = 100)

Notes: Six councils transferred their housing stock to the housing association sector, therefore HRA information is not available for them. Dotted lines indicate breaks in comparability following large scale stock transfer. Current (or nominal) prices are in the value of currency for that particular year. Current prices are affected by inflation. Constant (or real) prices adjust for the effects of inflation and used to measure the true growth of a time series. Constant prices have been deflated using the Consumer Price Index (by ONS). This calculation includes both let and un-let properties and therefore the amount of rent actually paid by is likely to be slightly higher.

The above data is concerned with the changes over time to council rents. Figure 7.2 shows that landlords' average planned rent increases have decreased from 3.6% in 2013/14 to 1.9% in 2015/16, but then rose again to 3.2% in 2017/18 (Scottish Housing Regulator data³⁷). According to the [chief executive of the Scottish Housing Regulator](#) in 2017, "many landlords use the September or October inflation figure as the starting point for their proposed rent increase for the following year" and "we are seeing signs of inflationary pressure starting to build in rents".

Figure 7.2 – Landlords' average planned rent increases across time



Source: Scottish Housing Regulator 2017/18, [National Report on the Scottish Social Housing Charter](#) (p. 4)

7.2 Rent setting mechanisms and tools

In Scotland, there is no national rent policy or rent regulations. The Housing (Scotland) Act 2001 allows social landlords to increase rent (giving tenants at least four weeks' notice), but requires them to consult with tenants about rent increases. In addition, when suggesting a rent increase landlords should keep in mind what is affordable for their tenants.

In 2016, the Scottish Housing Regulator conducted a survey with tenants via their National Panel and drew evidence from a discussion with 11 social landlords, as well as from a review of their websites, and from a discussion with members of the

³⁷ For the full report: <https://www.scottishhousingregulator.gov.uk/publications/national-report-scottish-social-housing-charter-headline-findings-20172018>

Regional Tenant Organisation Liaison Group (RTO Liaison Group) on ways to monitor how RSLs consult tenants about rent increases (Scottish Housing Regulator 2016). The results from the survey found that landlords either consult tenants annually or on a rent setting for a fixed period of time. The Scottish Housing Regulator report (2016) concluded that only half of the interviewed tenants were informed by their landlords about annual rent increases, and the majority were not presented with alternative options to these increases³⁸. In this case, the consultation process appears to be limited to informing tenants, instead of consulting with them.

There is no official guidance for landlords on how to define rent affordability.

Landlords should determine the balance between affordability for the tenants and costs of delivering services and property management (Scottish Housing Regulator 2016). In a [2017 report](#), the Scottish Social Housing Charter defined standards and outcomes that all social landlords should aim to achieve:

- “Social landlords manage all aspects of their businesses so that: tenants, owners and other customers receive services that provide continually improving value for the rent and other charges they pay” (Standard 13);
- “Social landlords set rents and service charges in consultation with their tenants and other customers so that: a balance is struck between the level of services provided, the cost of the services, and how far current and prospective tenants and service users can afford them” (Outcome 14)
- and “tenants get clear information on how rent and other money is spent, including details of any individual items of expenditure above thresholds agreed between landlords and tenants” (Outcome 15).

Social landlords usually set their rents after having compared the suggested rent change to other landlords and/or national averages (Scottish Housing Regulator 2016, p. 15). A positive practice identified by the Scottish Housing Regulator’s 2016 report concerns the East Lothian Housing Association, which determined rent increases on a percentage of tenants’ incomes (East Lothian Housing Association

³⁸ The Scottish Housing Regulator made a series of recommendations to social landlords after the results of the 2016 survey were published and in particular they stressed the importance of consulting with the tenants:

https://www.scottishhousingregulator.gov.uk/sites/default/files/publications/Effective%20dialogue%20with%20tenants%20on%20rent%20levels%20is%20crucial_0.pdf.

census gathers information on tenants' income, employment status and benefits). Another positive practice concerns the Stirling Council, which moved from an "inflation plus" to a "cost of service" approach to setting rents in 2013. Stirling Council in 2014/15 offered tenants five cost saving options for changes to its service and consulted with tenants on their preferred option. The Council estimated that the tenants' cost saving choice would save around £100,000 each year (Scottish Housing Regulator 2016, p. 16).

Social rents should satisfy the national '[social rent benchmark assumption](#)' (More Homes Division – Scottish Government). As we can see from Table 7.1, which displays the relevant social rent benchmark assumptions over the years 2017-18 to 2020-21, annual increases of 2% have been applied. RSLs are required to justify why a proposed rent is considered affordable if the benchmark assumption is exceeded by more than 5%. Approval of rents exceeding the suggested benchmark by more than 10% is given only in exceptional circumstances.

Table 7.1 – Projected annual social rent benchmark assumptions, Scotland

BEDSPACES	2017-18	2018-19	2019-20	2020-21
2	£3,646	£3,719	£3,793	£3,869
3	£4,082	£4,164	£4,247	£4,332
4	£4,450	£4,539	£4,630	£4,722
5	£4,715	£4,809	£4,906	£5,004
6	£4,899	£4,997	£5,097	£5,199
7	£5,307	£5,413	£5,522	£5,632

Source: Affordable Housing Supply Programme: RSL Social Rent Benchmark Assumptions 2017 <https://beta.gov.scot/publications/affordable-housing-supply-programme-rsl-social-rent-benchmark-assumptions/>

Note: The table shows the social rent benchmark assumptions over the years 2017-18 to 2020-21 inclusive – annual year-on-year increases of 2% have been applied.

New Rent Affordability Tool

In September 2018, SFHA and HouseMark Scotland launched a rent setting tool for housing associations. The new rent affordability tool calculates five measures of rent affordability (percentage of income, percentage of market rent comparison, percentage of LHA rate, income after rent and income after rent above MIS) and provides comparisons to other local social landlords (SFHA Autumn 2018). In that way, social housing providers know whether their suggested rent is considered to be affordable and whether it is in line with the rest of the rents in the same area for similar types of properties.

7.3 Housing standards and rent changes

The [Scottish Housing Quality Standard](#) (SHQS), introduced by the Scottish Government in 2004, aims at ensuring that high quality accommodation is offered across Scotland. Social housing should be energy efficient, safe and secure, not seriously damaged and needs to have kitchens and bathrooms that are in good condition. Standard requirements include the Energy Efficiency Standard for Social Housing post-2010 (EESH), fire and smoke alarm regulations, etc. “The critical determinant of rents is always going to be costs” (Scottish Housing Regulator 2016, p. 6 – from an SFHA report on Rent Setting Guidance for its members in 2010). According to the [chief executive of the Scottish Housing Regulator](#), in 2017 landlords were investing in their properties in order to meet the energy efficiency standards. Therefore in order for the landlords to keep their rents financially viable, we would expect that higher standard requirements for RSLs might lead to rent increases. However there is no firm evidence of this in the literature at the time of writing. According to the SFHA, these standard requirements might lead to rent increases if social housing providers have to make investments to meet the requirements and ensure a continuing improvement of homes and services (SFHA Autumn 2018). Social housing standards are determined centrally by the Scottish Government, while rents are set (locally) by housing providers (housing associations and councils).

7.4 Summary

During the last decade, there has been an increase in the average social rent across Scotland. In Scotland, there is no rent policy or official guidance on rent setting for landlords. However, social landlords are required to consult with their tenants about rent increases. Based on recent research evidence, this consultation process often appears to be limited to informing tenants about rent changes rather than suggesting alternative solutions. Finally, social rents should satisfy national social rent benchmarks and social landlords are required to justify why a proposed rent is considered affordable if the benchmark is exceeded by more than 5%.

8. Policies with an impact on rent affordability

Among the main factors that affect rent affordability are macroeconomic factors, such as over-consumption of housing and supply shortages; labour markets, and housing factors, especially through shortage of supply and the balance between supply and demand (CIH 2013; Meen 2018b). Therefore, to tackle the problem of unaffordable housing a combination of housing policies and other policies is needed.

This chapter studies existing policies with an impact on rent affordability in Scotland and across the rest of the UK. We have also identified some literature on policies on rent affordability and social housing across Europe, but given the number of potential countries to study, and the contextual differences, such as different housing systems and different benefit systems, between countries, this chapter does not include discussion of any policies at the international level. Certainly, it appears that there is no single 'European approach', and although social housing tenants share common characteristics, social housing sectors across Europe are set up very differently (Scanlon et al. 2015).

8.1 Scotland

Housing, including building control and land use policy, has been a devolved policy area since 1998³⁹, whilst the devolution of powers over social security began in 2016 and is ongoing. In Scotland, there is no central rent intervention policy. It is up to social landlords (and landlords in general) to determine the balance between rents and housing needs of the local communities, with the general idea that rents should remain affordable to low-income households without the only viable way to be through housing benefits (CIH 2013).

Some of the policies supporting low-income households with rent payments in Scotland and addressing rent affordability are listed below:

- **Abolished Right-to-Buy** in the Housing (Scotland) Act 2014 to preserve social housing stock for the future.
- Long-term housing policy '[Homes Fit for the 21st Century](#)' (2011-2020) aims at expanding policies that support affordable housing in Scotland until 2020 The

³⁹ For more information on the devolved and reserved matters, see <https://www.parliament.scot/visitandlearn/Education/18642.aspx>

Scottish Government is working on its approach to housing beyond 2021 and is aiming to publish a vision to 2040 and route map to get there in spring 2020. 'More Homes' is a policy framework which aims at increasing housing supply across all different tenures.

- **Affordable Housing Supply Programme (AHSP):** the programme aims to deliver at least 50,000 affordable homes by 2021⁴⁰, of which 35,000 will be for social rent. AHSP grant subsidy benchmarks are set to ensure that social and mid-market rent levels remain affordable, and proposed social and mid-market rent levels are assessed at the individual property level as part of the grant application and approval process.
- **Housing Infrastructure Fund** – a 5-year fund launched in 2016, available to all housing tenures but with a priority to affordable housing projects and private rented housing. The **Rural and Islands Housing Funds** will run until 2021 and focus on the delivery of affordable housing of all tenures in rural Scotland.
- **Standard requirements**, such as the Energy Efficiency Standard for Social Housing (EESH) and the same policy post-2020 (EESH2) aim to improve the quality of social housing and reduce fuel poverty. The Scottish Government will support landlords in these changes with a fund.

Some of the benefits supporting low-income households with rent payments in Scotland are briefly described below:

- **Housing Benefit** – financial support for low-income households who are paying rent. It can be used only to cover rent expenses and it covers the whole or part of the rent.
- **Universal Credit** – introduced by the UK in order to replace Housing Benefit, Child Tax Credit, Income Support, income-related employment and support allowance, income-based jobseeker's allowance and Working Tax credit. The aim of the Universal Credit is to combine various benefits into a single monthly payment. Part of the Universal Credit will be the housing element, which will

⁴⁰ For an update on the programme see <https://www.gov.scot/publications/affordable-housing-supply-programme-out-turn-report-2017-2018/>

cover rent expenses for the eligible household. Universal Credit is a UK-wide benefit reserved to the UK government.

- **Universal Credit Scottish Choices** – from October 2017 those living in Scotland can choose whether they want their Universal Credit paid twice a month rather than monthly and whether they want their Universal Credit housing element to be paid directly to their landlords. Between October 2017 and August 2018, 66,700 people had been offered one or both of the Universal Credit Scottish choices. Almost half of them (around 32,000 people) took up one or both of the choices: 26,910 people chose to receive twice monthly payments, 11,430 chose to have the housing element of Universal Credit paid directly to their landlords, and 6,380 chose both⁴¹.
- **Discretionary Housing Payments (DHPs)** – administered by local authorities in case a claimant of Housing Benefit or Universal Credit is considered to require additional financial support to cover the housing costs. The Scottish Government has funded Local Authorities to mitigate for the Bedroom Tax (discussed later) through DHPs. DHPs are devolved, but dependent on the Housing Benefit/Universal Credit, which are reserved to the UK Government.

Universal Credit and Rent arrears

As shown below, there is evidence that tenants receiving Universal Credit are more likely to experience rent arrears compared to those receiving Housing Benefit. According to a National Housing Federation [report](#) in July 2018, 65% of Universal Credit housing association tenants were in arrears in 2018 in Scotland, compared to 32% of all other tenants. Direct payments to landlords are less likely to cause rent arrears, compared to Universal Credit payments directed to households (SPICe 2017). In fact, 79% of Universal Credit claimants in England were in rent arrears, compared to 50% in arrears before claiming for Universal Credit (SPICe 2017). Similarly, in Scotland in 2016, Universal Credit claimants were more likely to be in rent arrears: 96% of council tenants in the full service areas in the Highland Council and 82% in East Lothian Council (SPICe 2017, p. 17). Research suggests that in

⁴¹ Information retrieved from: <https://www.gov.scot/news/offering-flexibility-to-universal-credit-recipients/>

England, Universal Credit claimants have higher average arrears than tenants on legacy benefits, although arrears appear to return to pre- Universal Credit levels 3-6 months after the first claim (National Housing Federation 2018, p. 2). The delay of the first benefit payment is considered to be related to the rent arrears (SPICe 2017; National Housing Federation 2018) and, according to a [Shelter Scotland article](#), housing benefits are paid in arrears every month and therefore might lead to rent arrears. “Since August 2015, most new Universal Credit claimants have seven “waiting days” between the date on which they make a claim and the start of their Universal Credit entitlement. [...] Combined with receipt of the first payment seven days after the end of the first month’s assessment period, this means that many claimants wait at least six weeks after making a claim to get any payment. Whilst advance “payments on account” are available, these must be repaid from future Universal Credit entitlement” (SPICe 2017, p. 16). In Northern Ireland, although the norm is that the housing element of Universal Credit is paid directly to all social landlords, concerns have been raised by housing associations and local authorities that Universal Credit has led to a significant increase in rent arrears (Frey 2018, p. 11).

Other policies beyond the control of the Scottish Government that might affect rent affordability are shown below:

- **Benefit Cap** – A top limit to the total amount of benefits a household can receive – introduced in April 2013. The cap was lowered in Scotland in 2016. Based on 2018 data⁴², more than 9 out of 10 of the households affected by the Benefit Cap contained children.
- **Size Criteria or Bedroom Tax** – the under-occupancy penalty is a reform consisting in a reduction in housing benefits for every extra bedroom in excess in each household. In detail, the Housing Benefit is reduced by 14% for one extra bedroom and by 25% for 2 or more extra bedrooms⁴³. The Scottish Government is currently mitigating this reform by topping up DHPs.

⁴² StatXplore and DWP [Benefit Cap Statistics](#) 7 February 2019: https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/799132/benefit-cap-statistics-february-2019.pdf

⁴³ <https://www.gov.scot/policies/social-security/support-with-housing-costs/>

The Benefit Cap, Bedroom Tax and Universal Credit – all of which are matters reserved to the UK government – are making affordability a greater concern for landlords: “Higher levels of benefit dependency bring greater risks for social landlords” (CIH 2013, p. 5). According to the same report, tenants need a higher income (around £600 per week) to come off tax credits than to come off Housing Benefit, which means that more tenants will be on Universal Credit than were on Housing Benefit in 2013 (CIH 2013, p. 5).

Serin et al. (2018) claimed that public resources are not evenly distributed across Scotland, and there is an ongoing debate on whether the distribution of these resources for planning new social housing is based on actual local needs. They argued that the (un)affordability problems faced in west central Scotland are due to levels of deprivation, while those in the East are due to high housing costs.

Poverty and Housing Policies

The **Child Poverty (Scotland) Act 2017** aims to eradicate child poverty in Scotland by 2030 and reverse this trend. The “[Every child, every chance: tackling child poverty delivery plan 2018-2022](#)” is the first Child Poverty Delivery Plan (published in March 2018) due under the Child Poverty (Scotland) Act 2017. The focus of the Plan is on the three main drivers on child poverty: employment, household costs (or else costs of living) and social security, especially for families with children. Child poverty targets are measured for the delivery plan on an after housing costs basis in order to reflect that housing is a significant element of households’ income and to aim at reducing family housing costs.

The supply of affordable housing is key in tackling child poverty. Increasing social rents closer to market levels could put more than an additional million people in poverty across the UK (JRF 2015). Initiatives such as Foundations First, housing advice and support services by Shelter Scotland⁴⁴, assist families living in poverty to transform their life chances and meet their housing needs. Also, initiatives such as [CHANGE](#): Childcare and Nurture, Glasgow East aim to mitigate the impacts of deprivation and to support children and families.

⁴⁴ Shelter Scotland blog: <https://blog.scotland.shelter.org.uk/over-1-million-people-living-in-poverty-in-scotland-the-families-behind-the-figures/>

Housing Benefit contributes significantly to the reduction of housing-cost-induced poverty across the UK, but its contribution is not enough to eliminate poverty after housing costs (Tunstall et al. 2013). Based on a [CIH research](#) conducted in Scotland in 2016, the impact of the Benefit Cap was expected to be significant for families with children. They argued that 6,700 families across both the social and private rented sectors in Scotland would be affected by the cap, from which the majority are two and three-child families⁴⁵. In line with this finding, Tunstall et al. (2013) claimed that the impact of the Benefit Cap in the UK will hit larger families living in areas with high housing costs harder, leading to unaffordable housing, even in the case of the social rented sector.

The impact of fuel poverty on households includes health impacts associated with cold, damp homes and/or mental health stresses created by the financial pressures that they face with unaffordable and high fuel costs⁴⁶. Children who live in houses that face fuel poverty may be unable to find a warm, well-lit place to do their homework and may, as a result, be less likely to achieve their full potential. As part of the **Fuel Poverty (Target, Definition and Strategy) (Scotland) Bill 2018**, which aims to eradicate and define fuel poverty, the Scottish Government is proposing a new definition based on poverty after housing costs, which means that more affordable rents may lead to higher residual incomes for households, which in some cases may be sufficient to lift them out of fuel poverty.

8.2 UK Regions

Housing policy is devolved across the UK and, since the UK fiscal austerity of 2010, social housing policy has diverged even more (Stephens 2017). As seen in Table 8.1, the social rented sector remains larger in Scotland than in the rest of the UK. The sector has steadily decreased across the UK due to a decrease in new builds and a reduction in the existing stock that followed the Right to Buy scheme introduced by Margaret Thatcher's administration (Stephens 2017). The Right to Buy policy had a severe impact on the social housing stock, especially in Scotland and Wales. It also led to the *residualisation* of the remaining social rented sector, since

⁴⁵ For the CIH research findings, see here: http://www.cih.org/news-article/display/vpathDCR/templatedata/cih/news-article/data/Scotland/New_CIH_research_shows_impact_of_benefit_cap_on_children_and_families

⁴⁶ For more information: <https://www.gov.scot/publications/draft-fuel-poverty-scotland-2018/pages/3/>

tenants living in houses and high quality flats were more likely to buy their properties (Stephens 2017, p. 8). Although Scotland currently has the highest proportion of social housing, it has also seen the greatest decline – from 54% to 23%.

Table 8.1 – Social rented housing as a percentage of total housing stock

	1976	1986	1997	2007	2014
England	29.0	26.0	21.9	18.0	17.4
Wales	27.2	24.5	20.3	16.5	16.0
Scotland	54.2	49.3	34.1	24.9	23.4
Northern Ireland	36.8	35.4	26.8	17.0	16.2

Source: Reproduced by Stephens 2017, p. 8

According to a Scottish Government report, in 2017, Scotland had a higher proportion of social rented stock (23%) compared to both England (17%) and Wales (16%) (CAD 2019). Conversely, in 2017, England had the highest proportion of private rented dwellings (20%), compared to Scotland (15%) and Wales (14%), whilst Wales had the highest proportion of owner occupier dwellings (70%) compared to both Scotland (62%) and England (63%). In Northern Ireland 2017/18 the total housing stock was estimated as 790,328 homes, from which 69% was owned (outright or with a mortgage), 14% belonged to the private rented sector and 16% to the social rented sector ([Northern Ireland Housing Statistics 2017-18](#)).

The Scottish legislation aims to mitigate the impact of the UK Government welfare changes (discussed in section 8.1) on the social housing sector (Wheatley Group 2016). The Scottish Government fully funds the reduction in Housing Benefit that occurred as result of the Bedroom Tax. In detail, the Scottish Government has made available in 2015/16 a fund of £35m to fully mitigate the Bedroom Tax reform. While in England the focus is on ownership – by supporting first-time buyers and shared ownership schemes – Scotland has set a target of 50,000 affordable homes by 2021, 35,000 of which will be for social rent (Wheatley Group 2016, p. 3).

Moreover, in Scotland there is no rent regulation system, as there is in England (Wheatley Group 2016). The Scottish Housing Regulator (SHR), launched by the Housing (Scotland) Act 2010 aims to promote the interests of social tenants by monitoring, assessing, comparing and reporting on social landlords' performance

and by keeping a register of social landlords⁴⁷. Moreover, as required by the Housing (Scotland) Act 2010, the [Scottish Social Housing Charter](#) sets the standards and outcomes that all social landlords should aim to achieve when performing their housing activities. “The Housing (Scotland) Act 2001 requires social landlords to consult tenants and take account of their views when making decisions about proposed rent increases” (Scottish Housing Regulator 2016, p. 1). [SFHA](#) and [Glasgow and West of Scotland Forum of Housing Associations](#) (GWSF) represent housing associations, community-controlled housing associations and co-operatives across Scotland to promote their interests.

8.2.1 England

Under the UK Coalition Government (2010-15), a shift from social to affordable housing was observed in England, with affordable housing being defined as housing with rents of up to 80% of market rents (Stephens 2017). During these years the number of completed new social rented houses in England decreased from 37,680 units to 6,550, while the opposite happened to affordable rented housing, for which the number of completions rose from 1,150 to 16,550 units (Stephens 2017, p. 13, data source: DCLG; Table 1000).

During most of the last two decades, local authority landlords in England and Wales were constrained by the Housing Revenue Account (HRA) subsidy rule, which acted as a rent pooling system (Young et al. 2017). According to Young et al. (2017), this system led to little incentive for social landlords to consider affordability.

Since 2016/17, social landlords in England need to reduce social and affordable rents (but not services charges) by 1% each year until 2019/20⁴⁸. The Economic and Social Research Council (ESRC) suggested in 2016 that this will not benefit low-income households in social housing, as those who are in receipt of Housing Benefit will also see that reduce, leaving them paying the same rent as before⁴⁹. Social

⁴⁷ Scottish Housing regulation, 2012, “Regulation of Social Housing in Scotland” (p. 4) <https://www.scottishhousingregulator.gov.uk/sites/default/files/publications/Our%20Regulatory%20Framework.pdf>.

⁴⁸ For a 2019 report on Policy statement on rents for social housing, see: https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/781746/Policy_Statement.pdf.

⁴⁹ Access the ESRC evidence briefing on “ Rents in social housing: the trade-offs” here: <https://esrc.ukri.org/news-events-and-publications/evidence-briefings/rents-in-social-housing-the-trade-offs/>

housing providers will also therefore likely suffer from lower income, and there may be a corresponding reduction in new housing supply.

The introduction of the Benefit Cap, Bedroom Tax and Universal Credit may impact affordability in many ways, some of which were discussed in section 8.1. Firstly, as shown in the table below, the percentage of social tenants under-occupying their accommodation declined before the Bedroom Tax was introduced (with the Welfare Reform Act 2012 and applied from April 2013). Secondly, the percentage of under-occupying is significantly higher among owners in England compared to social tenants (Table 8.2). Another factor to take into consideration when discussing the impact of the Bedroom Tax on rent affordability is that the size of the social property assigned to each household might not be based on preferences, but on availability and lack of smaller properties (Meen 2018b). For this reason, the reform has been often considered unfair by many commentators (Stephens 2017).

Table 8.2 – Under Occupation by tenure (% of households) – England

	Owner Occupiers	Private Renters	Social Renters	All tenures
1995/96	39.4	18.4	12.1	31.2
2000/01	42.8	16.6	12.7	34.1
2005/06	46.6	18.2	11.5	36.7
2010/11	49.3	15.5	10.0	36.9
2015/16	51.9	14.4	10.0	37.2

Source: Reproduced by Meen 2018b, p. 34; English Housing Survey 2015/16

CIH, in their final report of the ‘Rethinking Social Housing’ project focusing on England, stated that “The chronic shortage of genuinely affordable homes means that, for now at least, social housing in England is tending towards a safety net role. CIH believes that social housing should have a wider affordability role” (CIH 2018, p. 5). CIH conducted an in-depth research project on social housing in England. Research activities included an evidence review; analysis of 199 workshops held across England; analysis of 766 completed online surveys with questions mirroring those for the workshops; interviews with 13 people on the waiting list for social housing; and analysis of 62 responses to an online survey with people working in fields which complement housing, e.g. health and social care. CIH also commissioned Ipsos MORI to conduct a social perception survey using face-to-face interviews with 1,700 members of the public across England; commissioned CaCHE to undertake a supplementary evidence review and secondary data analysis to draw

a picture on who is currently living in social housing; partnered with Housing Plus Academy to run a think tank event with tenants; and held a Twitter debate.

The key findings (CIH 2018) and suggestions for social housing in England can be summarised as follows:

- Adopt a common definition for social housing. They suggest the following definition: “decent, secure housing which is affordable to people on low incomes, wherever they may live in the country, provided by not-for-profit organisations” (CIH 2018, p. 6).
- Increase the supply of affordable housing using a government investment, redistributing existing housing funds towards more affordable housing options and suspending the Right to Buy, while promoting other ways to support tenants to transit towards home ownership.
- Develop a policy framework which links rents to local incomes, using rent setting mechanisms and learning from best practices in order to identify the local and regional differences and ensure that there is affordable housing offered everywhere across the country. Suggestions for the UK Government include defining a fair and transparent rent policy which takes into account affordability in relation to local incomes and at the same time ensures that housing providers can maintain housing standards; and reviewing the effect of welfare policy on social housing.
- Social housing and neighbourhoods should meet the standard requirements in quality, comfort and safety.
- Tackle the problem of stigma and stereotyping attached to social housing by ensuring that social housing and services are of good quality.

8.2.2 Wales

In line with the '[Taking Wales Forward](#)' programme, the Welsh Government aims to build 14,000 social and affordable rented homes during 2016-2021 (plus 6,000 additional houses under the Help to Buy scheme). Based on the official projection calculated by the Public Policy Institute for Wales⁵⁰ in 2015 (an update will be

⁵⁰ Public Policy Institute for Wales (PPIW), 2015, [Future need and Demand for Housing in Wales](#), Cardiff, PPIW.

published in 2020), there is a need of 3,500 additional social houses per year during 2011-2031 (Smith 2018, p. 13).

In March 2017, the Welsh Government introduced the abolition of the Right to Buy, following the Scottish example, in order to maintain the existing social housing stock (Young et al. 2017; Smith 2018). There is a need to ensure that rents are affordable and achieving value for money housing. The Welsh Government provides a Social Housing Rents Policy, developed in collaboration with social landlords and tenant unions, and launched in 2014/15. This policy affects all social landlords that own 100 or more housing units. "At the core of the policy is a target rent band for each social landlord and an annual uplift that has been set at CPI+1.5% to 2019" (Young et al. 2017, p. 18). Social rents in Wales have been increasing during the last years (Smith 2018). Heriot-Watt University has (at the moment of writing) been commissioned to review Welsh social rent policy. The study will look at issues of affordability and will compare Wales with the rest of the UK.

Currently, Wales supports social housing through a social housing grant (SHG) of £337m (Smith 2018). Ongoing public investment is needed to tackle for the shortage of supply in social housing and in order to meet the Welsh Housing Quality Standard (WHQS), launched in 2002. There are discussions on whether the SHG should acquire a more flexible regime, which will better reflect the local needs for development (Smith 2018, p. 21). Smith (2018) claimed that a re-emergence of local authorities as social housing providers might play a significant role in the future of social housing in Wales.

Archer et al. (2018) conducted a study of housing for low-income households in the Welsh valleys (social housing rents in 2017/18 were the lowest in some of the South Wales valleys) (Smith 2018). Archer et al. used baseline analysis assessing demand, supply and affordability of housing for low-income households, ran four stakeholder workshops, three resident workshops and three policy development roundtables (Archer et al. 2018). They identified three main challenges: low incomes in combination with high housing costs; a shortage in supply of appropriate housing (regarding mainly size in number of bedrooms); and an over-supply of certain housing types, i.e. excess supply and not enough demand for certain types of dwellings, such as four-bedroom social housing. Their policy recommendations

therefore focused on ensuring that housing is affordable for low-income households, and rethinking the existing housing stock in order to meet needs and demand, and to build only required new housing based on current needs and demand.

8.2.3 Northern Ireland

Social housing in Northern Ireland accounts for 15% of the housing stock, from which two thirds are provided by the Northern Ireland Housing Executive (NIHE) and the rest by housing associations (Young et al. 2017). In Northern Ireland, all social housing since the early 2000s has been built by housing associations in contrast with the rest of the UK, where new builds are normally provided by local authorities (Frey 2018). Policy divergence between Northern Ireland and the rest of the UK has increased since 2010 - for example the policy of social rents being paid directly to landlords by default. A key policy regarding social housing in Northern Ireland is the absence (compared to the rest of the UK) of any large scale transfer of social homes from public ownership to housing associations (Frey 2018). Northern Ireland also passed legislation to mitigate the UK Bedroom Tax, as in Scotland.

Frey's paper (2018) drew on evidence from government statistics and academic papers as well as recently conducted qualitative interviews with key stakeholders in Northern Ireland. Frey (2018) included a number of policy suggestions for Northern Ireland:

- **Developer Contributions:** a key planning policy instrument that would boost the supply of affordable housing (social and shared ownership housing) in Northern Ireland. Developers in need of planning permission for the development of five or more housing units would need to contribute to affordable housing. Some of the critiques against this policy emerged from a consultation in 2014 and were focused on the crisis in the construction industry. A study conducted in 2015 underlined the effects of the European economic crisis on the Northern Irish economy and an overall 'fragile' housing market.
- A Housing Market Symposium in 2017 identified the planning process as one of the causes of the supply shortage in affordable housing, in particular the length of time that takes for housing associations' planning applications to get approved. A policy suggestion was about local authorities needing to undertake

small scale infill development on public estates, as a solution to the lengthy planning approvals that housing associations might face.

- Universal Credit. Indefinite direct payment of the housing element of Universal Credit to all social landlords unless otherwise requested by the tenants. A concern regarding Universal Credit is the online nature of the application, which might lead to digital exclusion of some claimants that do not have access to the web.
- Provision of the 'Welfare Supplementary Payment' to mitigate the impact of the UK reforms, namely the Benefit Cap and Bedroom Tax. However, local authorities have expressed their concern regarding this policy, arguing that claimants feel secure by this fund that will at some point expire and then they will have to deal with decreases in their incomes. There is an increased concern especially about the effects of the Bedroom Tax, since there is a mismatch between type of housing available (the vast majority of Housing Executive and housing association properties has two or more bedrooms) and housing applicants (mostly single working age applicants). Another issue which occurred after the introduction of the Bedroom Tax and Universal Credit is the decrease in tenant transfer in fear of changing their housing circumstances, a fact that leads to less effective use of the affordable housing stock.
- Decent Homes Standard, introduced in 2004 to ensure the quality of social housing. This policy was met with success investing in heating systems and insulation in existing housing and high-energy efficiency standards in new builds. However, the policy target has not been completed in full, and there is still need for investment. It is thought that the transfer of publicly-owned houses in need of major repairs to housing associations transfers also the investment required and could lead to better results.
- Finally, the policy initiative '[Rethink Social Housing](#)' launched in 2018 by CIH suggested further research and engagement with tenants, the public, local authorities, housing associations and political parties on the future of social housing in Northern Ireland.

Another study, conducted by Young et al. (2017) and funded by the Department for Communities and NIHE, looked at the concept of affordability in social rents and the potential impact of rent increases on social tenants. The study included a literature

review on the concept and measures of affordability and semi-structured interviews with policy makers, social landlords, housing bodies, tenant representative bodies and housing advice agencies across Northern Ireland and the rest of the UK. Part of this project was the study of the relationship between projected rents and incomes, applying simulations for working age households, pensioner households and households with limited capacity to work, taking into account the changes in the welfare benefit system, and any affordability implications (Young et al. 2017, p. 4). Some of the key findings of the simulation study are discussed here. Considering earnings at living wage levels, rent increases led to higher rent-to-income ratios for single person households under retirement age, followed by working-age couples without children, especially when Universal Credit work allowance cuts are not mitigated. Lone parents in (full/part-time) employment and with two or more children, as well as couples with children and one adult in full-time employment, experienced rent-to-income ratios below 20-21% even in the case of rent increases. This ratio increased if Universal Credit work allowance cuts were not mitigated (Young et al. 2017, p. 33).

Moreover, Young et al. (2017) analysed data from the face-to-face Continuous Tenants Omnibus Survey⁵¹ (CTOS), run by the NIHE for over two decades. Some of the key findings from the CTOS study were:

- Smaller households lived in bigger dwellings than required due to the shortage in supply of one or two-bedroom properties.
- The vast majority of the tenants were not in rent arrears and if they were it was for less than £300. Households with children were more likely to be in rent arrears.
- When tenants were asked how easy it was for them to pay their rent, 35% claimed that it was easy. However, 1 out of 5 tenants claimed that their rent was unaffordable, from which 30% had had to cut back on another form of consumption, especially on food shopping and paying fuel bills (Young et al. 2017).

⁵¹ "In each survey year, 2,600 randomly selected Housing Executive tenants take part in the face-to-face interviews, which is equivalent to 650 tenants each quarter" (Young et al. 2017, p. 80).

9. Key Findings and Gaps in knowledge

Definition of rent affordability in the affordable housing sector

There is no one standard and universally accepted definition of rent affordability, but many alternatives (although many do not differ widely). The different definitions are based on the purpose of each study, the person (household type and size, household income and benefits) and the property (type, size and location of dwelling). All definitions agree that affordable housing should secure affordable rents for some given standard of housing in terms of quality.

Gaps in knowledge: One of the main gaps identified from the report is that there is not enough evidence of what rent affordability means from the tenants' perspective, a more subjective perspective. It is also unclear from the literature whether a home should be considered affordable when tenants can pay their rent without claiming any housing benefits or when tenants pay their rent even if they are in receipt of housing benefits.

Measuring rent affordability

There are various ways to measure rent affordability. Most of these methods are suggested by economists and include easy-to-measure and compare ratios, such as the rent-to-income and the housing costs-to-income ratios (the latter often used by the Scottish Government) or the amount of income left to a household after paying for housing (residual income approach). However, the measure of affordability strongly depends on the household type (single adults, working age or pensioners, couples with children or without). Other measures, from the tenants' perspective, focus on the relationship between financial stress and household wellbeing with affordability, tenants' perceptions of rent affordability and self-reported financial difficulties. A combination of traditional objective ratios with more subjective indicators of economic hardship is believed to lead to a better understanding of the affordability issues experienced by tenants in the affordable housing sector.

Gaps in knowledge: The most common measure is the rent-to-income ratio, in which case the choice of how to measure income by including or excluding housing benefits can be arbitrary and based on the researcher's decision. A clearer definition of affordability (even if different for different sub-groups) would lead to a more clear

decision on how to measure income in the affordability ratio and how to factor in housing benefits.

An interesting question that could not be answered from this review is whether and why households in receipt of housing benefits (usually low-income households) face rent affordability issues (in an objective and subjective way) and whether benefits can fully mitigate rent unaffordability. There is also a lack of data on the housing and non-housing costs (and their definition) of a household and the percentage of housing expenses covered by housing benefits.

The relationship between housing and poverty

Poverty rates tell a different story before and after housing costs are being considered. High housing costs have a direct impact on poverty and material deprivation. More people live in (relative and absolute) poverty after housing costs in Scotland. The phenomenon known as housing-cost-induced poverty (poverty after considering housing costs) is more pronounced among children. The relationship between housing costs and poverty is also linked with housing tenure. Social tenants are more likely to be affected by poverty after housing costs, as well as by persistent poverty.

Finally, there is evidence that poverty affects housing. Poor housing conditions may have a negative impact on people's health, well-being and life chances, especially for children, and might lead to poverty. Children and other people who spend a high proportion of their time at home are disproportionately affected by low-quality housing conditions.

Gaps in knowledge: Housing costs, including rents and bills, lead to housing-induced poverty. In order to be able to reduce this type of poverty, we need to explore what is driving social rent increases and examine ways to reduce them and ensure affordable rents, especially for families with children.

Mid-market rents and affordability

MMR is a type of affordable housing, mostly funded by the private sector and aims to be an affordable alternative to the private rented market. The Scottish Government will continue to seek to support viable proposals to deliver MMR at scale throughout Scotland. An interesting point raised in this review is that supply of MMR should

match demand, especially in terms of dwelling size. Based on evidence from one research project, MMR properties could attract more families if the supply of bigger affordable properties in this sector increased. This issue of a mismatch between supply/stock and demand has often emerged in the review regarding overall affordable housing across the UK.

Gaps in knowledge: The initial research question asked whether MMR was considered an affordable source of housing by tenants and whether MMR was set up as affordable by housing associations. This review could not answer this question with precision due to a lack of data. There is a lack of data on MMR rents, mechanisms of rent setting, accessibility and type of supply, mainly in terms of size of dwelling measured in number of bedrooms.

Data on affordable rents

Social rents in Scotland vary greatly by housing provider (lower when social housing is provided by local authorities rather than by housing associations), property size and location, as well as by UK region. Social housing in Scotland is more affordable compared to England and Wales. Chapters 6 and 7 demonstrated that there has been an increase in social rents over time. The increase is gradual, without extreme peaks and is spread evenly across housing tenures. We can only speculate on the potential reasons for social rent increases that go beyond the annual inflation rates. Among these reasons are an increase in construction costs, lengthy planning permission approval for housing associations (which can be translated in money loss), an increase in fuel consumption and costs of living, a need for more investment and improvements in social housing stock and new builds to meet standard requirements (energy efficiency, etc.), an increase in service charges for new builds, a shortage in supply of required social housing, and the growth in the private rented sector. It has emerged from this report that there might be an under-supply of the most required types of dwellings (in terms of size) across the UK.

Gaps in knowledge: Further research on the reasons for social rent increases would be necessary in order to confirm or not the above speculations. More information is needed on service charges (costs of mandatory and optional services) and whether they are more expensive (and by how much) for new builds. We also

need more information on the relationship between Universal Credit payments and rent arrears, and on whether policies, such as EESSH, lead to rent increases.

Rent setting mechanisms and rent increases

In Scotland there is no national rent policy or specific rent regulations, and social landlords use other mechanisms to set their rents, such as comparing their rents to other local/average rents. Social landlords are allowed to increase their rents after having consulted with their tenants and provided them with alternative solutions, such as a decrease in service charges, and they need to give them a month's notice before applying any rent changes. However, recent research from the Scottish Housing Regulator suggested that only half of the tenants were informed by their landlords about annual rent increases, and the majority were not presented with alternative options.

Gaps in knowledge: Even though each housing association publishes annually a report on their rent and service charge setting policy, there is no summary information of how the sector as a whole sets and raises their rents or on whether and how they consult with their tenants. There is also a lack of literature on the specific tools/methods social landlords use to define their rents and ensure affordability. Finally, there is a lack of recent evidence on the impact of rent increases on social and MMR tenants, not only financially speaking, but also on their wellbeing.

Policies in Scotland with an impact on rent affordability

A combination of housing policies with other policies is needed to tackle the problem of unaffordable housing. Policies and benefits that support directly or indirectly low-income households with rent payments in Scotland include Housing Benefit/Universal Credit, Discretionary Housing Payments, the Tackling Child Poverty Delivery Plan, the end of the Right-to-Buy policy, the new Beyond 2021 Housing Policy, etc. Policies that might negatively affect rent affordability, and are reserved to the UK Government, include the Benefit Cap and the Bedroom Tax. Scottish funds aim at mitigating the negative effect on rent affordability caused by these UK reforms.

The most common policy challenges appear to be related to the combination of low incomes and high rents, shortage in supply of affordable housing, and over-supply of dwellings that do not cover tenants' needs in terms of type, size and location.

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This document is also available from our website at www.gov.scot.
ISBN: 978-1-78781-897-2

The Scottish Government
St Andrew's House
Edinburgh
EH1 3DG

Produced for
the Scottish Government
by APS Group Scotland
PPDAS593070 (06/19)
Published by
the Scottish Government,
June 2019



Social Research series
ISSN 2045-6964
ISBN 978-1-78781-897-2

Web and Print Publication
www.gov.scot/socialresearch

PPDAS593070 (06/19)