

## **London Borough of Tower Hamlets**

### **Housing Policy and Affordability Commission**

#### **Briefing Paper 1 - Defining Affordability**

A starting point for the Commission's deliberations will be consider different definition of affordability and how they apply to different types of households.

There is no definitive way of calculating affordability but guidance has been issues in the past by government and other agencies. Set out below is a summary of how affordability has been calculated in the past.

#### **1. As a % of net/gross income**

##### **2007 SHMA Guidance (now withdrawn)**

###### **Assessing whether a household can afford market renting**

A household can be considered able to afford market house renting in cases where the rent payable was up to 25 per cent of their gross household income. The 'Rent Payable' figure is defined as the entire rent due, even if it is partially or entirely met by housing benefit. Other housing-related costs, such as council tax and utility bills should not be included. As in the case of assessing home ownership, housing market partnerships will need to consider that what is affordable may vary (e.g. a higher percentage may be affordable for someone on a higher income). Local circumstances could justify a figure other than 25 per cent of gross household income being used

###### **Assessing whether a household can afford home ownership**

A household can be considered able to afford to buy a home if it costs 3.5 times the gross household income for a single earner household or 2.9 times the gross household income for dual-income households. Housing market partnerships will need to consider that what is affordable may vary (e.g. a higher proportion may be affordable for someone on a higher income).

###### **A household can be considered able to afford intermediate affordable housing when**

Rental payments (on the landlord's share) and mortgage payments (on the part they own) constitute up to 25 per cent of gross household income. Housing market partnerships will need to consider that what is affordable may vary (e.g. a higher percentage may be affordable for someone on a higher income). Local circumstances could justify a figure other than 25 per cent of gross household income being used

SHMA

## 2. GLA 2013 London SHMA

The GLA London SHMA set out the following methodology for calculating affordability:

Tenure	Details of test
Owner occupation	Existing outright owner occupiers are assumed to be able to afford to continue to own. Other households can afford owner occupation if (1) the sum of (a) 3.5 times the income of single earner or 2.9 times the income of joint earners and (b) available savings plus equity exceeds the lower quartile price, and (2) savings plus equity exceeds 10% of the purchase price.
Private rent	Households can afford private rent if the lower quartile private rent does not exceed 25% of gross household income for households with incomes of less than £40,000 and 30% for households with incomes of more than £40,000.
Intermediate	Households are allocated to this category if they cannot afford owner occupation or private rent but can afford more than social rent levels, i.e. if the target rent for the size of property they require does not exceed 25% of gross household income for households with incomes of less than £40,000 and 30% for households with incomes of £40,000 or more.
Social rent / Affordable Rent	Households are allocated to this category if they are unable to afford market housing or intermediate housing.

## 3. LBTH SHMA – Affordability assumptions

The mortgage multiplier used is 3.5%, so households are able to borrow up to 3.5 times their household income.

Households can spend up to 25% of their income on rent in accordance with 2007 SHMA Practice Guidance recommendations;

#### **4. As a % of market rent**

##### **Further Alterations to the London Plan 2015**

GLA: Affordable rent is subject to rent controls that require a rent of no more than 80% of the local market rent (including service charges, where applicable)

#### **5. David Lunts, Executive Director of Housing and Land at the Greater London Authority letter to Local Authorities – 12/12/13**

'For the 2015-2018 investment round, the affordable rent product has been effectively divided into two products; a lower 'capped' rent product aimed at those most in need and a 'discounted' product which is aimed at low income working Londoners. This approach will help address concerns over the working of the product in the context of the total benefit cap.

The rents for Capped rent homes will generally be capped at 50% of market rents. Where this may produce very high Capped rent levels in exceptionally high value areas we will consider Capped rents set at around 50% of lower quartile market rents and this will be discussed and agreed as part of the framework. Discounted rents will be set at 80 per cent of market rent, or at the Local Housing Allowance where that is lower. Discounted rent properties are intended for households unaffected by the benefit cap and the Mayor would like to see working households prioritised for nominations.

We appreciate that boroughs may wish to introduce some flexibility into these rent levels so it will be possible to adjust Discounted rents downwards but only if Capped rents are correspondingly adjusted upwards. This is to ensure that across the new programme we achieve the value for money that is necessary to ensure the delivery of the programme as a whole. As in the current programme boroughs will have the ability to further subsidise rents, using their own resources if they feel this to be appropriate.'

This position extends the positions set out in the guidance within the GLA's Housing SPG (2012) which states in paragraph 4.2.16 "For investment purposes, the Mayor has agreed a strategic, London-wide average rent at 65% of market rent across the 2011-15 affordable housing investment programme, taking into account the need to provide family-sized housing at a lower proportion of market rents".

#### **6. Borough Blended 'POD' rents**

##### **Borough Framework Agreement with GLA (not signed)**

**Affordable Rent levels** - the rent levels for affordable rent homes will be fixed in line with GLA guidance with discounted rents set a maximum of Local Housing Allowance levels and Capped rents at no more than 50% lower quartile market rent (inclusive of service charges). Rents can be set at a mix

or blend of discounted and capped levels to meet local needs and these principles will be guided by site by site approaches.

## **7. POD Report – Income based affordability definition**

In early 2011 POD was commissioned by Tower Hamlets Council to undertake research for the HCA's Affordable Rent product and to help the Council set levels of affordability. The initial research looked at online advertised rent levels for the four main postcodes that cover Tower Hamlets. For the affordability levels they looked at:

- Rent levels as a third of gross equivalised household income (CACI PayCheck)
- Rent levels in light of average earnings and universal credit
- The effect of Affordable Rent for specific case studies

The results have been updated annually. In 2015 rents were set at the following level of market rents:

- 1-beds: 65%
- 2-beds: 55%
- 3-beds: 50%
- 4-beds +: 45 to 50%

The research also generated maximum rental levels that should be charged on a weekly basis, and they suggested that a 5% variance should be allowed.