

Policy Response

Impact of the LHA freeze



Savills Research
UK Residential

Frozen Local Housing Allowance is freezing people out of the housing market

Fewer private rented homes will be affordable to those on housing benefit every year until 2020. In many places rents are rising but the Local Housing Allowance (LHA), that exists to help tenants on housing benefit to pay them, was frozen until 2020 as part of the previous government's austerity agenda.

LHA was the median market rent until April 2011. It was changed at this point to the 30th percentile rent. That means that in each area, 30% of homes available for market rent should be cheaper than this level and 70% are more expensive. LHA was increased by 1% in 2014 and again in 2015. Then, since April 2016, LHA has been frozen until 2020 to help control the benefits bill.

As open market rents continue to grow, particularly in markets where demand for rental property exceeds supply, fewer properties will be affordable to those reliant on LHA to pay their rent. After only two years some large differences have opened up between the LHA rates and what they would be had they moved in line with the 30th percentile. The largest differences are where rents have risen most, mainly the South East and London.

Where housing benefit isn't enough to pay the rent, the difference has to be made up by tenants from other income. In South West Herts, where current two bed LHA is 86% of the 30th percentile, this could cost a household £144 per month. But in Bedford, where current two bed LHA is also 86% of the 30th percentile, the cost to a household may be closer to £96.

The maps (Figures 3 to 7) show the percentage difference between the 30th percentile and the 2017 LHA rate. The gaps are greatest in the south, as a general rule, where the cash differences will also be greatest as rents are higher.

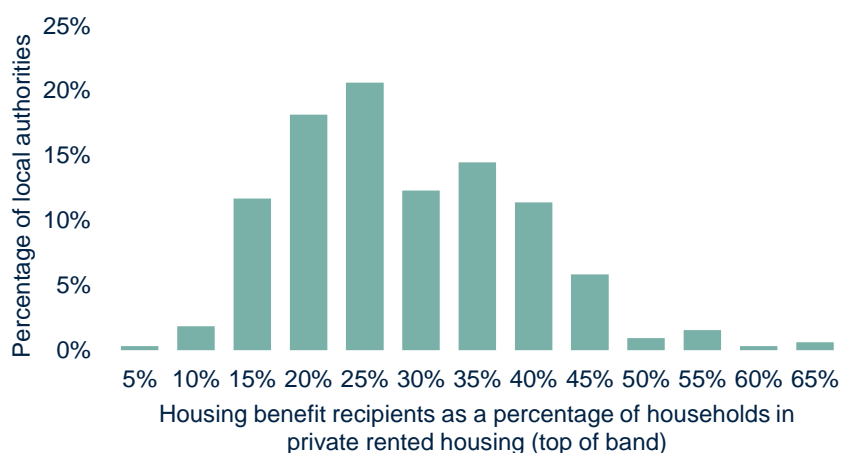
This is likely to be a consequence of greater demand in these markets, relative to supply, and higher rental growth. For the largest and smallest properties, the patterns are less clear, perhaps reflecting volatility in the data measuring fairly small markets.

Half of all local authorities have more than 25% of private rented households claiming housing benefit. But even if LHA was still at the 30th percentile, only 30% of properties would be affordable to them unless they top up their rental payments with other income. With LHA frozen, ever fewer properties will be available to people reliant on housing benefit unless they are able to top up their rents.

This has implications for future market rent growth in locations where large proportions of rental households are reliant on housing benefit. In eight local authorities across England, more than 50% of private rented households are in receipt of housing benefit. Some stock may see limited rental growth as the amount of money households have for rent is fixed.

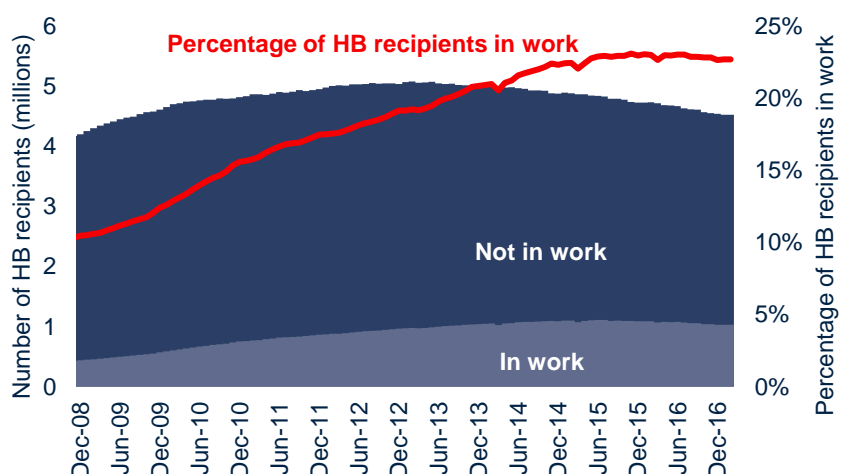
Where there are alternative sources of demand, benefit-reliant households will lose out. In the absence of any alternative demand, private landlords may choose to sell up rather than put up with low levels of rental growth.

Figure 1 – Housing Benefit reliance in private rented housing



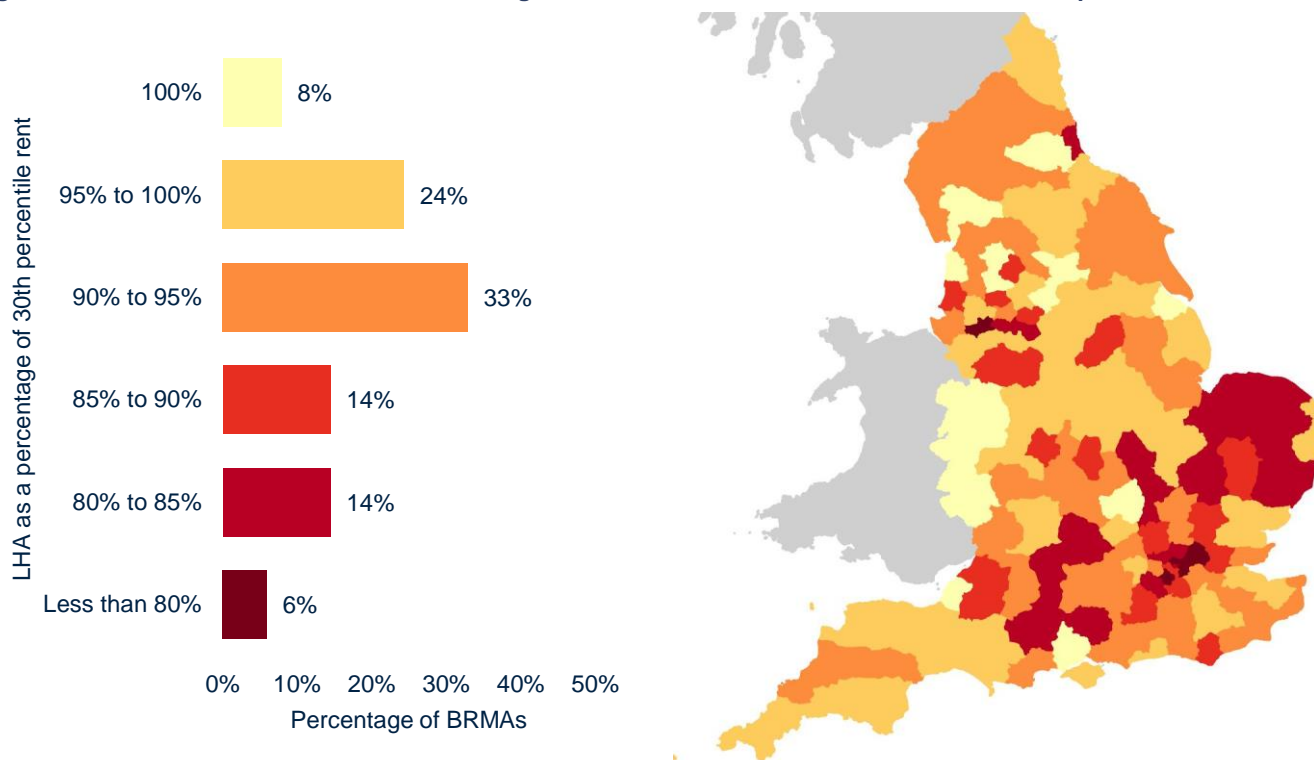
Source: Savills using DWP, 2011 Census and English Housing Survey data

Figure 2 – Housing Benefit (HB) claimants by employment status



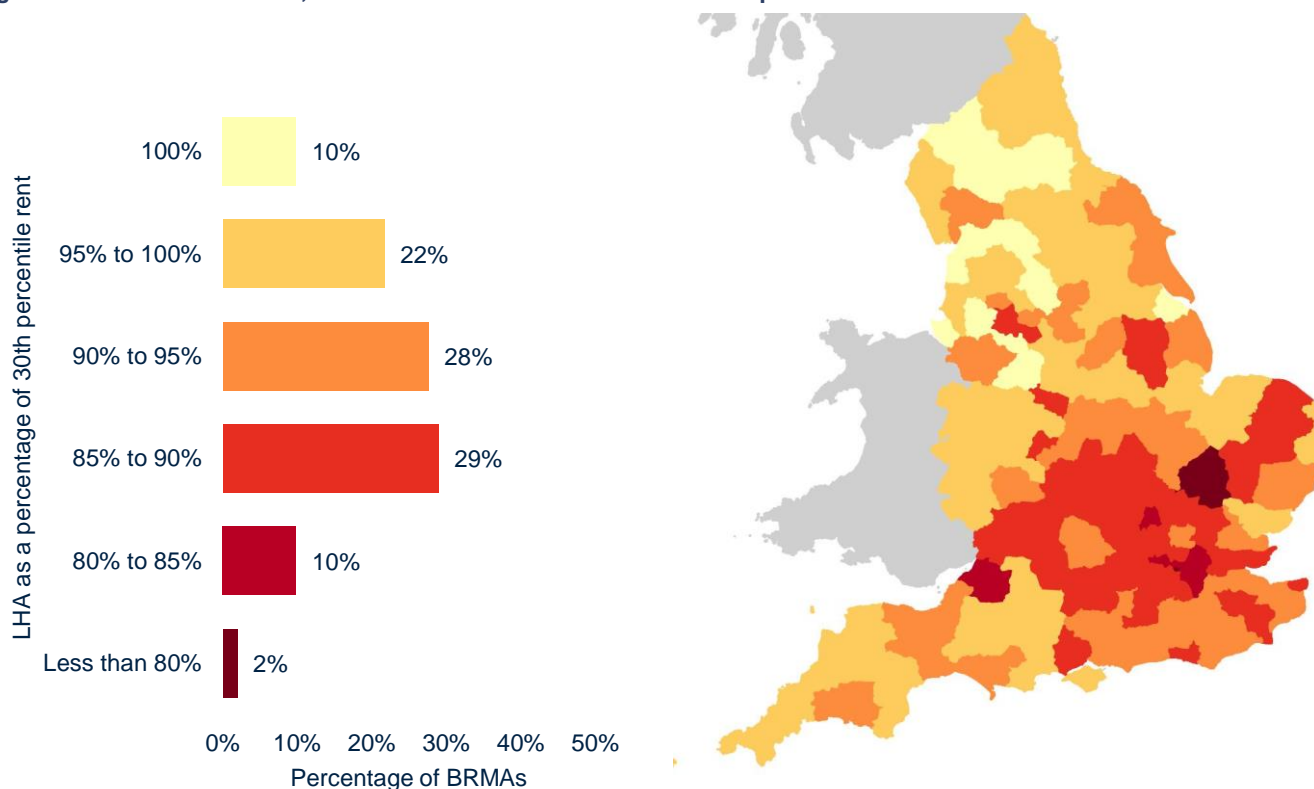
Source: DWP

Figure 3 – Shared accommodation rate for a single room, difference between 2017 LHA and 30th percentile rent



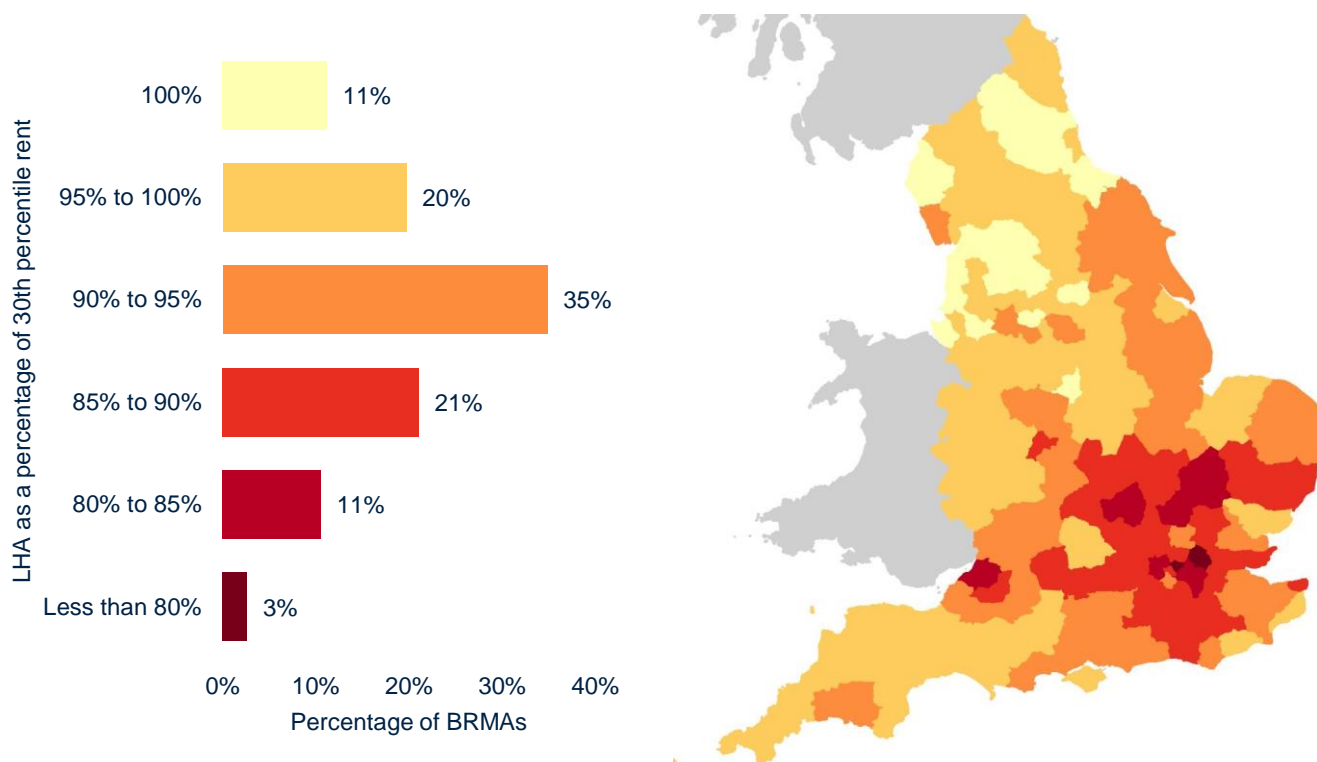
Source: VOA LHA tables 2017

Figure 4 – One bedroom rate, difference between 2017 LHA and 30th percentile rent



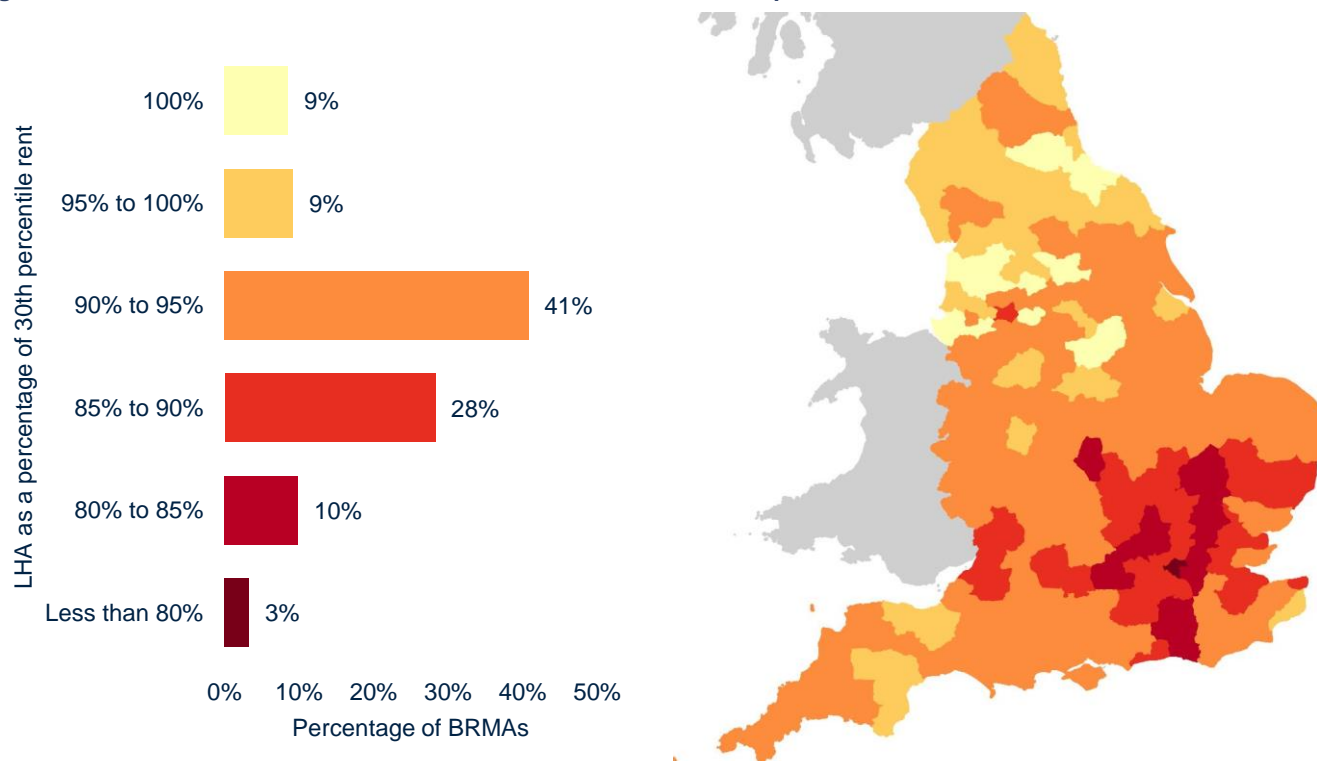
Source: VOA LHA tables 2017

Figure 5 – Two bedroom rate, difference between 2017 LHA and 30th percentile rent



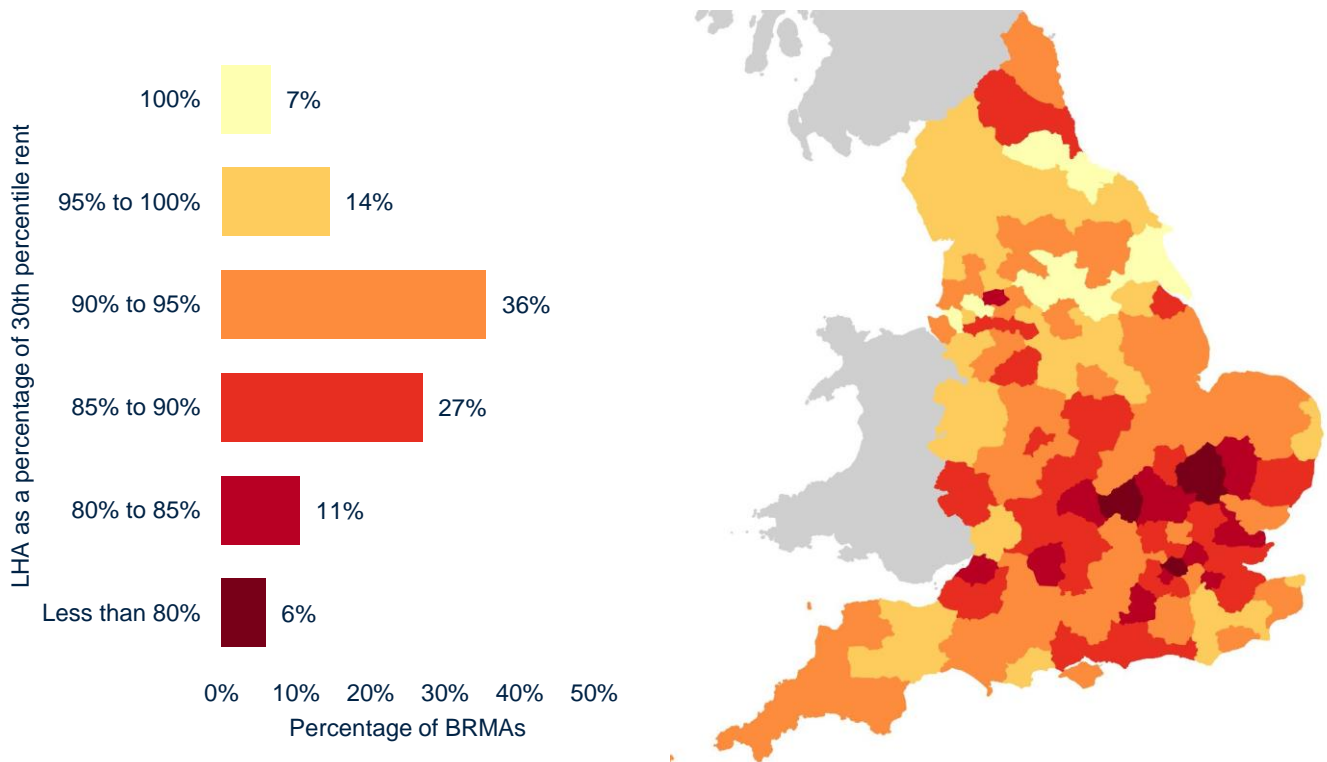
Source: VOA LHA tables 2017

Figure 6 – Three bedroom rate, difference between 2017 LHA and 30th percentile rent



Source: VOA LHA tables 2017

Figure 7 – Four bedroom rate, difference between 2017 LHA and 30th percentile rent



Source: VOA LHA tables 2017

Contacts



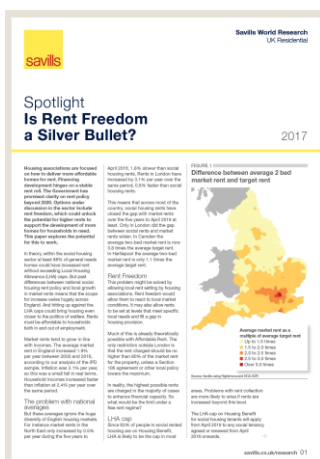
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See also our paper “Is Rent Freedom a Silver Bullet?”

Within the social housing sector at least 88% of general needs homes could have increased rent without exceeding LHA caps. But past differences between national social housing rent policy and local growth in market rents means that the scope for increase varies hugely across England. And hitting up against the LHA caps could bring housing even closer to the politics of welfare.



The Joseph Rowntree Foundation has supported this project as part of its programme of research and innovative development projects, which it hopes will be of value to policymakers, practitioners and service users. The facts presented and views expressed in their report are, however, those of the authors and not necessarily those of the JRF.

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