Lewisham Council

Affordable Rent Study

Market Research & Affordability Analysis

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1. Introduction

pod LLP have been commissioned by Lewisham Council to undertake a study relating to "Affordable Rent" levels, and specifically the ability of local residents in housing need to meet a range of Affordable Rents, up to 80% of the market value.

The study will form part of the evidence base for Lewisham's Development Management Local Plan (DMLP) and will support the affordable rented housing policy DM7.

The "Affordable Rent" tenure was introduced in the HCA's Affordable Housing Programme 2011–15. Unlike social rent, Affordable Rent is linked to market rent levels, with housing providers being able to charge up to 80% of market rent. Affordable Rent is in effect a direct replacement for social rent, with increased revenue streams countering the significantly lower grant rates that are expected and supportable.

The Mayor's Housing Covenant 2015-18 Programme, (the funding prospectus that accompanies the November 2013 Draft London Housing Strategy), suggests a more diverse approach to Affordable Rents with discounted rents up to 80% and capped rents at 50% of market rent or target rent, whichever is the highest.

In this report we determine the rent levels that may be deemed "affordable" for homes let using the Affordable Rent tenure within Lewisham.

This report will help to enable the Borough to frame their allocations scheme, landlord policy, tenancy strategy and marketing of any Affordable Rent homes developed in the Borough appropriately, and to ensure that such homes are used to optimum effect in meeting housing need. It is also intended to help inform planning decisions.

In order to undertake this work, pod applied a series of affordability assessment techniques to appropriate collected data.

1.1 Affordable Rent Methodology

There are many ways to calculate and measure 'affordable' rent levels. Deciding what level of rent is affordable is a complex undertaking as there are many varying factors such as family size, distribution of income across household members, various tax codes and tax credits, as well as regional variations in the non-housing based cost of living such as transport costs.

As such, we do not feel that one basic affordability measure is a sufficient basis for strategic decisions.

We feel that the most effective approach to affordability is to build up a picture using a number of alternative methodologies, ideally using separate data sources. Findings can then be compared and interrogated, and the arising patterns studied in detail. We will use a three stepped approach, and the techniques we use are as follows:

Step 1 - Basic Affordability Calculations

Using our researched rent and income data, we first undertake a basic analysis of rent when compared to gross household income for all residents using PayCheck data.

Our starting point in terms of a viable affordable rent is that a household's rent should not exceed 33% of the household's gross income. This is in line with recent previously undertaken research by ourselves and others, such as Registered Providers, Councils and other consultancies.

The Greater London Strategic Housing Market Assessment 2008 uses 25% of gross household income as an affordable benchmark with households on £40,000 pa and higher being able to contribute up to 30%, this is in line with the CLG Practice Guidance. Other examples of similar benchmarking are:

- Our ongoing work for the boroughs in the East London Housing Partnership uses 33% of gross household income as a benchmark of affordability.
- The Family Mosaic February 2011 Mirror, Signal, Manoeuvre Report refers to the London Plan Annual Monitoring Report which states that 'Rent and service charges together should not exceed 30% of net household income for a household with an income of less than £18,100.'
- In our Autumn 2011 report for London Borough of Camden we used 40% of net income as the benchmark of affordability, which broadly equates to 30 to 35% of gross income.
- The London Borough of Islington November 2011 effects of Affordable Rent Report by Jones Lang LaSalle states a maximum of 33% of the national household income should ensure affordability.
- The London Borough of Enfield April 2012 Background Paper on Affordable Rent uses 30% of gross income for households with children and 35% for households without children.
- A joint response to the London Plan in July 2012 from Brent, Camden, Enfield, Hackney, Islington, Kensington and Chelsea, Southwark, Tower Hamlet and City of Westminster states that housing costs should not exceed 40% of household income.

Some researchers look at rent as a proportion of "net" income but a higher affordability threshold (i.e. percentage) is usually used in such occasions. There is no definitive measure of affordability in this sense, but it has certainly become an industry norm in the past few years to look to limit rents to around a third of household income. Considering that the London SHMA used 25% of gross household income we believe that by using 33% we are modelling at a more stringent level.

From this initial research we determine some suggested rent levels for each unit size (1-bed through to 4-bed) – i.e. percentages of market rent that we would deem to be affordable using this initial criterion.

It is important to note that, at this step, we look at affordability in general, broad-brush terms and this section doesn't specifically look at households in receipt of benefits. The PayCheck data includes all forms of household income including benefits, but it does not split the income out. It is therefore useful as a starting point, but does not allow detailed analysis and comparison by household size.

Whilst this is a basic approach it is still very important as the rents must be affordable for those on average incomes, and we can begin to identify initial levels of affordability which are later tested. We look specifically at households on benefits in detail within later steps.

Step 2 – Earnings data and Benefit Predictions

Within this section we have used the Annual Survey of Hours and Earnings (ASHE) as the primary data source, allowing us to look in more detail at earnings and calculate benefits levels for specific household examples. The median total household income used in Step 1 includes benefits, and this time we calculate benefits ourselves allowing us to adjust for family size.

We undertake benefit calculations for a selection of income ranges based on the ASHE median, and run the calculations for a full range of household sizes. This allows us to see potential issues with regard to the introduction of the total household benefit cap.

Our initially suggested rent levels are checked against this more detailed breakdown. It should be noted that Step 2 uses an entirely different data set to Step 1 as we are beginning to build a more detailed picture of the impact of Affordable Rent.

Step 3 – Residual Income Calculations for Households on Benefits

In this section we look in detail at some case studies of lower income families. We use changes to "Residual Income" as a further measure to assess affordability. Residual Income is defined as weekly household income remaining once rent has been paid and Housing Benefit (or housing costs under Universal Credit) received.

This section studies in detail the actual effect on people's weekly income if they were to move to the Affordable Rent tenure from current social rent or private rented sector accommodation. We feel this gives a practical aspect to the affordability assessments, and should complement the more abstract or indicative approaches taken in Step 1 and 2. We use benefits calculators to model the effect Housing Benefit has on the new rent levels.

This step allows us to look in detail at the locational effect of Affordable Rent and, importantly, to model the impact of changes to earnings levels, allowing us to build up a much clearer picture of the effect of the benefit cap and when this affects families of various sizes.

2. Executive Summary

We have assessed advertised rental values, comparable rental values and GLA rent map data and the following chart show's our estimating of indicative values for each postcode:

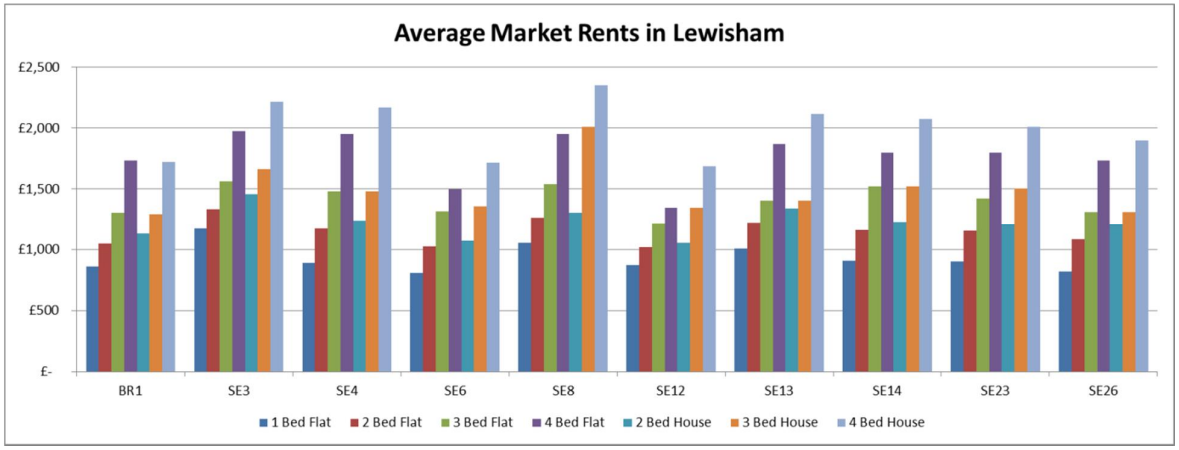


Chart 1: Average Market Rents in Lewisham

Like many inner London boroughs, Lewisham contains areas of value divergence and therefore it is expected that affordability results will differ in each postcode. The following chart demonstrates the rents at various levels of market rent for each postcode when compared against Local Housing Allowance and Target Rent. The chart below shows the 3 bed house results only, however other unit types are contained in the report.

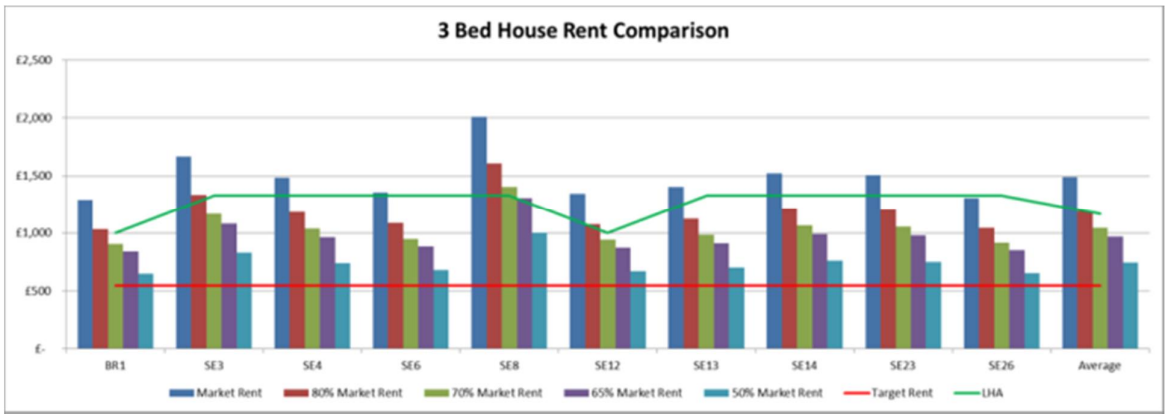


Chart 2: Rent Level Comparisons

From this research we can see:

- 1 beds target rent levels equate to approximately 50% of market rent. 80% market rents are generally in line or below the appropriate LHA level.
- 2 beds target rent levels are just under 50% of market rent. 80% market rents are generally below the LHA level.
- 3 and 4 beds target rent levels are significantly below 50% of market rent. 80% market rents are generally in line with the LHA level.

We have used CACI Paycheck data to consider local income levels and assess affordability. The following chart shows lower and median income levels for each postcode:

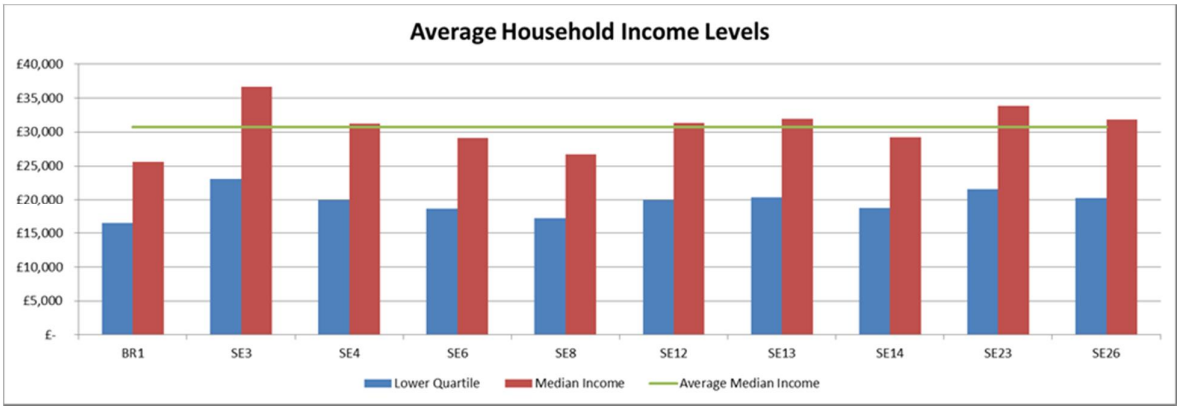


Chart 3: Average Household Incomes

For the first stage of our affordability exercise we simply considered rent levels as a percentage of total household income for varying home sizes. As stated previously, we were aiming to achieve results of less than 33%, and divergences are flagged up in red on the following charts.

1 Bed Flats							
	Gross Equiv. Income	Market Rent	80% Market Rent	70% market Rent	65% Market Rent	50% Market Rent	Target Rent
BR1	£ 25,610	40.20%	32.16%	28.14%	26.13%	20.10%	19.49%
SE3	£ 36,666	38.30%	30.64%	26.81%	24.89%	19.15%	13.61%
SE4	£ 31,268	34.04%	27.23%	23.83%	22.13%	17.02%	15.96%
SE6	£ 29,082	33.21%	26.57%	23.24%	21.58%	16.60%	17.16%
SE8	£ 26,690	47.33%	37.86%	33.13%	30.76%	23.67%	18.70%
SE12	£ 31,348	33.30%	26.64%	23.31%	21.65%	16.65%	15.92%
SE13	£ 31,886	37.82%	30.25%	26.47%	24.58%	18.91%	15.65%
SE14	£ 29,169	37.22%	29.78%	26.06%	24.20%	18.61%	17.11%
SE23	£ 33,827	31.94%	25.55%	22.36%	20.76%	15.97%	14.75%
SE26	£ 31,788	30.96%	24.76%	21.67%	20.12%	15.48%	15.70%
Average	**£ 30,733**	**36.21%**	**28.96%**	**25.34%**	**23.53%**	**18.10%**	**16.24%**

2 Bed Flats							
	Gross Equiv. Income	Market Rent	80% Market Rent	70% market Rent	65% Market Rent	50% Market Rent	Target Rent
BR1	£ 25,610	48.97%	39.17%	34.28%	31.83%	24.48%	22.53%
SE3	£ 36,666	43.74%	35.00%	30.62%	28.43%	21.87%	15.74%
SE4	£ 31,268	45.01%	36.01%	31.51%	29.26%	22.51%	18.46%
SE6	£ 29,082	42.25%	33.80%	29.57%	27.46%	21.12%	19.84%
SE8	£ 26,690	56.90%	45.52%	39.83%	36.99%	28.45%	21.62%
SE12	£ 31,348	39.04%	31.23%	27.33%	25.38%	19.52%	18.41%
SE13	£ 31,886	46.06%	36.85%	32.24%	29.94%	23.03%	18.10%
SE14	£ 29,169	47.73%	38.18%	33.41%	31.02%	23.86%	19.78%
SE23	£ 33,827	40.96%	32.77%	28.67%	26.62%	20.48%	17.06%
SE26	£ 31,788	40.93%	32.74%	28.65%	26.61%	20.47%	18.15%
Average	**£ 30,733**	**44.85%**	**35.88%**	**31.40%**	**29.15%**	**22.43%**	**18.78%**

3 Bed House							
	Gross Equiv. Income	Market Rent	80% Market Rent	70% market Rent	65% Market Rent	50% Market Rent	Target Rent
BR1	£ 25,610	60.63%	48.50%	42.44%	39.41%	30.31%	25.53%
SE3	£ 36,666	54.51%	43.61%	38.16%	35.43%	27.26%	17.83%
SE4	£ 31,268	56.93%	45.54%	39.85%	37.00%	28.46%	20.91%
SE6	£ 29,082	56.00%	44.80%	39.20%	36.40%	28.00%	22.48%
SE8	£ 26,690	90.33%	72.26%	63.23%	58.71%	45.16%	24.49%
SE12	£ 31,348	51.45%	41.16%	36.02%	33.44%	25.73%	20.85%
SE13	£ 31,886	52.88%	42.30%	37.01%	34.37%	26.44%	20.50%
SE14	£ 29,169	62.64%	50.11%	43.84%	40.71%	31.32%	22.41%
SE23	£ 33,827	53.39%	42.71%	37.38%	34.71%	26.70%	19.33%
SE26	£ 31,788	49.43%	39.54%	34.60%	32.13%	24.71%	20.56%
Average	**£ 30,733**	**58.16%**	**46.53%**	**40.71%**	**37.80%**	**29.08%**	**21.27%**

4 Bed House							
	Gross Equiv. Income	Market Rent	80% Market Rent	70% market Rent	65% Market Rent	50% Market Rent	Target Rent
BR1	£ 25,610	80.59%	64.47%	56.41%	52.38%	40.29%	28.61%
SE3	£ 36,666	72.46%	57.97%	50.72%	47.10%	36.23%	19.98%
SE4	£ 31,268	83.20%	66.56%	58.24%	54.08%	41.60%	23.43%
SE6	£ 29,082	70.72%	56.58%	49.50%	45.97%	35.36%	25.20%
SE8	£ 26,690	105.61%	84.49%	73.93%	68.65%	52.81%	27.45%
SE12	£ 31,348	64.62%	51.69%	45.23%	42.00%	32.31%	23.37%
SE13	£ 31,886	79.71%	63.77%	55.80%	51.81%	39.85%	22.98%
SE14	£ 29,169	85.41%	68.32%	59.78%	55.51%	42.70%	25.12%
SE23	£ 33,827	71.29%	57.04%	49.91%	46.34%	35.65%	21.66%
SE26	£ 31,788	71.57%	57.26%	50.10%	46.52%	35.79%	23.05%
Average	**£ 30,733**	**77.91%**	**62.32%**	**54.53%**	**50.64%**	**38.95%**	**23.84%**

Table 1: Affordability for Median Household Incomes

As we can see for 1 bed units at 80% market rents, the affordability requirement is met for most postcodes. However only a quarter of postcodes fall within the desired affordability threshold for 2 bed units at 80% market rent, and a much higher proportion fall within the threshold at 70% for this unit size. For 3 bed units 65% market rent would need to be charged to meet the affordability threshold, and 50% market rent for 4 bed units.

In basic terms, it is clear to see the increasing affordability issues for larger homes.

The second stage of the analysis considered the Office of National Statistics Annual Survey of Hours and Earnings and looked in detail at benefits and the effect upon affordability. Where families are earning enough to be eligible for Working Tax Credit and are therefore exempt from the benefits cap, housing benefit will rise to meet any increased rent experienced through higher Affordable Rent levels. Therefore in basic terms higher rent levels, and in turn affordability, would not tend to be an issue for these households, regardless of size. However, unemployed households would **not** be exempt from the total household benefit cap, and affordability will be an increasing concern, depending upon home size. The following chart indicates where total benefits are likely to exceed the household benefit cap for unemployed families.

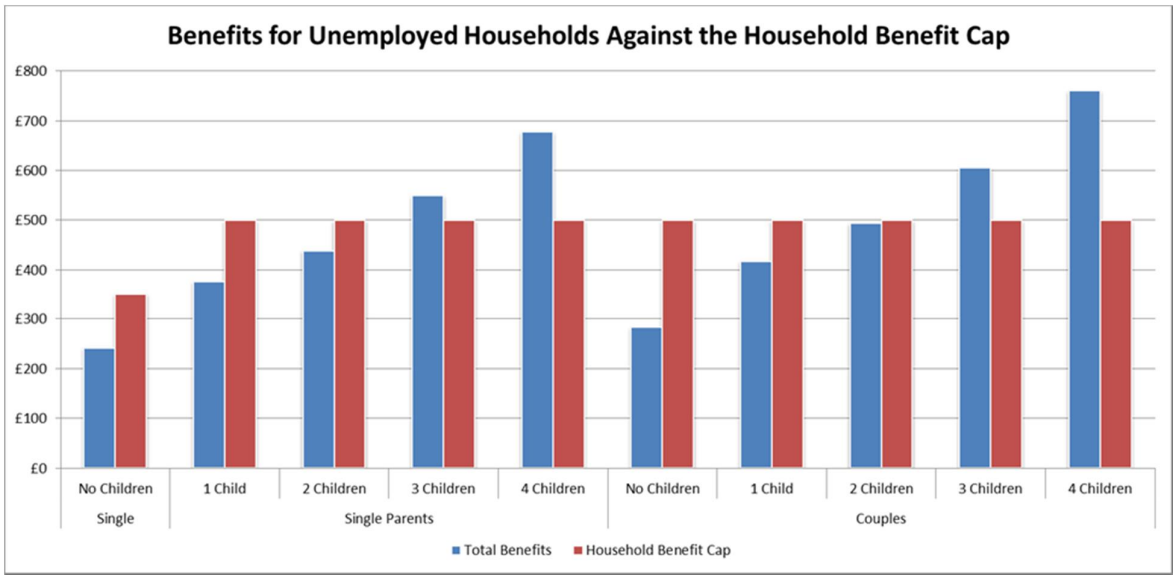


Chart 4: Impact of the Benefit Cap

The third stage of the analysis considers the impact of higher rents in more detail and here the study models hypothetical unemployed and low income households to see the changes to people's "Residual Income" (money left after rent has been paid and benefits received) in order to answer the following question – will these families be worse off under Affordable Rent?

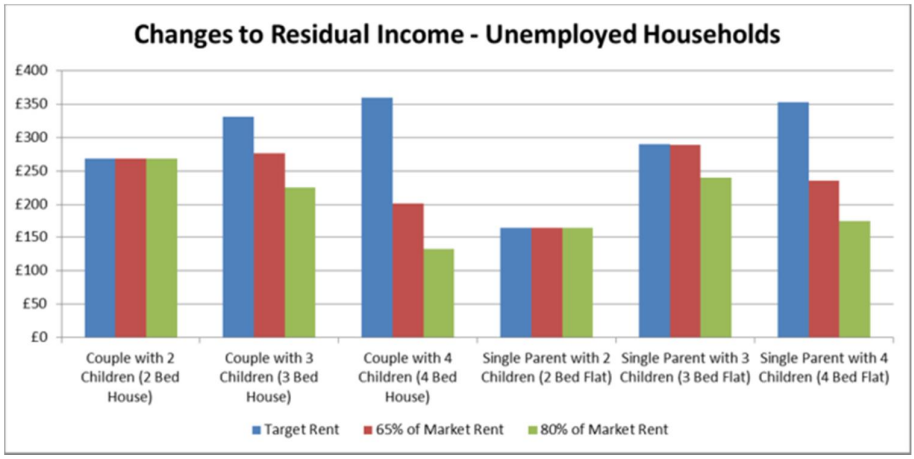


Chart 5: Changes to Residual Income for Unemployment Households

We can see from the above chart the reduction in residual income for unemployed families, when rent levels are compared to target. The effect is exacerbated for larger families, and shows the tangible impact of higher rent levels on larger families in housing need.

Overarching findings of this study are:

- Although there are geographical affordability differences by post-codes, we would recommend applying overarching rent guidance rather than a set of guidelines based on postcodes. This will be simpler to operate in reality.
- There is a huge difference in affordability between smaller and larger homes. One and (to some extent) two bed homes would appear to be affordable for most people, regardless of circumstances.

- For three and four bed homes, affordability varies hugely depending upon whether the household is in employment. Unemployed larger families will see a sometimes significant reduction in their weekly budget.
- Larger working families will not necessarily be affected by higher rent levels in terms of residual income.

In summary, we would suggest that Affordable Rent guidance could be provided to Registered Providers within the Borough stating that appropriate Affordable Rent levels would be as such:

- 1-bed: 80% market rent or LHA
- 2-bed: 70 to 80% market rent or LHA
- 3-bed: Up to 65% or a proportion at the capped rent of 50%
- 4-bed: 50% market rent (capped rent)

The rent levels above would give some comfort that the “at risk” larger unemployed families will at least have some housing options that will not see immediate affordability issues. As three beds are the threshold point at which affordability issues begin in earnest, it could be that a proportion of these could be appropriate at a lower “capped” level for families most in housing need, but with the remainder placed at a slightly higher rental level (up to 65%) for working families where affordability is not as acute an issue. Such a split would be more difficult for four bed homes as the affordability results are that much worse.

3. Market Research

There are approximately 120,000 households[1] within the London Borough of Lewisham that span across 15 postcodes. For the purpose of this study we will focus on the following postcodes that contain 97% of Lewisham's households:

- BR1: 7,961 households
- SE3: 2,357 households
- SE4: 12,187 households
- SE6: 21,834 households
- SE8: 10,403 households
- SE12: 9,364 households
- SE13: 18,235 households
- SE14: 10,034 households
- SE23: 14,404 households
- SE26: 10,712 household

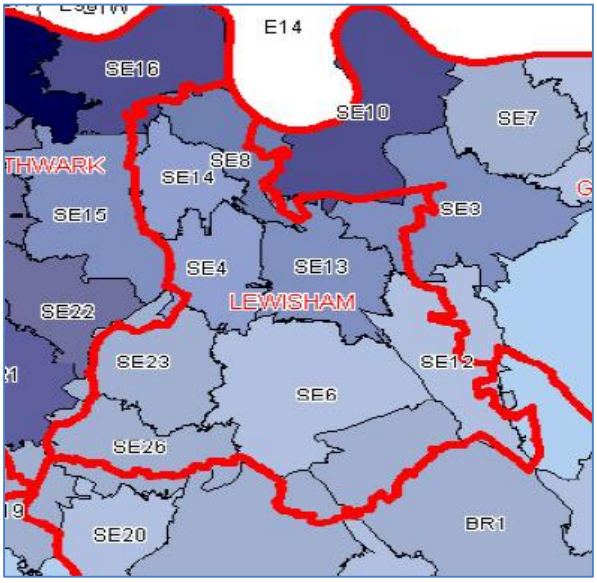


Image 1: Lewisham Postcodes

2.1 Market Rental Values

In order to ascertain the average market rental values in the above identified areas, we have used the following process:

1. Identify area/postcode advertised average values from online databases (Zoopla, Rightmove, Prime Location etc)
2. Identify actual local comparable values to verify and adjust the above averages
3. Iron-out anomalies and ensure sensible progression in values

[1] CACI Paycheck Income Data 2013

Table 1 shows the average advertised rental values per calendar month[2], as of the date of research initiation.

	1 Bed Flat	2 Bed Flat	3 Bed Flat	4 Bed Flat	2 Bed House	3 Bed House	4 Bed House
BR1	£ 858	£ 1,299	£ 1,788	£ 2,167	£ 1,132	£ 1,322	£ 2,070
SE3	£ 1,205	£ 1,496	£ 1,888	£ 1,976	£ 1,463	£ 1,855	£ 2,495
SE4	£ 887	£ 1,337	£ 1,593	£ 1,952	£ 1,240	£ 1,734	£ 2,168
SE6	£ 817	£ 1,108	£ 1,319	£ 1,499	£ 1,199	£ 1,420	£ 1,876
SE8	£ 1,149	£ 1,638	£ 2,434	£ 1,950	£ 1,398	£ 2,009	£ 2,441
SE12	£ 930	£ 1,091	£ 1,216	£ 1,348	£ 1,246	£ 1,383	£ 1,688
SE13	£ 1,026	£ 1,346	£ 1,485	£ 1,400	£ 1,343	£ 1,608	£ 2,118
SE14	£ 923	£ 1,361	£ 1,661	£ 1,798	£ 1,658	£ 1,808	£ 2,076
SE23	£ 1,010	£ 1,231	£ 1,425	£ 1,798	£ 1,337	£ 1,767	£ 2,159
SE26	£ 820	£ 1,208	£ 1,327	£ 1,733	£ 1,323	£ 1,559	£ 1,896
Average	**£ 963**	**£ 1,312**	**£ 1,614**	**£ 1,762**	**£ 1,334**	**£ 1,647**	**£ 2,099**

Table 2: Average Advertised Rental Values

This is the average of everything that is currently being advertised online at the time of data capture. As you will note in the above data, in some cases, the rental value for houses is lower than the rental value for flats of the same size.

Table 2 shows the averages of our own researched comparable values per calendar month rather than published averages – i.e. our team have undertaken a careful study and picked appropriate comparable values for each postcode and unit size – we would aim for around ten suitable values where possible. This process allows a potentially more accurate view to be formed as "non-standard" values (i.e. exceptionally high or low) can be excluded. As you will note some of the areas don't have any results. This is due to no appropriate comparable values being available on the market in that area at that time.

	1 Bed Flat	2 Bed Flat	3 Bed Flat	4 Bed Flat	2 Bed House	3 Bed House	4 Bed House
BR1	£ 800	£ 1,014	£ 1,175		£ 1,075	£ 1,281	£ 1,350
SE3	£ 1,102	£ 1,551	£ 1,815		£ 1,456	£ 1,543	£ 2,513
SE4	£ 973	£ 1,278	£ 1,549	£ 2,400	£ 1,443	£ 1,756	£ 2,783
SE6	£ 897	£ 1,082	£ 1,319	£ 1,500	£ 1,208	£ 1,429	£ 1,843
SE8	£ 1,116	£ 1,477	£ 2,320	£ 1,850	£ 1,398	£ 2,009	£ 2,515
SE12	£ 904	£ 1,804	£ 1,249	£ 1,348	£ 1,227	£ 1,390	£ 1,706
SE13	£ 1,059	£ 1,273	£ 1,411	£ 1,400	£ 1,317	£ 1,611	£ 2,031
SE14	£ 979	£ 1,318	£ 1,620	£ 1,798	£ 1,657	£ 1,908	£ 2,077
SE23	£ 1,047	£ 1,221	£ 1,430	£ 1,800	£ 1,400	£ 1,721	£ 2,095
SE26	£ 901	£ 1,230	£ 1,413	£ 1,733	£ 1,320	£ 1,551	£ 1,946
Average	**£ 978**	**£ 1,325**	**£ 1,530**	**£ 1,729**	**£ 1,350**	**£ 1,620**	**£ 2,086**

Table 3: Average Comparable Rental Values

The following table shows the GLA rent map median and upper quartile rental values per calendar month. The GLA rent map records "let" property data based on records from the past 12 months.

[2] Zoopla – January 2014

	Median				Upper Quartile			
	1 Bed	2 Bed	3 Bed	4 Bed	1 Bed	2 Bed	3 Bed	4 Bed
BR1	£ 822	£ 1,005	£ 1,205	£ 1,705	£ 892	£ 1,153	£ 1,305	£ 2,084
SE3	£ 1,018	£ 1,305	£ 1,501	£ 2,610	£ 1,170	£ 1,457	£ 1,688	£ 3,310
SE4	£ 853	£ 1,205	£ 1,405	£ 2,284	£ 927	£ 1,305	£ 1,483	£ 2,449
SE6	£ 753	£ 1,005	£ 1,279	£ 1,631	£ 805	£ 1,070	£ 1,357	£ 1,714
SE8	£ 953	£ 1,205	£ 1,610	£ 2,066	£ 1,053	£ 1,305	£ 2,010	£ 2,349
SE12	£ 813	£ 1,005	£ 1,305	£ 1,757	£ 870	£ 1,053	£ 1,344	£ 2,549
SE13	£ 953	£ 1,205	£ 1,305	£ 1,805	£ 1,005	£ 1,357	£ 1,405	£ 2,649
SE14	£ 853	£ 1,105	£ 1,405	£ 1,958	£ 905	£ 1,227	£ 1,523	£ 2,336
SE23	£ 853	£ 1,105	£ 1,305	£ 1,705	£ 900	£ 1,205	£ 1,505	£ 2,010
SE26	£ 805	£ 1,005	£ 1,305	£ 1,853	£ 879	£ 1,205	£ 1,309	£ 2,132
Average	**£ 867**	**£ 1,115**	**£ 1,362**	**£ 1,937**	**£ 940**	**£ 1,234**	**£ 1,493**	**£ 2,358**

Table 4: GLA London Rent Map Values

It is important to note that on average rental values are 5% to 10% below asking values, which is why we would expect the GLA rent map values to generally be lower than the advertised values. Also it should be noted that the GLA rent map data does not distinguish between flats and houses and therefore has some limitations.

The following charts show the above data in graph format for a few postcodes to highlight some the issues in deriving average rental values:

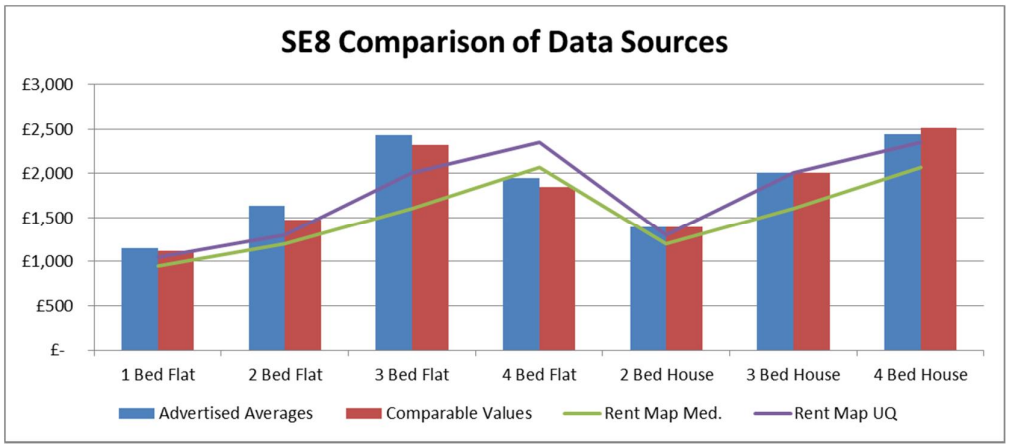


Chart 6: SE8 Comparison of Data Sources

In SE8 we can see that whilst the values for each unit size progressively increases, the advertised values for the houses are lower than the advertised value for flats – this is unusual as we would naturally expect houses to command a higher rental value than flats. There are a number of reasons why this could be, but primarily it will depend on the type and number of properties currently being advertised – for example a high number of luxury flats in the market is likely to skew the sample data.

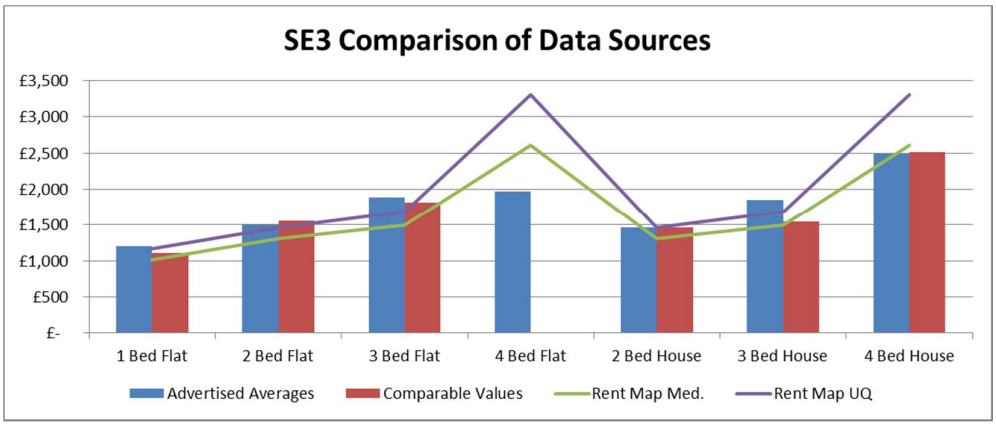


Chart 7: SE3 Comparison of Data Sources

SE3 shows a completely different picture, where the advertised values are lower than the GLA rent map values and the progress between property sizes is less defined.

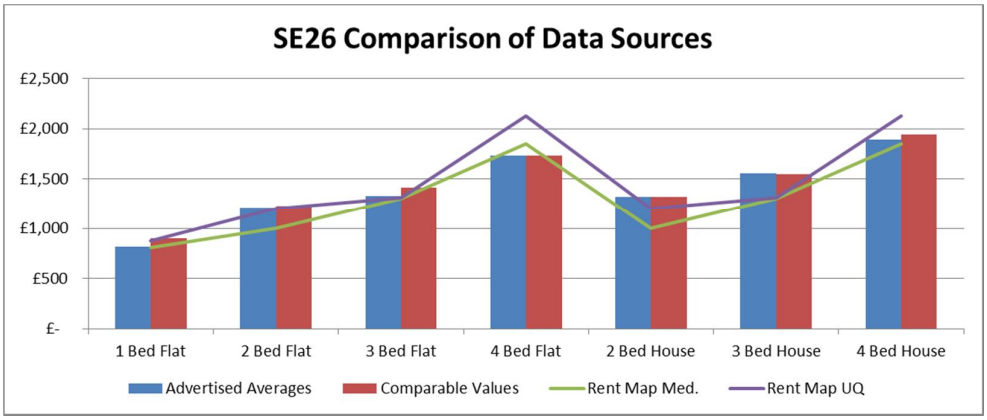


Chart 8: SE26 Comparison of Data Sources

SE26 displays a relatively "normal" pattern, however we would expect the GLA rent map to be slightly lower than the advertised values and the spike in GLA values for 4 bed flats is notable.

The above charts demonstrate the need to use some judgement to attempt to ensure that anomalies have been ironed out (i.e. there is a sensible progressive increase for property sizes). However at the same time we do not want to lose the unique variations in the market for each postcode.

One point to note is that whereas we have seen value differences between postcodes that are consistent throughout the research work, these differences are not as extreme as those encountered in some other inner London boroughs. Also, there will of course be pockets of value difference within each postcode itself. This would suggest to us that borough-wide rent guidance may be a better and simpler way forward.

Having analysed the above data sets and applied a level of judgement to the results, we have determined what we would consider to be the current appropriate average values to use within our affordability modelling. We have compared our average rental values for each postcode against average target rents, Affordable Rent and local housing allowance (LHA) levels for benchmarking purposes.

LHA rates are used to calculate maximum Housing Benefit for tenants renting from private landlords. LHA rates depend on the area in which the claim is made – these relatively wide areas are called Broad Rental Market Areas (BRMA). Although Registered Providers are not strictly limited by LHA, Affordable Rents tend not to exceed these in normal circumstances. In Lewisham there are two applicable BRMA's, Inner South East London and Outer South East London and these do not necessarily match the postcode

boundaries – however the postcodes do have a dominant BRMA. The following is an indication of which BRMA is applicable in each postcode:

- BR1: Mostly Outer South East London BRMA but the very top of the postcode (Catford) does fall within the Inner South East London BRMA
- SE3: Mostly Inner South East London BRMA but the east if the postcode (Kidbrooke) does fall within the Outer South East London BRMA
- SE4: Inner South East London BRMA
- SE6: Mostly Inner South East London but the southern tip of the postcode (part of Bellingham) falls within the Outer London BRMA
- SE8: Inner South East London BRMA
- SE12: Mostly Outer South East London BRMA but the west of the postcode (Manor Lane area) falls within the Inner South East London BRMA
- SE13: Inner South East London BRMA
- SE14: Inner South East London BRMA
- SE23: Inner South East London BRMA
- SE26: Mostly Inner South East London BRMA but the southern tip of the postcode (Sydenham area) falls within the Outer South East London BRMA

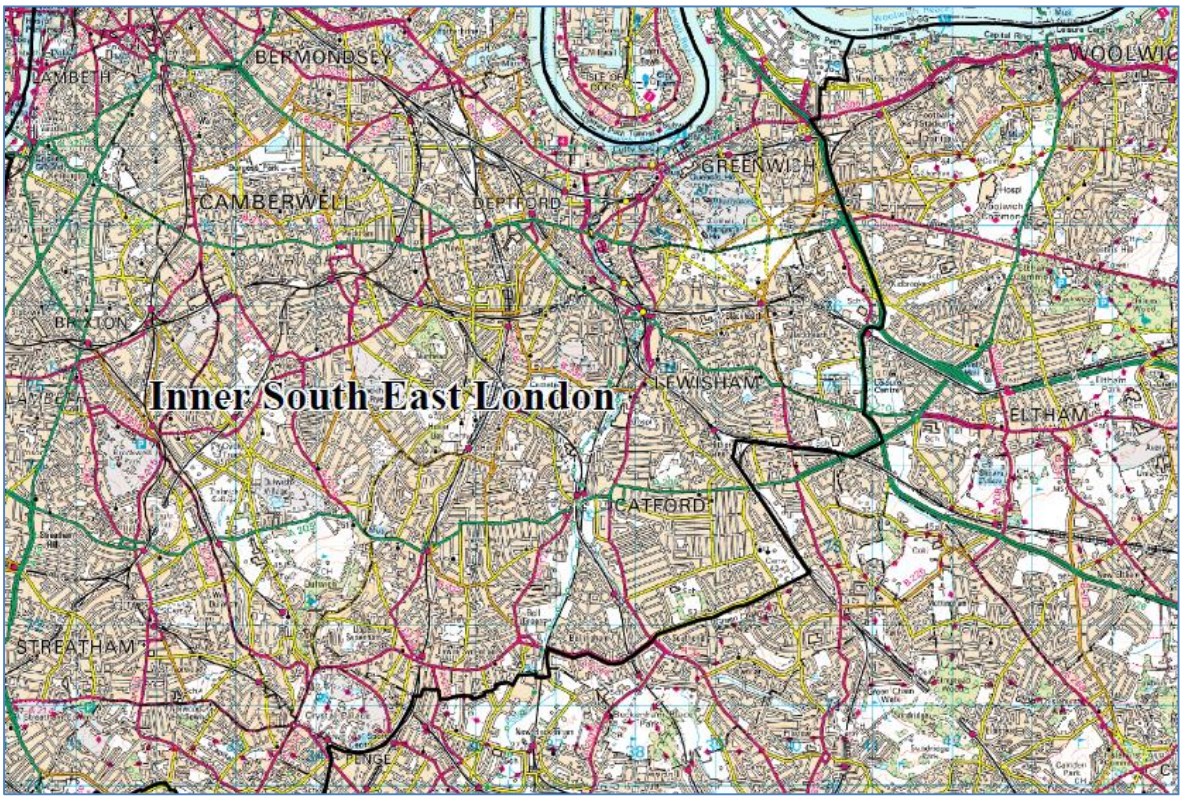


Image 2: Lewisham Broad Rental Market Areas

As you can see all 10 of the main postcodes include areas within the Inner South East London BRMA but only 6 fall in the Outer South East London BRMA.

The following chart and table shows average rental values for each postcode and benchmarks:

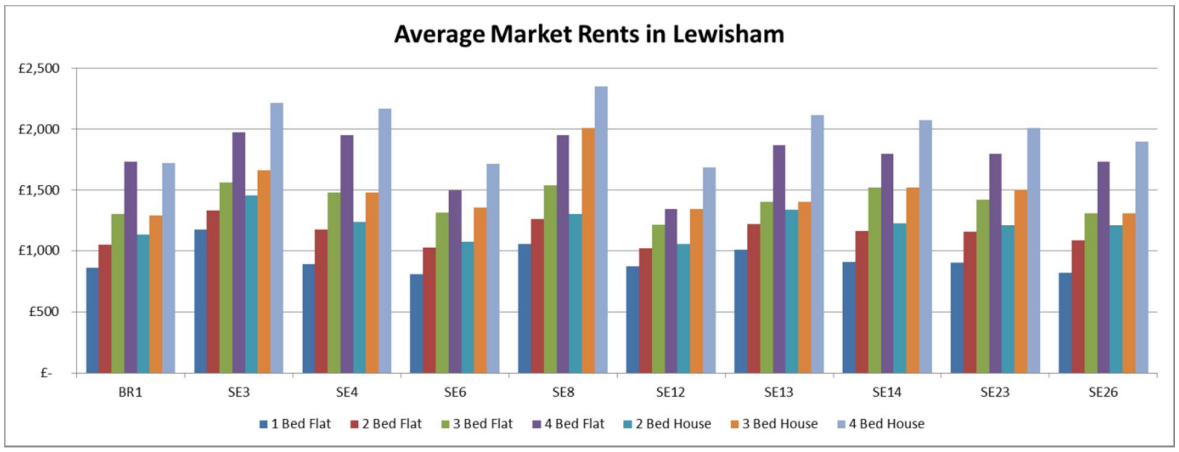
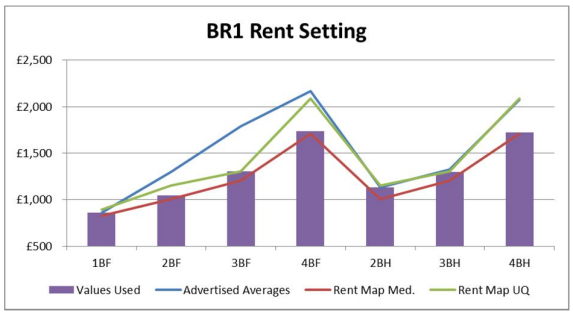


Chart 9: Average Market Rents in Lewisham

	1 Bed Flat	2 Bed Flat	3 Bed Flat	4 Bed Flat	2 Bed House	3 Bed House	4 Bed House
BR1	£ 858	£ 1,045	£ 1,305	£ 1,735	£ 1,132	£ 1,294	£ 1,720
SE3	£ 1,170	£ 1,337	£ 1,561	£ 1,976	£ 1,457	£ 1,666	£ 2,214
SE4	£ 887	£ 1,173	£ 1,483	£ 1,952	£ 1,240	£ 1,483	£ 2,168
SE6	£ 805	£ 1,024	£ 1,319	£ 1,499	£ 1,070	£ 1,357	£ 1,714
SE8	£ 1,053	£ 1,266	£ 1,541	£ 1,950	£ 1,305	£ 2,009	£ 2,349
SE12	£ 870	£ 1,020	£ 1,216	£ 1,348	£ 1,053	£ 1,344	£ 1,688
SE13	£ 1,005	£ 1,224	£ 1,405	£ 1,868	£ 1,343	£ 1,405	£ 2,118
SE14	£ 905	£ 1,160	£ 1,523	£ 1,798	£ 1,227	£ 1,523	£ 2,076
SE23	£ 900	£ 1,155	£ 1,425	£ 1,798	£ 1,205	£ 1,505	£ 2,010
SE26	£ 820	£ 1,084	£ 1,309	£ 1,733	£ 1,205	£ 1,309	£ 1,896
Average	**£ 927**	**£ 1,149**	**£ 1,409**	**£ 1,766**	**£ 1,224**	**£ 1,490**	**£ 1,995**
Target Rent	£ 416	£ 481	£ 545	£ 611	£ 481	£ 545	£ 611
Rent Cap	£ 575	£ 609	£ 642	£ 676	£ 609	£ 642	£ 676
Ave. AR	£ 562	£ 727	£ 803	£ 803	£ 727	£ 803	£ 803
LHA - ISE	£ 821	£ 1,067	£ 1,330	£ 1,743	£ 1,067	£ 1,330	£ 1,743
LHA - OSE	£ 663	£ 846	£ 1,004	£ 1,334	£ 846	£ 1,004	£ 1,334

Table 5: Average Market Rents in Lewisham

The following charts show how these rents sit within the advertised average and GLA rent map benchmarking:



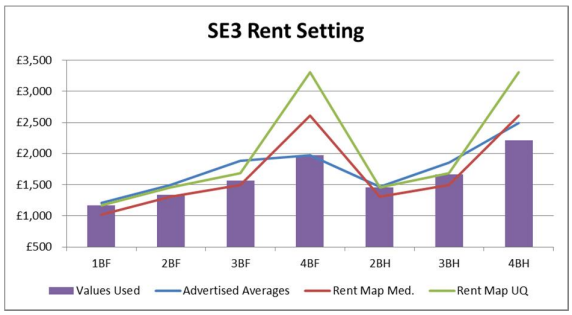


Chart 10: Postcode Rent Setting

4. Income Data

3.1 Average Household Income Levels

The ability of households to pay rent when there is one or more persons working will vary dependent on the income level of the household, while in most cases for unemployed households Housing Benefit covers the majority of rental costs. In addition, for households with the same level of earned income the affordability of various rent levels will vary depending on the makeup of the households – since child benefits / tax credits change based on how many children, and the ages of those children, there are in a household.

As part of this study we used equivalised PayCheck household income levels for each postcode.

Equivalisation attempts to equate standard of living to income by household size – e.g., a childless couple on £20,000 net income will have more disposable income than a couple on the same income with four children and the related costs that this brings. Therefore, with equivalised data, the childless couple's income is worth more as their standard of living is higher in real terms. A discount rate (the McClements Scale[3]) is applied to calculate the equivalised figures, with a discount per child, increasing as the child gets older (and costs more).

It is important to note that the PayCheck data does include the receipt of benefits within Household Income.

Postcode	Total Households	Mean Income	Median Income	Lower Quartile	Upper Quartile	Modal Income
BR1	7,961	£ 30,200	£ 25,610	£ 16,460	£ 38,881	£ 16,880
SE3	2,357	£ 43,762	£ 36,666	£ 23,139	£ 56,100	£ 25,000
SE4	12,187	£ 36,725	£ 31,268	£ 19,966	£ 47,413	£ 21,675
SE6	21,834	£ 34,213	£ 29,082	£ 18,622	£ 44,121	£ 20,027
SE8	10,403	£ 31,213	£ 26,690	£ 17,158	£ 40,355	£ 17,895
SE12	9,364	£ 36,957	£ 31,348	£ 20,021	£ 47,565	£ 21,576
SE13	18,235	£ 37,459	£ 31,886	£ 20,376	£ 48,274	£ 22,127
SE14	10,034	£ 34,079	£ 29,169	£ 18,678	£ 44,126	£ 19,855
SE23	14,404	£ 39,729	£ 33,827	£ 21,582	£ 51,197	£ 23,349
SE26	10,712	£ 37,382	£ 31,788	£ 20,314	£ 48,145	£ 21,680
Total/Average	**117,491**	**£ 36,172**	**£ 30,733**	**£ 19,632**	**£ 46,618**	**£ 21,006**

Table 6: Paycheck Income Summary

The following chart demonstrates the household income differentials, based on median income, which we see throughout the different wards within the borough

[3] Using OECD Equivalence Scale in Taxes and Benefits Analysis (http://www.ons.gov.uk/ons/rel/elmr/economic-and-labour-market-review/no--1--january-2010/using-the-oecd-equivalence-scale-in-taxes-and-benefits-analysis.pdf)

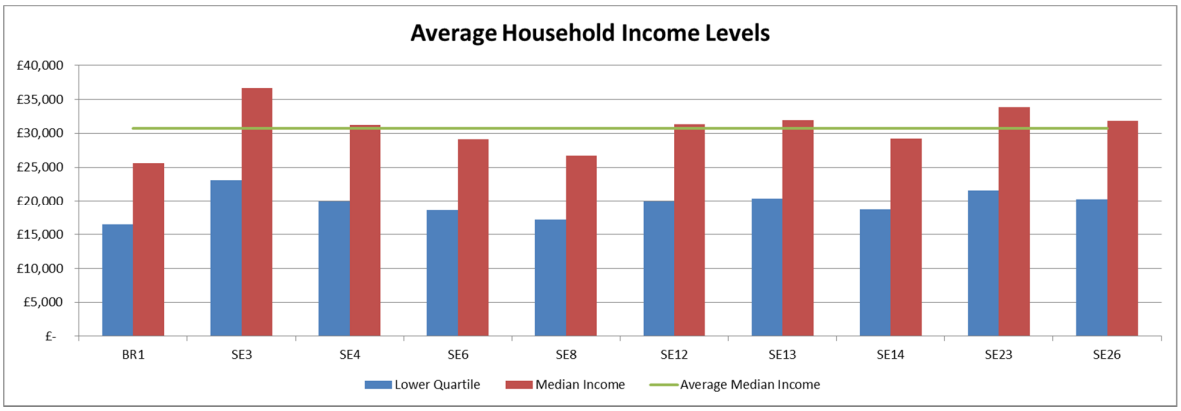


Chart 11: Average Household Incomes

3.2 Income Distribution

The following chart shows how income is distributed across the various wards.

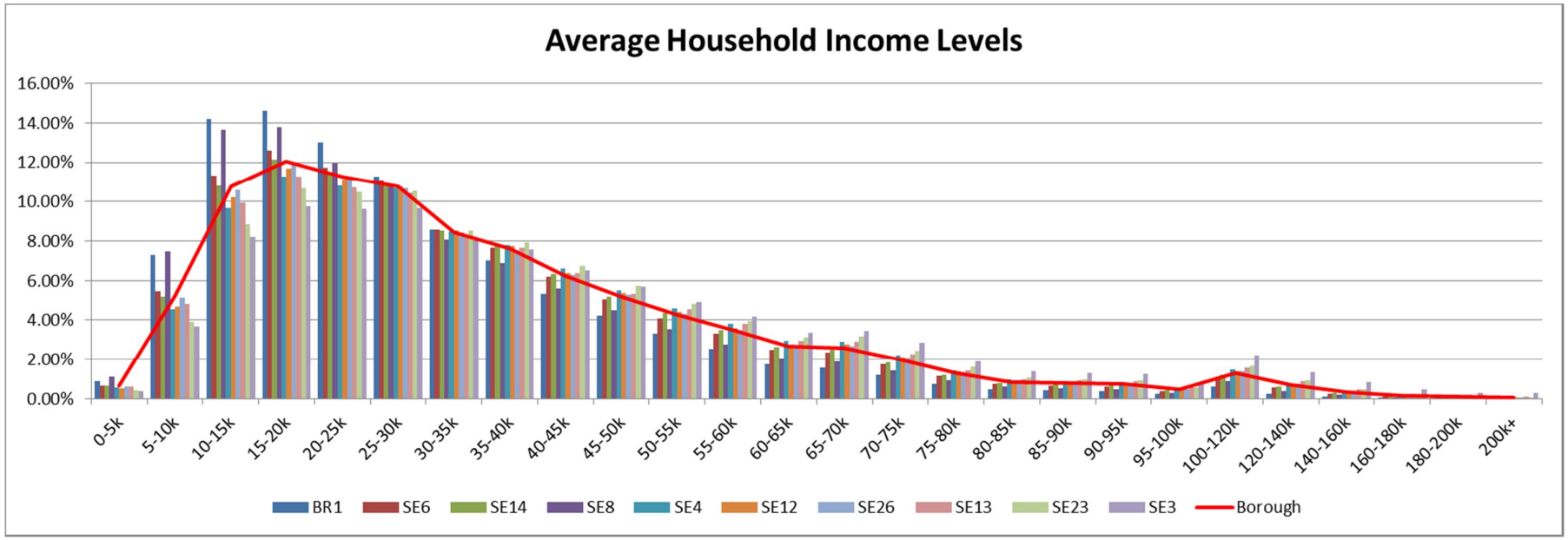


Chart 12: Average Household Incomes Levels

The data has been sorted in this chart to show the ward with the lowest median income on the left hand side of each data set and the ward with the highest median income on the right hand side of each income band data set. The overall pattern is a familiar one, and in line with most other boroughs that we have studied. There is a large number of low-income households on a similar income level, presumably currently in receipt of benefits – a number of these people will be unemployed or in very low paid work.

You may expect postcodes with the highest distribution of low earners to also have the lowest rents however this is not always the case. A case in point being Lee in SE12 which sits in the middle in terms of income distribution but has one of the lowest average range of rents, whereas Depford in SE8 has the highest range of rents but a high distribution of low income earners. This highlights the fact that whilst rent and income levels are connected at some level, the connection is more complex and a number of other external factors also affect this relationship.

3.4 ASHE Data

ASHE provides information about the levels, distribution and make-up of earnings and hours paid for employees within industries, occupations and regions.

The ASHE tables contain UK data on earnings for employees by gender and full-time/ part-time work. Further breakdowns are also given arranged by region, occupation, industry, and age-groups.

These breakdowns are available for the following variables:

- gross weekly pay
- weekly pay excluding overtime
- basic pay including other pay
- overtime pay
- gross hourly pay
- hourly pay excluding overtime
- gross annual pay
- annual incentive pay
- total paid hours
- basic paid hours
- paid overtime hours

Table 6 below shows the gross median and mean earnings levels for Lewisham residents and the level of earnings for each defined percentile of the population e.g. 20% of Lewisham residents earn £12,192 or lower.

Description	No. of Jobs (,000)	Median	Mean	Percentiles									
				10	20	25	30	40	60	70	75	80	90
Lewisham (All)	91	£ 27,251	£ 31,439	£ 7,482	£ 12,192	£ 15,349	£ 18,501	£ 23,755	£ 31,437	£ 36,476	£ 39,634	£ 44,456	£ -
Lewisham (Men)	46	£ 30,470	£ 36,227	£ -	£ 18,183	£ 20,606	£ 23,375	£ 27,328	£ 35,040	£ 40,194	£ 44,856	£ -	£ -
Lewisham (Women)	44	£ 23,705	£ 26,461	£ -	£ 9,517	£ 12,127	£ 13,678	£ 18,610	£ 27,714	£ 32,442	£ 35,243	£ 37,941	£ -
London	2,529	£ 28,000	£ 36,781	£ 7,916	£ 14,012	£ 16,677	£ 19,026	£ 23,469	£ 32,800	£ 38,476	£ 41,953	£ 46,336	£ 64,102
England	17,747	£ 22,204	£ 27,737	£ 6,835	£ 11,330	£ 13,386	£ 15,233	£ 18,664	£ 26,335	£ 31,246	£ 34,218	£ 37,711	£ 49,000
United Kingdom	21,488	£ 21,905	£ 27,174	£ 6,824	£ 11,251	£ 13,262	£ 15,080	£ 18,443	£ 25,986	£ 30,801	£ 33,717	£ 37,010	£ 47,913

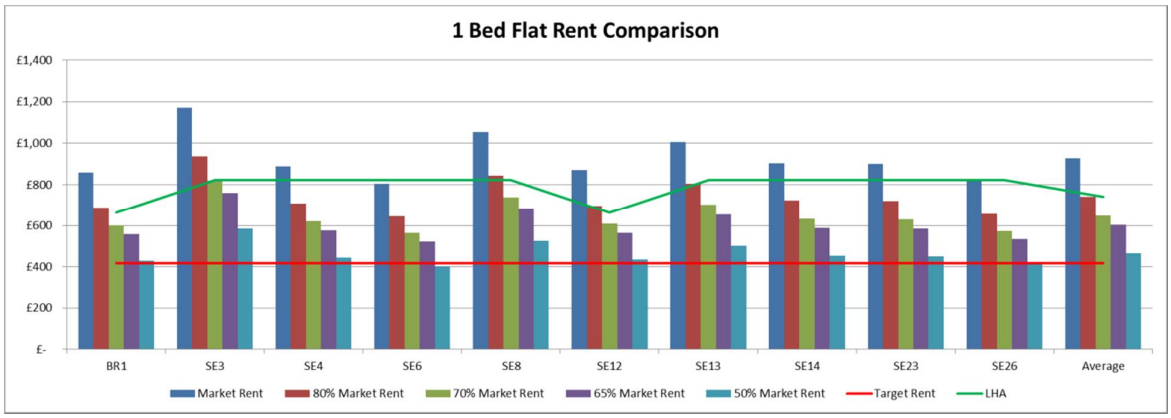
Table 7: ASHE Income Summary

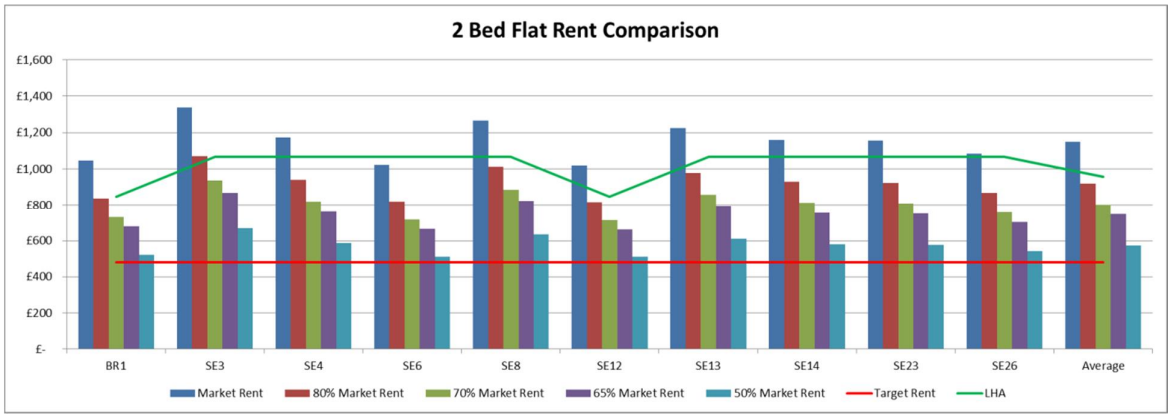
As we expect, the earnings figures are lower than the CACI Paycheck data. This figure will become more important in our Step 2 analysis of affordability in which we used the median income for all Lewisham. However, it should be noted that women earn considerably less than men and therefore affordability for single parent households are likely to be worse than stated in our calculations.

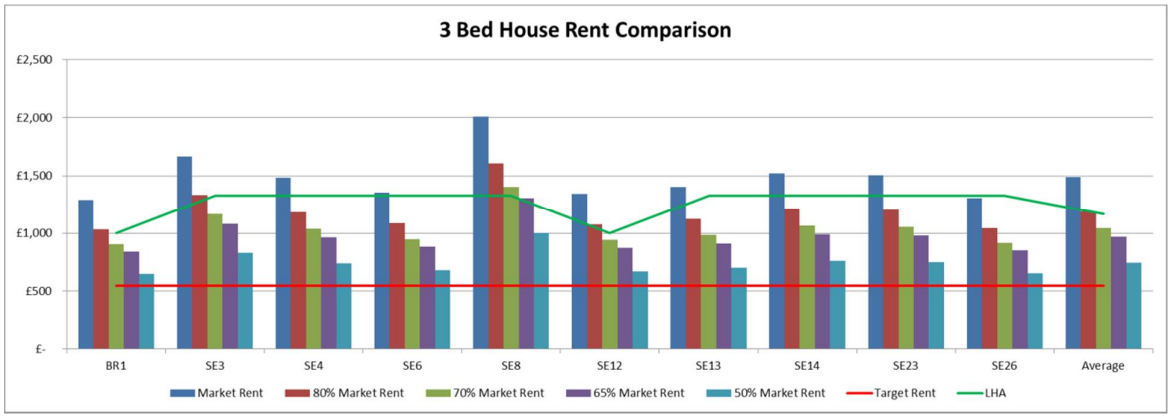
5. Affordability – Rent

4.1 The Affordable Rent Product Comparison

The following charts shows market rent and Affordable Rent at various percentages of market rent in comparison with Target Rent levels and Local Housing Allowance levels.







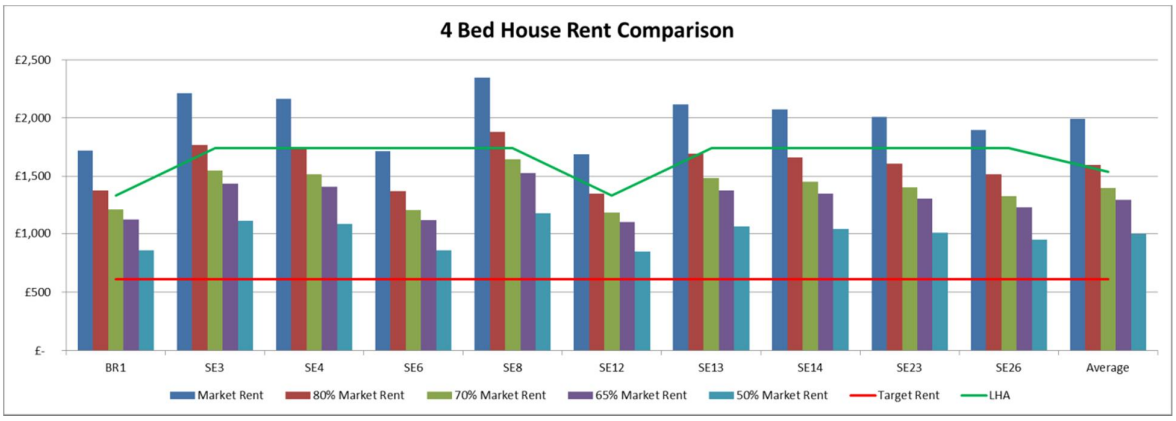


Chart 13: Rent Level Comparisons

For 1 beds target rent levels equate to approximately 50% of market rent. 80% market rents are generally in line or below the appropriate LHA level (SE3 being an exception).

For 2 beds target rent levels are just under 50% of market rent. 80% market rents are generally below the LHA level.

For 3 and 4 beds target rent levels are significantly below 50% of market rent. 80% market rents are generally in line with the LHA level, although SE8 rents are higher with regard to both 3 and 4 beds.

This tells us that under The Mayor's Covenant, the lowest rent that could be charged is 50% market rent rather than target rent, as this is significantly below 50% in most cases except 1 bed units. It also lets us know that in most cases 80% market rent will be within LHA levels.

Consideration should be given for how Affordable Rents will compare to Local Housing Allowance in the coming years. In the Autumn Statement 2012, the Government announced that most LHA rates will be increased by a maximum of 1% in 2014-15 and 2016-16[4]. Market analysts suggest that the rental market is increasing slower than the sale market, however rents are likely to increase at a higher rate than 1% each year and therefore there is a danger of Affordable Rent at 80% of market outstripping LHA levels in future years.

4.2 Step 1 – Basic Affordability Calculations

As described in the methodology, we feel that building up the level of detail in steps for affordability analysis is the best way to deal with a fairly complex subject matter where there is no strictly definitive approach set out by the industry.

For our initial view of affordability, we have simply taken median household income levels from the PayCheck data in section 3, and applied our affordability criteria of rent not exceeding 33% of gross household income.

As mentioned in the introduction, at this step we consider affordability in general and our results do not specifically look at households in receipt of benefits. The PayCheck data includes all forms of household income including benefits, but it does not split the income out and therefore is of most use for some basic, initial affordability analysis. We will look at households in receipt of benefits in sections 5 and 6.

These initial results can be seen in the following chart, which show rent at different levels of market rent as a proportion of household income:

[4] Local Housing Allowance Targeted Affordability Funding – June 2013

1 Bed Flats							
	Gross Equiv. Income	Market Rent	80% Market Rent	70% market Rent	65% Market Rent	50% Market Rent	Target Rent
BR1	£ 25,610	40.20%	32.16%	28.14%	26.13%	20.10%	19.49%
SE3	£ 36,666	38.30%	30.64%	26.81%	24.89%	19.15%	13.61%
SE4	£ 31,268	34.04%	27.23%	23.83%	22.13%	17.02%	15.96%
SE6	£ 29,082	33.21%	26.57%	23.24%	21.58%	16.60%	17.16%
SE8	£ 26,690	47.33%	37.86%	33.13%	30.76%	23.67%	18.70%
SE12	£ 31,348	33.30%	26.64%	23.31%	21.65%	16.65%	15.92%
SE13	£ 31,886	37.82%	30.25%	26.47%	24.58%	18.91%	15.65%
SE14	£ 29,169	37.22%	29.78%	26.06%	24.20%	18.61%	17.11%
SE23	£ 33,827	31.94%	25.55%	22.36%	20.76%	15.97%	14.75%
SE26	£ 31,788	30.96%	24.76%	21.67%	20.12%	15.48%	15.70%
Average	**£ 30,733**	**36.21%**	**28.96%**	**25.34%**	**23.53%**	**18.10%**	**16.24%**

2 Bed Flats							
	Gross Equiv. Income	Market Rent	80% Market Rent	70% market Rent	65% Market Rent	50% Market Rent	Target Rent
BR1	£ 25,610	48.97%	39.17%	34.28%	31.83%	24.48%	22.53%
SE3	£ 36,666	43.74%	35.00%	30.62%	28.43%	21.87%	15.74%
SE4	£ 31,268	45.01%	36.01%	31.51%	29.26%	22.51%	18.46%
SE6	£ 29,082	42.25%	33.80%	29.57%	27.46%	21.12%	19.84%
SE8	£ 26,690	56.90%	45.52%	39.83%	36.99%	28.45%	21.62%
SE12	£ 31,348	39.04%	31.23%	27.33%	25.38%	19.52%	18.41%
SE13	£ 31,886	46.06%	36.85%	32.24%	29.94%	23.03%	18.10%
SE14	£ 29,169	47.73%	38.18%	33.41%	31.02%	23.86%	19.78%
SE23	£ 33,827	40.96%	32.77%	28.67%	26.62%	20.48%	17.06%
SE26	£ 31,788	40.93%	32.74%	28.65%	26.61%	20.47%	18.15%
Average	**£ 30,733**	**44.85%**	**35.88%**	**31.40%**	**29.15%**	**22.43%**	**18.78%**

2 Bed House							
	Gross Equiv. Income	Market Rent	80% Market Rent	70% market Rent	65% Market Rent	50% Market Rent	Target Rent
BR1	£ 25,610	53.04%	42.43%	37.13%	34.48%	26.52%	22.53%
SE3	£ 36,666	47.69%	38.15%	33.39%	31.00%	23.85%	15.74%
SE4	£ 31,268	47.59%	38.07%	33.31%	30.93%	23.79%	18.46%
SE6	£ 29,082	44.16%	35.32%	30.91%	28.70%	22.08%	19.84%
SE8	£ 26,690	58.67%	46.94%	41.07%	38.14%	29.34%	21.62%
SE12	£ 31,348	40.30%	32.24%	28.21%	26.19%	20.15%	18.41%
SE13	£ 31,886	50.54%	40.43%	35.38%	32.85%	25.27%	18.10%
SE14	£ 29,169	50.47%	40.37%	35.33%	32.80%	25.23%	19.78%
SE23	£ 33,827	42.75%	34.20%	29.92%	27.78%	21.37%	17.06%
SE26	£ 31,788	45.49%	36.39%	31.84%	29.57%	22.74%	18.15%
Average	**£ 30,733**	**47.78%**	**38.22%**	**33.45%**	**31.06%**	**23.89%**	**18.78%**

3 Bed Flats							
	Gross Equiv. Income	Market Rent	80% Market Rent	70% market Rent	65% Market Rent	50% Market Rent	Target Rent
BR1	£ 25,610	61.15%	48.92%	42.80%	39.75%	30.57%	25.53%
SE3	£ 36,666	51.09%	40.87%	35.76%	33.21%	25.55%	17.83%
SE4	£ 31,268	56.93%	45.54%	39.85%	37.00%	28.46%	20.91%
SE6	£ 29,082	54.43%	43.54%	38.10%	35.38%	27.21%	22.48%
SE8	£ 26,690	69.31%	55.45%	48.51%	45.05%	34.65%	24.49%
SE12	£ 31,348	46.55%	37.24%	32.58%	30.26%	23.27%	20.85%
SE13	£ 31,886	52.88%	42.30%	37.01%	34.37%	26.44%	20.50%
SE14	£ 29,169	62.64%	50.11%	43.84%	40.71%	31.32%	22.41%
SE23	£ 33,827	50.55%	40.44%	35.39%	32.86%	25.28%	19.33%
SE26	£ 31,788	49.43%	39.54%	34.60%	32.13%	24.71%	20.56%
Average	**£ 30,733**	**55.01%**	**44.01%**	**38.50%**	**35.75%**	**27.50%**	**21.27%**

3 Bed House							
	Gross Equiv. Income	Market Rent	80% Market Rent	70% market Rent	65% Market Rent	50% Market Rent	Target Rent
BR1	£ 25,610	60.63%	48.50%	42.44%	39.41%	30.31%	25.53%
SE3	£ 36,666	54.51%	43.61%	38.16%	35.43%	27.26%	17.83%
SE4	£ 31,268	56.93%	45.54%	39.85%	37.00%	28.46%	20.91%
SE6	£ 29,082	56.00%	44.80%	39.20%	36.40%	28.00%	22.48%
SE8	£ 26,690	90.33%	72.26%	63.23%	58.71%	45.16%	24.49%
SE12	£ 31,348	51.45%	41.16%	36.02%	33.44%	25.73%	20.85%
SE13	£ 31,886	52.88%	42.30%	37.01%	34.37%	26.44%	20.50%
SE14	£ 29,169	62.64%	50.11%	43.84%	40.71%	31.32%	22.41%
SE23	£ 33,827	53.39%	42.71%	37.38%	34.71%	26.70%	19.33%
SE26	£ 31,788	49.43%	39.54%	34.60%	32.13%	24.71%	20.56%
Average	**£ 30,733**	**58.16%**	**46.53%**	**40.71%**	**37.80%**	**29.08%**	**21.27%**

4 Bed Flats							
	Gross Equiv. Income	Market Rent	80% Market Rent	70% market Rent	65% Market Rent	50% Market Rent	Target Rent
BR1	£ 25,610	81.28%	65.03%	56.90%	52.83%	40.64%	28.61%
SE3	£ 36,666	64.67%	51.74%	45.27%	42.04%	32.34%	19.98%
SE4	£ 31,268	74.91%	59.93%	52.44%	48.69%	37.46%	23.43%
SE6	£ 29,082	61.85%	49.48%	43.30%	40.20%	30.93%	25.20%
SE8	£ 26,690	87.67%	70.14%	61.37%	56.99%	43.84%	27.45%
SE12	£ 31,348	51.60%	41.28%	36.12%	33.54%	25.80%	23.37%
SE13	£ 31,886	70.29%	56.23%	49.20%	45.69%	35.14%	22.98%
SE14	£ 29,169	73.97%	59.18%	51.78%	48.08%	36.98%	25.12%
SE23	£ 33,827	63.78%	51.03%	44.65%	41.46%	31.89%	21.66%
SE26	£ 31,788	65.42%	52.34%	45.80%	42.52%	32.71%	23.05%
Average	**£ 30,733**	**68.94%**	**55.15%**	**48.26%**	**44.81%**	**34.47%**	**23.84%**

4 Bed House							
	Gross Equiv. Income	Market Rent	80% Market Rent	70% market Rent	65% Market Rent	50% Market Rent	Target Rent
BR1	£ 25,610	80.59%	64.47%	56.41%	52.38%	40.29%	28.61%
SE3	£ 36,666	72.46%	57.97%	50.72%	47.10%	36.23%	19.98%
SE4	£ 31,268	83.20%	66.56%	58.24%	54.08%	41.60%	23.43%
SE6	£ 29,082	70.72%	56.58%	49.50%	45.97%	35.36%	25.20%
SE8	£ 26,690	105.61%	84.49%	73.93%	68.65%	52.81%	27.45%
SE12	£ 31,348	64.62%	51.69%	45.23%	42.00%	32.31%	23.37%
SE13	£ 31,886	79.71%	63.77%	55.80%	51.81%	39.85%	22.98%
SE14	£ 29,169	85.41%	68.32%	59.78%	55.51%	42.70%	25.12%
SE23	£ 33,827	71.29%	57.04%	49.91%	46.34%	35.65%	21.66%
SE26	£ 31,788	71.57%	57.26%	50.10%	46.52%	35.79%	23.05%
Average	**£ 30,733**	**77.91%**	**62.32%**	**54.53%**	**50.64%**	**38.95%**	**23.84%**

Table 8: Affordability for Median Household Incomes

The traffic light formatting flags up clearly where there may be affordability issues, with the red cells showing where rent levels will significantly exceed 33% of income and therefore be unaffordable for most residents.

As we can see for 1 bed units at 80% market rents, the affordability requirement is met for most postcodes. However only a quarter of postcodes fall within the desired affordability threshold for 2 bed units at 80% market rent, and a much higher proportion fall within the threshold at 70% for this unit size. For 3 bed units 65% market rent would need to be charged to meet the affordability threshold, and 50% market rent for 4 bed units.

This basic analysis is useful to give an early indication of affordability differences between unit sizes and the results above suggest, as expected, that issues arise more commonly for larger homes.

We can also get a feel for geographic differences in terms of affordability across the Borough, with the postcodes Deptford in SE8, New Cross in SE14, Brockley in SE4, and Downham in BR1 appearing to be the most problematic, and Lee in

SE12 being the most “affordable”.

It is interesting to consider how these affordability results change for households on the lower quartile income levels. The following tables show this:

1 Bed Flats							
	Gross Equiv. Income	Market Rent	80% Market Rent	70% market Rent	65% Market Rent	50% Market Rent	Target Rent
BR1	£ 16,460	62.55%	50.04%	43.79%	40.66%	31.28%	30.32%
SE3	£ 23,139	60.68%	48.55%	42.48%	39.45%	30.34%	21.57%
SE4	£ 19,966	53.31%	42.65%	37.32%	34.65%	26.66%	25.00%
SE6	£ 18,622	51.86%	41.49%	36.30%	33.71%	25.93%	26.80%
SE8	£ 17,158	73.62%	58.90%	51.54%	47.86%	36.81%	29.09%
SE12	£ 20,021	52.14%	41.72%	36.50%	33.89%	26.07%	24.93%
SE13	£ 20,376	59.18%	47.34%	41.42%	38.47%	29.59%	24.49%
SE14	£ 18,678	58.13%	46.50%	40.69%	37.78%	29.06%	26.72%
SE23	£ 21,582	50.07%	40.05%	35.05%	32.54%	25.03%	23.12%
SE26	£ 20,314	48.44%	38.75%	33.91%	31.48%	24.22%	24.57%
Average	**£ 19,632**	**56.68%**	**45.34%**	**39.68%**	**36.84%**	**28.34%**	**25.42%**

2 Bed Flats							
	Gross Equiv. Income	Market Rent	80% Market Rent	70% market Rent	65% Market Rent	50% Market Rent	Target Rent
BR1	£ 16,460	76.18%	60.95%	53.33%	49.52%	38.09%	35.06%
SE3	£ 23,139	69.32%	55.45%	48.52%	45.06%	34.66%	24.94%
SE4	£ 19,966	70.49%	56.39%	49.34%	45.82%	35.25%	28.90%
SE6	£ 18,622	65.98%	52.78%	46.18%	42.88%	32.99%	30.99%
SE8	£ 17,158	88.51%	70.81%	61.96%	57.53%	44.26%	33.63%
SE12	£ 20,021	61.13%	48.90%	42.79%	39.73%	30.56%	28.82%
SE13	£ 20,376	72.08%	57.66%	50.45%	46.85%	36.04%	28.32%
SE14	£ 18,678	74.54%	59.63%	52.18%	48.45%	37.27%	30.90%
SE23	£ 21,582	64.20%	51.36%	44.94%	41.73%	32.10%	26.74%
SE26	£ 20,314	64.05%	51.24%	44.83%	41.63%	32.02%	28.41%
Average	**£ 19,632**	**70.21%**	**56.17%**	**49.15%**	**45.64%**	**35.11%**	**29.39%**

2 Bed House							
	Gross Equiv. Income	Market Rent	80% Market Rent	70% market Rent	65% Market Rent	50% Market Rent	Target Rent
BR1	£ 16,460	82.53%	66.02%	57.77%	53.64%	41.26%	35.06%
SE3	£ 23,139	75.57%	60.46%	52.90%	49.12%	37.79%	24.94%
SE4	£ 19,966	74.53%	59.62%	52.17%	48.44%	37.26%	28.90%
SE6	£ 18,622	68.96%	55.16%	48.27%	44.82%	34.48%	30.99%
SE8	£ 17,158	91.27%	73.02%	63.89%	59.32%	45.63%	33.63%
SE12	£ 20,021	63.10%	50.48%	44.17%	41.01%	31.55%	28.82%
SE13	£ 20,376	79.09%	63.27%	55.36%	51.41%	39.55%	28.32%
SE14	£ 18,678	78.81%	63.05%	55.17%	51.23%	39.40%	30.90%
SE23	£ 21,582	67.00%	53.60%	46.90%	43.55%	33.50%	26.74%
SE26	£ 20,314	71.18%	56.94%	49.82%	46.27%	35.59%	28.41%
Average	**£ 19,632**	**74.80%**	**59.84%**	**52.36%**	**48.62%**	**37.40%**	**29.39%**

3 Bed Flats							
	Gross Equiv. Income	Market Rent	80% Market Rent	70% market Rent	65% Market Rent	50% Market Rent	Target Rent
BR1	£ 16,460	95.14%	76.11%	66.60%	61.84%	47.57%	39.71%
SE3	£ 23,139	80.96%	64.77%	56.67%	52.62%	40.48%	28.25%
SE4	£ 19,966	89.15%	71.32%	62.41%	57.95%	44.58%	32.74%
SE6	£ 18,622	84.99%	68.00%	59.50%	55.25%	42.50%	35.10%
SE8	£ 17,158	107.81%	86.25%	75.47%	70.08%	53.90%	38.10%
SE12	£ 20,021	72.88%	58.31%	51.02%	47.37%	36.44%	32.65%
SE13	£ 20,376	82.75%	66.20%	57.92%	53.79%	41.37%	32.08%
SE14	£ 18,678	97.81%	78.25%	68.47%	63.58%	48.91%	35.00%
SE23	£ 21,582	79.23%	63.39%	55.46%	51.50%	39.62%	30.29%
SE26	£ 20,314	77.34%	61.88%	54.14%	50.27%	38.67%	32.18%
Average	**£ 19,632**	**86.11%**	**68.89%**	**60.28%**	**55.97%**	**43.06%**	**33.30%**

3 Bed House							
	Gross Equiv. Income	Market Rent	80% Market Rent	70% market Rent	65% Market Rent	50% Market Rent	Target Rent
BR1	£ 16,460	94.32%	75.46%	66.03%	61.31%	47.16%	39.71%
SE3	£ 23,139	86.38%	69.10%	60.47%	56.15%	43.19%	28.25%
SE4	£ 19,966	89.15%	71.32%	62.41%	57.95%	44.58%	32.74%
SE6	£ 18,622	87.46%	69.96%	61.22%	56.85%	43.73%	35.10%
SE8	£ 17,158	140.51%	112.40%	98.35%	91.33%	70.25%	38.10%
SE12	£ 20,021	80.56%	64.45%	56.39%	52.37%	40.28%	32.65%
SE13	£ 20,376	82.75%	66.20%	57.92%	53.79%	41.37%	32.08%
SE14	£ 18,678	97.81%	78.25%	68.47%	63.58%	48.91%	35.00%
SE23	£ 21,582	83.69%	66.95%	58.58%	54.40%	41.84%	30.29%
SE26	£ 20,314	77.34%	61.88%	54.14%	50.27%	38.67%	32.18%
Average	**£ 19,632**	**91.05%**	**72.84%**	**63.73%**	**59.18%**	**45.52%**	**33.30%**

4 Bed Flats							
	Gross Equiv. Income	Market Rent	80% Market Rent	70% market Rent	65% Market Rent	50% Market Rent	Target Rent
BR1	£ 16,460	126.46%	101.17%	88.52%	82.20%	63.23%	44.51%
SE3	£ 23,139	102.48%	81.98%	71.73%	66.61%	51.24%	31.67%
SE4	£ 19,966	117.32%	93.86%	82.12%	76.26%	58.66%	36.70%
SE6	£ 18,622	96.59%	77.27%	67.62%	62.79%	48.30%	39.35%
SE8	£ 17,158	136.38%	109.10%	95.47%	88.65%	68.19%	42.70%
SE12	£ 20,021	80.79%	64.64%	56.56%	52.52%	40.40%	36.60%
SE13	£ 20,376	109.99%	87.99%	76.99%	71.50%	55.00%	35.96%
SE14	£ 18,678	115.51%	92.41%	80.86%	75.08%	57.76%	39.23%
SE23	£ 21,582	99.97%	79.98%	69.98%	64.98%	49.99%	33.95%
SE26	£ 20,314	102.37%	81.90%	71.66%	66.54%	51.19%	36.07%
Average	**£ 19,632**	**107.92%**	**86.34%**	**75.55%**	**70.15%**	**53.96%**	**37.32%**

4 Bed House							
	Gross Equiv. Income	Market Rent	80% Market Rent	70% market Rent	65% Market Rent	50% Market Rent	Target Rent
BR1	£ 16,460	125.38%	100.31%	87.77%	81.50%	62.69%	44.51%
SE3	£ 23,139	114.82%	91.86%	80.37%	74.63%	57.41%	31.67%
SE4	£ 19,966	130.30%	104.24%	91.21%	84.70%	65.15%	36.70%
SE6	£ 18,622	110.44%	88.35%	77.31%	71.79%	55.22%	39.35%
SE8	£ 17,158	164.28%	131.43%	115.00%	106.78%	82.14%	42.70%
SE12	£ 20,021	101.17%	80.94%	70.82%	65.76%	50.59%	36.60%
SE13	£ 20,376	124.73%	99.79%	87.31%	81.08%	62.37%	35.96%
SE14	£ 18,678	133.37%	106.70%	93.36%	86.69%	66.69%	39.23%
SE23	£ 21,582	111.74%	89.39%	78.22%	72.63%	55.87%	33.95%
SE26	£ 20,314	112.00%	89.60%	78.40%	72.80%	56.00%	36.07%
Average	**£ 19,632**	**121.96%**	**97.57%**	**85.37%**	**79.27%**	**60.98%**	**37.32%**

Table 9: Affordability for Lower Quartile Household Incomes

As we can see affordability appears to be a significant problem for these households although previous research has shown that this is often the case, and we must accept that these households would need to be supported by more Housing Benefit. This is drawn out in our stage 2 and 3 modelling, where benefit changes affected by circumstances are applied.

Affordability Based on Income Distribution

This set of tables show the percentage of the population within Lewisham who would be able to afford the following rents using the 33% affordability criterion. The information here is based on income distribution identified earlier in this section and is based on equivalised household income.

1 Bed Flat Affordability					
	Full Mkt Rent	80% Mkt Rent	70% Mkt Rent	65% Mkt Rent	50% Mkt Rent
BR1	29%	50%	50%	63%	77%
SE3	33%	48%	56%	56%	77%
SE4	42%	62%	62%	73%	85%
SE6	46%	69%	69%	82%	82%
SE8	25%	40%	40%	51%	63%
SE12	41%	61%	61%	72%	84%
SE13	42%	51%	61%	61%	72%
SE14	48%	59%	70%	70%	83%
SE23	53%	64%	75%	75%	86%
SE26	49%	60%	71%	71%	83%
Average	**39%**	**48%**	**59%**	**59%**	**71%**

2 Bed Flat Affordability					
	Full Mkt Rent	80% Mkt Rent	70% Mkt Rent	65% Mkt Rent	50% Mkt Rent
BR1	22%	38%	38%	50%	63%
SE3	27%	40%	48%	56%	66%
SE4	27%	42%	51%	51%	62%
SE6	37%	46%	57%	57%	82%
SE8	19%	25%	32%	40%	51%
SE12	33%	49%	61%	61%	72%
SE13	27%	42%	51%	51%	61%
SE14	31%	48%	48%	59%	70%
SE23	36%	53%	53%	64%	75%
SE26	32%	49%	49%	60%	71%
Average	**25%**	**39%**	**48%**	**48%**	**59%**

3 Bed Flat Affordability					
	Full Mkt Rent	80% Mkt Rent	70% Mkt Rent	65% Mkt Rent	50% Mkt Rent
BR1	13%	22%	29%	29%	50%
SE3	17%	33%	40%	40%	56%
SE4	17%	27%	34%	42%	51%
SE6	23%	37%	46%	46%	69%
SE8	11%	19%	25%	32%	40%
SE12	26%	41%	49%	49%	61%
SE13	22%	34%	42%	42%	61%
SE14	15%	24%	39%	39%	59%
SE23	23%	36%	45%	53%	64%
SE26	20%	32%	40%	49%	60%
Average	**15%**	**25%**	**31%**	**39%**	**59%**

4 Bed Flat Affordability					
	Full Mkt Rent	80% Mkt Rent	70% Mkt Rent	65% Mkt Rent	50% Mkt Rent
BR1	5%	13%	17%	17%	29%
SE3	7%	17%	27%	27%	48%
SE4	7%	13%	22%	27%	42%
SE6	14%	29%	37%	37%	57%
SE8	4%	8%	15%	19%	32%
SE12	21%	33%	41%	41%	61%
SE13	7%	17%	22%	27%	42%
SE14	8%	19%	24%	31%	48%
SE23	11%	23%	29%	36%	53%
SE26	9%	20%	26%	32%	49%
Average	**9%**	**15%**	**25%**	**25%**	**39%**

2 Bed House Affordability					
	Full Mkt Rent	80% Mkt Rent	70% Mkt Rent	65% Mkt Rent	50% Mkt Rent
BR1	17%	29%	38%	38%	63%
SE3	22%	33%	40%	48%	66%
SE4	27%	42%	42%	51%	62%
SE6	37%	46%	57%	57%	69%
SE8	15%	25%	32%	40%	51%
SE12	33%	49%	49%	61%	72%
SE13	22%	34%	42%	51%	61%
SE14	24%	39%	48%	59%	70%
SE23	36%	45%	53%	64%	75%
SE26	26%	40%	49%	49%	60%
Average	**25%**	**39%**	**39%**	**48%**	**59%**

3 Bed House Affordability					
	Full Mkt Rent	80% Mkt Rent	70% Mkt Rent	65% Mkt Rent	50% Mkt Rent
BR1	13%	22%	29%	38%	50%
SE3	17%	27%	33%	40%	56%
SE4	17%	27%	34%	42%	51%
SE6	18%	29%	37%	46%	57%
SE8	3%	8%	15%	15%	32%
SE12	21%	33%	41%	41%	61%
SE13	22%	34%	42%	42%	61%
SE14	15%	24%	39%	39%	59%
SE23	18%	36%	45%	45%	64%
SE26	20%	32%	40%	49%	60%
Average	**15%**	**25%**	**31%**	**39%**	**48%**

4 Bed House Affordability					
	Full Mkt Rent	80% Mkt Rent	70% Mkt Rent	65% Mkt Rent	50% Mkt Rent
BR1	5%	13%	17%	17%	29%
SE3	5%	14%	22%	22%	40%
SE4	3%	10%	17%	22%	34%
SE6	10%	18%	29%	29%	46%
SE8	1%	4%	8%	11%	19%
SE12	10%	21%	26%	33%	49%
SE13	3%	13%	17%	22%	34%
SE14	4%	11%	19%	24%	39%
SE23	8%	18%	23%	29%	45%
SE26	7%	16%	20%	26%	40%
Average	**4%**	**12%**	**15%**	**20%**	**31%**

Table 10: Affordability Based on Income Distribution

We have not stated what percentage of the population would be an acceptable level for this exercise, however based on previous work undertaken we feel that achieving above 60% on the small units and around 50% on larger units is a relatively sound starting point, and seems to equate with other

affordability indicators. This would not be achieved by charging 80% market rent. However 50% to 70% market rent, depending on unit size, would achieve this.

There will always be a percentage of the population who cannot afford the higher rents based on our criteria, and this may support the continued provision of some targeted social housing at Target Rent levels. It should be noted that Housing Benefit will generally rise to meet the shortfall in household income, providing that LHA caps and the Total Household Benefit Cap are not exceeded.

4.3 Step 2 – Earnings Data and Benefit Predictions

For this stage of the work, we consider affordability using the same measurement criteria as before, 33% of gross income, but we build up the model in more detail using separate data sources to analyse the effect of benefits in more detail. We consider median earnings levels, rather than total household income, and then apply benefits calculations to these. This enables a much more accurate picture to be formed than that at Step 1, with the model actually reflecting likely benefits allowances for various sized households. This also gives us the opportunity to model varying earnings levels for the first time including unemployed scenarios.

Total Household Benefit Cap

The total benefits cap was introduced last year and means that **all** benefits are capped at £500 a week for families and couples, and £350 a week for single people. There are a number of exemptions from the cap which include:

- Eligibility for Working Tax Credit
- Disability Living Allowance
- Personal Independence Payment
- Attendance Allowance
- War Pensions, War Widows Pension, and Armed Forces Compensation/Payments.

The threshold for receipt of Working Tax Credit (WTC) differs by household size but the following detail on eligibility comes from HM Revenue and Customs (HMRC):

People who are single or in a couple, and have no children, qualify if:

- They are 25 or over and work at least 30 hours a week.
- They are 16 or over and work at least 16 hours a week, or are disabled.
- They are 60 or over and work at least 16 hours a week.

People who are single and have at least one child, qualify if:

- They are 16 or over and work at least 16 hours a week

People who are in a couple and are responsible for a child or young person, qualify if:

- They are 16 or over, they or their partner work at least 16 hours a week
- They are 16 or over, work at least 16 hours a week, and they are disabled.
- They are 16 or over, work at least 16 hours a week, and their partner is certain disability benefits
- They are 60 or over and work at least 16 hours a week.

So, in basic terms, it would appear that 16 hours paid work is the time threshold for WTC for over 16 year olds only if they are responsible for at least one child or are disabled. Otherwise, those aged 16-24 are ineligible. Those aged over 25 must work 30 hours a week if they aren't responsible for any children. The time threshold stays at 16 hours if they are responsible for children.

From 2017 WTC will no longer exist under Universal Credit, however we understand that there will be a similar measure of being “in work”.

Benefit Calculations

We have calculated benefit entitlement, based on the latest HRMC guidance, rates and thresholds, for varying household sizes and earnings levels (based on the median income for the ASHE data):

- Unemployed
- Median minus £10,000 £17,251 gross
- Median Borough earnings £27,251 gross
- Median plus £5,000 £32,251 gross

Benefit calculations are set out in the following chart for single income households. We have used the average market rents for Lewisham and set the Affordable Rent levels at 80%. This will enable us to see if the rents at 80% are still affordable on the basis of a third of income.

	Weekly Earnings	Weekly Benefits						Total Weekly Benefits		Weekly Rents	Rent as a % of Income
		Income Support / Job Seekers Allowance	Working Tax Credit	Working Tax Credit Child Care Element	Child Tax Credit	Child Benefit	Housing Benefit	Before Benefit Cap	After Household Benefit Cap		
Couples/No Children (1 Bed Flat)											
Unemployed	£0	£112	£0	£0	£0	£0	£171	£283	£283	£171	60.26%
£17,251 Earnings	£330	£0	£5	£0	£0	£0	£77	£81	£81	£171	41.43%
£27,251 Earnings	£522	£0	£0	£0	£0	£0	£0	£0	£0	£171	32.67%
£32,251 Earnings	£618	£0	£0	£0	£0	£0	£0	£0	£0	£171	27.60%
Couples/1 Child (2 Bed Flat)											
Unemployed	£0	£112	£0	£0	£75	£20	£211	£418	£418	£211	50.56%
£17,251 Earnings	£330	£0	£5	£0	£52	£20	£137	£213	£213	£211	38.84%
£27,251 Earnings	£522	£0	£0	£0	£10	£20	£82	£112	£112	£211	33.29%
£32,251 Earnings	£618	£0	£0	£0	£10	£20	£0	£39	£39	£211	32.15%
Couples/2 Children (2 Bed House)											
Unemployed	£0	£112	£0	£0	£123	£34	£225	£494	£494	£225	45.54%
£17,251 Earnings	£330	£0	£5	£0	£104	£34	£159	£302	£302	£225	35.60%
£27,251 Earnings	£522	£0	£0	£0	£40	£34	£119	£193	£193	£225	31.48%
£32,251 Earnings	£618	£0	£0	£0	£10	£34	£96	£140	£140	£225	29.70%
Couples/3 Children (3 Bed House)											
Unemployed	£0	£112	£0	£0	£172	£47	£274	£606	£500	£274	54.79%
£17,251 Earnings	£330	£0	£5	£0	£156	£47	£217	£425	£425	£274	36.27%
£27,251 Earnings	£522	£0	£0	£0	£92	£47	£176	£316	£316	£274	32.70%
£32,251 Earnings	£618	£0	£0	£0	£53	£47	£159	£260	£260	£274	31.22%
Couples/4 Children (4 Bed House)											
Unemployed	£0	£112	£0	£0	£221	£61	£367	£761	£500	£367	73.39%
£17,251 Earnings	£330	£0	£5	£0	£208	£61	£318	£591	£591	£367	39.80%
£27,251 Earnings	£522	£0	£0	£0	£145	£61	£277	£483	£483	£367	36.53%
£32,251 Earnings	£618	£0	£0	£0	£105	£61	£261	£426	£426	£367	35.14%
Single > 25 (1 Bed Flat)											
Unemployed	£0	£71	£0	£0	£0	£0	£171	£242	£242	£171	70.47%
£17,251 Earnings	£330	£0	£0	£0	£0	£0	£50	£50	£50	£171	44.83%
£27,251 Earnings	£522	£0	£0	£0	£0	£0	£0	£0	£0	£171	32.67%
£32,251 Earnings	£618	£0	£0	£0	£0	£0	£0	£0	£0	£171	27.60%
Single Parent/1 Child (2 Bed Flat)											
Unemployed	£0	£71	£0	£0	£75	£20	£211	£377	£377	£211	56.06%
£17,251 Earnings	£330	£0	£0	£131	£52	£20	£120	£323	£323	£211	32.31%
£27,251 Earnings	£522	£0	£0	£131	£10	£20	£65	£227	£227	£211	28.20%
£32,251 Earnings	£618	£0	£0	£131	£10	£20	£23	£185	£185	£211	26.32%
Single Parent/2 Children (2 Bed Flat)											
Unemployed	£0	£71	£0	£0	£123	£34	£211	£439	£439	£211	48.10%
£17,251 Earnings	£330	£0	£5	£225	£104	£34	£129	£495	£495	£211	25.58%
£27,251 Earnings	£522	£0	£0	£225	£40	£34	£88	£387	£387	£211	23.24%
£32,251 Earnings	£618	£0	£0	£225	£10	£34	£65	£334	£334	£211	22.19%
Single Parent/3 Children (3 Bed Flat)											
Unemployed	£0	£71	£0	£0	£172	£47	£259	£550	£500	£259	51.82%
£17,251 Earnings	£330	£0	£5	£225	£156	£47	£185	£618	£618	£259	27.33%
£27,251 Earnings	£522	£0	£0	£225	£92	£47	£145	£509	£509	£259	25.13%
£32,251 Earnings	£618	£0	£0	£225	£53	£47	£128	£453	£453	£259	24.20%
Single Parent/4 Children (4 Bed Flat)											
Unemployed	£0	£71	£0	£0	£221	£61	£325	£678	£500	£325	64.94%
£17,251 Earnings	£330	£0	£5	£225	£208	£61	£259	£757	£757	£325	29.85%
£27,251 Earnings	£522	£0	£0	£225	£145	£61	£219	£649	£649	£325	27.73%
£32,251 Earnings	£618	£0	£0	£225	£105	£61	£202	£593	£593	£325	26.82%

Table 11: Benefit Calculations

As we can see from the above table, affordability does not appear to be an issue for any of the cases above with the exception of unemployed households, especially those without children. However, this is something of a misrepresentation caused by the low income of these families, and the proportion of the rent within this. Housing Benefit would generally cover rent for these households, although in terms of the affordability *threshold* calculations, the situation appears unviable. This begins to show the need for our third affordability test – changes to residual income.

However, what we can take from this chart is the confirmation that Housing Benefit rises to meet the increased rent in all cases unless where the benefit cap is exceeded for unemployed households. Therefore if the rents were at a lower percentage, the affordability would remain at a similar level for

working households as Housing Benefit would simply be lower. This also suggests that although working families will see Housing Benefit cover increasingly higher rent levels, there will naturally be an increase in families who become benefit dependent. There may be many instances where larger households move into the Housing Benefit "zone" as a direct consequence of higher rent levels.

We can now see the effect that the £500 per week overall benefit cap will have on unemployed households. The following chart shows where total benefits are likely to exceed the household benefit cap for unemployed families.

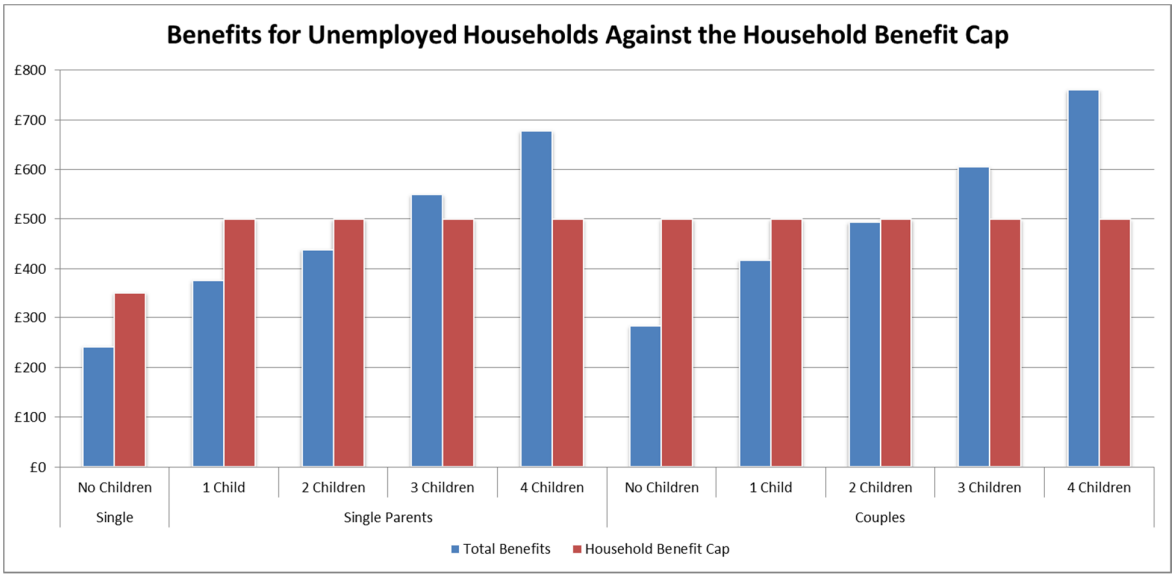


Chart 14: Impact of the Benefit Cap

It should be noted that total benefits exceed the cap for unemployed families with three children (both for couples and single parents), meaning that Housing Benefit would be limited in these cases.

4.4 Step 3 – Residual Income Calculations for Households on Benefits

We have previously looked at affordability in terms of specific criteria – in order for rent levels to be affordable they should not exceed 33% of gross household income.

As stated, there are various such affordability measures in current use, and there is an amount of subjectivity and judgement involved in these.

We have considered this issue in our previous work, and this has led us to look at an entirely different measure in terms of affordability – changes to "Residual Income". Residual Income is defined as weekly household income remaining once rent has been paid and Housing Benefit received.

We want to understand what actually happens to people's weekly finances. Will a couple currently in social housing be worse off if they move to an Affordable Rent home? If so, by how much? And will the size of their family affect this?

Previously we have been dealing with affordability concepts based in collective experience, but these did not tell us how a particular household might be affected financially.

In order to undertake this element of the project we will look at hypothetical unemployed and low income households.

Our main concern is to look at the changes to people's Residual Income in order to answer the following question – will these families be worse off under Affordable Rent?

Residual Income for Unemployed Households

The chart below shows weekly residual income for six theoretical unemployed households within Lewisham.

The blue column shows their residual income under target rents, and the red and green columns show what would happen if they moved to an Affordable Rent home let at 65%, and 80% of market rent respectively. As we can see it is the families with three or four children that are significantly affected.

This can be easily explained. The two child families are currently in receipt of Housing Benefit and this will simply increase pound for pound to pay for the higher rent levels. But importantly, their total benefits remain within the total household benefit cap, even with higher levels of Housing Benefit at 80% market rent. However the total benefits for the three and four child families exceed the total benefit cap, and therefore we notice their residual income decreasing.

This is an important point to note as this shows that these larger unemployed families will feel the immediate effect of higher rent levels – it will affect the money in their pocket on a weekly basis.

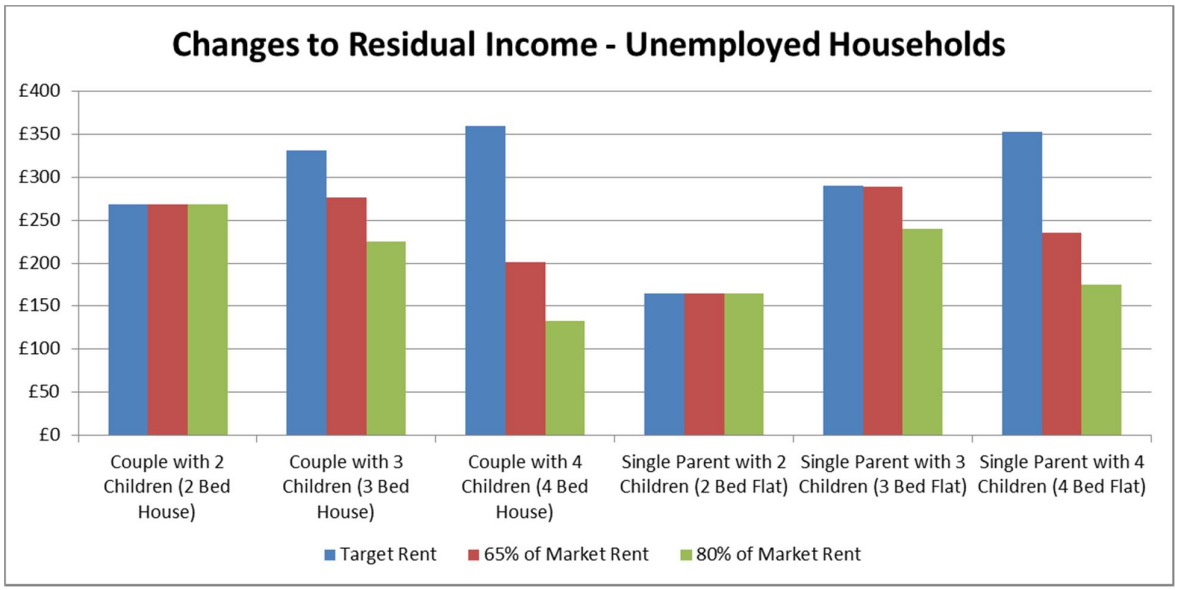


Chart 15: Changes to Residual Income for Unemployed Households

Residual Income for Low Income Households 1

The following chart shows the residual income for six theoretical working but low income households in Lewisham.

These are households earning £4,900 per annum – this assumes the minimum wage at £6.31 per hour and 15 hours a week would not be enough hours to qualify for Working Tax Credit and therefore the household would be subject to the total household benefit cap. As we can see the pattern is similar to the unemployed households, however the impact is less drastic.

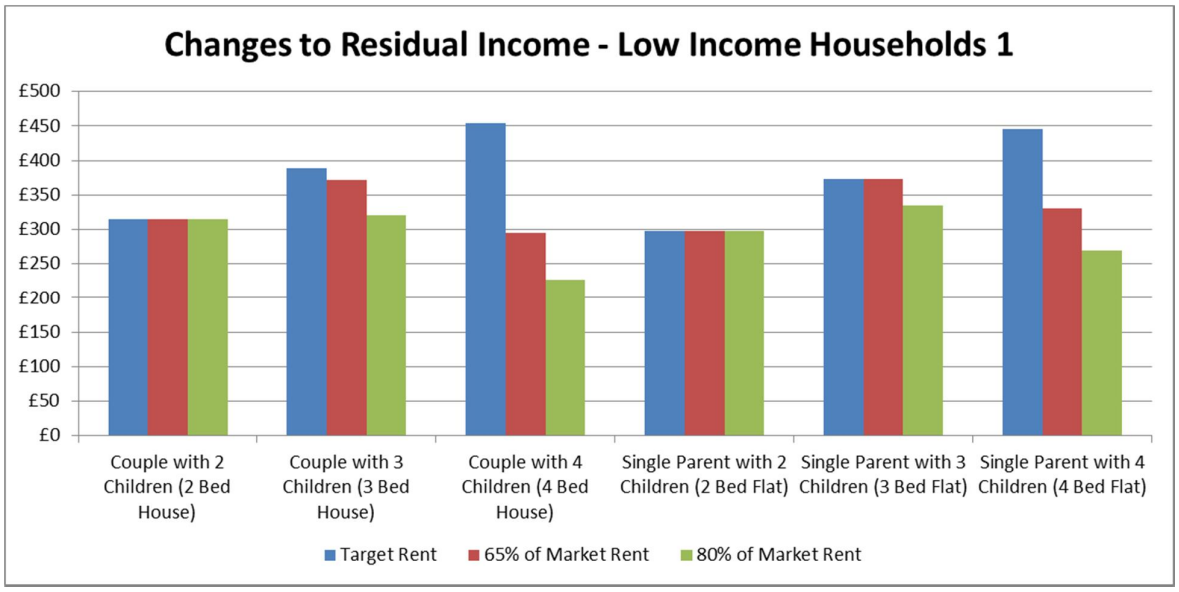


Chart 16: Changes to Residual Income for Low Income Households

Residual Income for Low Income Households 2

The following chart shows the residual income for six more theoretical working but low income households in Lewisham.

However in this instance we are assuming that these households **would** qualify for Working Tax Credit (income assumed is £10,000 pa), and therefore the total household benefit cap does not apply to these households. As we can see, Housing Benefit rises pound for pound to meet the increase in rents.

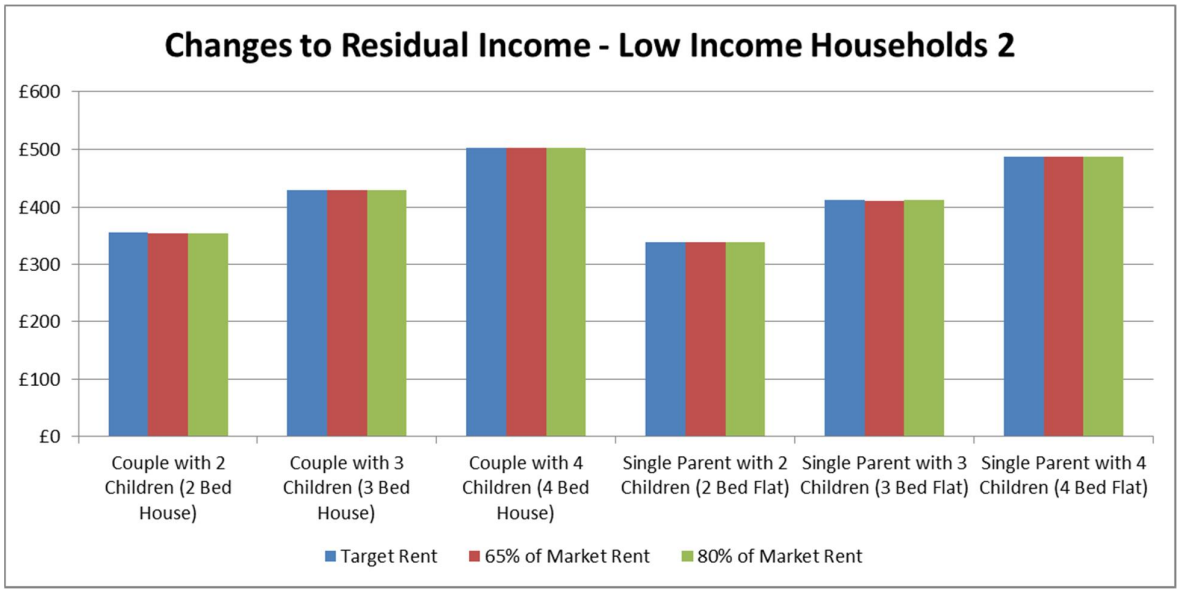


Chart 17: Changes to Residual Income for Low Income Households 2

We can see from these findings the variable impact of Affordable Rent on actual family budgets, depending on size and circumstance. We have identified the threshold where we predict a reduction in residual income at 80% of market rent; unemployed families with 3 (or more) children. If larger homes were to be included within an Affordable Rent development, there may be an argument to reduce the level of market rent applicable, or alternately ensure that these homes are let to families within work, and therefore exempt from the benefit cap.

6. Summary and Conclusion

6.1 Summary of Approach

In this report we have used three main measures to look at affordability:

1. Stage 1 – Basic "static" median income using PayCheck data: The output being assessed on the basis that rents should be no more than 33% of gross household income.

2. Stage 2 – Detailed benefit and earnings (using ASHE data) build-up of income: The output being assessed on the basis that rents should be no more than 33% of gross household income, although this household income data has been built up with more accuracy, and Housing Benefit is modelled in a more "dynamic" way.

3. Stage 3 – Residual Income. The output being assessed on the basis of whether or not Residual Income changes if residents move from current accommodation to Affordable Rent.

6.2 Summary of Findings

We have encountered some interesting results within this study. The main findings on a stage by stage basis are as follows:

Stage 1

- There is a diversity of rental incomes across the various postcodes in Lewisham which means that affordability will be affected in different areas if rents are based on a percentage of market rent. We have seen higher rent levels in Deptford (SE8), New Cross (SE14), Brockley (SE4) and Downham (BR1). However, the variances are not extreme.

- In general most average rents, even at 80% market, fall within LHA limits – there are some exceptions to this, however, most notably three and four bed homes in Deptford (SE8).

- In our basic Stage 1 analysis, Affordable Rent at 80% of market will not be an issue for one bedroom households on median income levels. However, affordability does appear to become an issue for larger properties, especially three and four bedroom properties, particularly in the higher value post-codes mentioned above.

- The basic affordability results for lower quartile income look very poor but in reality benefits, and therefore household income, will increase if higher rents are used. This shows the "static" nature of this kind of affordability threshold modelling, and the need for the more in depth view in later stages.

Stage 2

- We can begin to see large differences in affordability between unemployed and employed households.

- The benefit cap for unemployed households will begin to have an effect on families with three or more children.

- The larger the family, the larger the effective reduction in benefits due to the cap.

- There may be many instances where larger **working** households move into the Housing Benefit "zone" as a direct consequence of higher rent levels.

Stage 3

- Unemployed families with three or more children are likely to see a reduction in their residual income if they move from target rent to Affordable Rent at 80% market rent. In our theoretical case study we see a £105 per week drop for a family with three children and an £226 per week drop for a family with four children.

- Working families exempt from the benefit cap will see no change to their residual income regardless of home / family size or rent level.

To summarise, these combined findings are not dis-similar to many other affordability studies undertaken within London since the introduction of affordable rent. Overarching findings are:

- Although there are geographical affordability differences by post-codes, market value will change on a site-by-site basis with pockets of high value in most areas - therefore we would recommend applying overarching rent guidance rather than a set of guidelines based on postcodes. This will be simpler to operate in reality.

- There is a huge difference in affordability between smaller and larger homes. One and (to some extent) two bed homes would appear to be affordable for most people, regardless of circumstances.

- For three and four bed homes, affordability varies hugely depending upon whether the household is in employment. For unemployed larger families (of three or more children) affordability will be a real concern and compared to the target rent regime, these families will see a sometimes significant reduction in their weekly money.

- Larger working families will not necessarily be affected by higher rent levels in terms of residual income.

There is also an issue of aspiration and expectation. It is likely that some people may aspire to get to an earnings situation where they are no longer eligible for Housing Benefit, and can move out of benefit dependency. At this point, they can retain all of their earnings increases. People may therefore wish to avoid a situation where they have higher rent levels to cover, keeping them within the benefit dependency zone for longer and reducing their residual income if they cease to be eligible for benefits.

Residents in work may have real concerns about being made redundant, and therefore becoming subject to the cap, once they have moved to a home with significantly higher rent levels. We can see from our case study modelling that Residual Income changes hugely for larger families that become unemployed. However, there is a nine month safety net in terms of losing the benefit cap exemption which theoretically may allow time for household in such circumstances to find alternate work.

Another issue is that medium income households may be reluctant to move into benefit dependency when they are not currently in that situation. Higher Affordable Rent levels could potentially cause this.

It is interesting to consider these findings in the context of the Mayor's Housing Covenant 2015 – 18 Programme, which distinguishes between "discounted" rents at up to 80% market and "capped" rents at 50%. It is expected that providers produce an equal number of these two products within their programme, and in terms of Lewisham along with many other London boroughs, it would be logical to suggest that smaller homes are subject to the higher rent levels as these do not produce anything like the affordability issues of the larger family homes.

6.3 Rental Levels

We would suggest that Affordable Rent guidance could be provided to Registered Providers within the Borough stating that appropriate Affordable Rent levels would be as such:

- 1-bed: 80% market rent or LHA
- 2-bed: 70 to 80% market rent or LHA
- 3-bed: Up to 65% or a proportion at the capped rent of 50%
- 4-bed: 50% market rent (capped rent)

In reality it may be that the combined effect of the new Discounted and Capped rents produces a blended rate across the unit sizes anyway. It is clear from Mayor's Housing Covenant 2015 -18 funding prospectus that there may be "balancing" between the two products in appropriate areas.

The rent levels above would give some comfort that the "at risk" larger unemployed families will at least have some housing options that will not see immediate affordability issues. As three beds are the threshold point at which affordability issues begin in earnest, it could be that a proportion of these could be appropriate at a lower "capped" level for families most in housing need, but with the remainder placed at a slightly higher rental level (up to 65%) for working families where affordability is not as acute an issue. Such a split would be more difficult for four bed homes as the affordability results are that much worse.

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