

# Residential

## Comprehensive Spending Review

### Benefits limit puts housing out of claimants' reach

**British Property Federation says benefit reform will force tenants to move. Doug Morrison reports**

Landlords have added their voice to the crescendo of criticism of the coalition government and its plans to cap housing benefit payments. They warn that the reforms will cause widespread upheaval in the private-rented sector.

The British Property Federation claims that the reforms, which the government outlined in its emergency Budget in June, are deeply flawed and will affect a far broader range of people than the long-term unemployed (box, opposite).

More than half of the 1 million local housing allowance claimants live in expensive areas, says the BPF. It warns that even working or newly redundant people will be forced to move away from their homes and the local job market they know best, causing huge swings in housing demand.

Until now, concerns over the coalition's

proposals have focused on the social cost and have come mainly from local government, notably Boris Johnson, the Conservative London mayor. Last month Johnson condemned the proposals as "Kosovo-style social cleansing", as

he vowed to protect London's poor, who are expected to suffer the most because of the high cost of housing in the capital.

CB Richard Ellis calculates that 18,645 households in London will be adversely affected by the benefit caps. Already councils



Not feeling the benefit: legislation has split interested parties since payment methods were changed in April 2008 (left). Now Boris Johnson (right) has criticised his own party

### Databank: radical reform required after housing cuts

The changes outlined in the Comprehensive Spending Review set the affordable housing sector an agenda of radical reform. This comes alongside the complete restructuring of the planning process.

The new planning system frees participants from many of the uncertainties attached to housing grants and allows new development to proceed on the basis of viability, rather than being subject to limits on annual expenditure or regional targets.

The freedom to set higher affordable rents is designed to make the sector viable without grants, although the potentially higher funding costs from the reforms and limits to housing benefit will work against this, as they may impact on the wider private-rented sector. There will also be inevitable friction as the planning system adopts the new localist agenda.

Affordable housing grants will be limited to £4.5bn until 2014 – the equivalent of £1.1bn a year (graph, right). This is 60% lower than the annual average of £2.9bn from 2008 to 2011,

and much of the £4.5bn is already committed to schemes in the system.

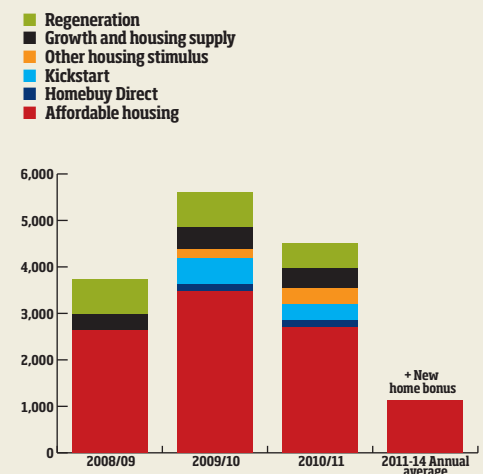
The intention is that these budget cuts will be offset by allowing housing associations to set rents on new social housing at up to 80% of market rents, possibly capped in line with the local housing allowance.

The new allowance will be capped from April 2011 – for example, at £340 a week for a three-bedroom property. From October 2011 it will be set at 30% of market rents in each rental market area, rather than the previous 50%.

In many markets outside London and the south of England, the gap between existing social rents and market rents is not large, limiting the upside to value. Where there is a significant gap, setting the rents of new social-rented housing at 20% below market rents could drag private rents down.

The capital value of the new tenure will vary according to the strength of local markets. Everything depends on the strength of demand in the private sector. In higher-value markets,

Affordable housing grants to decrease (£m)



Cuts in grants for housing and regeneration go beyond the affordable housing cuts, but are partially offset by the new homes bonus

SOURCE: HCA/CLG/CSR



and MPs have expressed concerns about increased homelessness and the impact on demand in outer London boroughs and outlying housing markets.

But the Chartered Institute of Housing warns that the cuts will hit markets far beyond London. The decision to link local housing allowance rates to the Consumer Prices Index, rather than local rents, will have the effect of “shrinking” the market that is affordable for claimants. This is because rental growth has outstripped overall inflation.

“This will shut down parts of the private-rented sector in the future,” says Richard Capie, policy director at the Chartered Institute of Housing.

The institute says that “within a generation” there will be towns and cities across the country without accommodation within reach of people whose income is supported by benefits. In markets such as west Cumbria and Chesterfield supply could dry up in just two years.

Last week Lord Freud, minister for welfare reform, addressed the House of Commons work and pensions select committee, which is examining the changes.

Freud dismissed the criticism as “unhelpful” scaremongering.

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### Housing policy at a glance

Housing benefit reforms have two objectives: to cut the benefit bill and help reduce the budget deficit; and to level the playing field between the property that those in low-paid employment and those out of work can afford.

The benefit caps will only affect those renting private housing, not those in social housing. CB Richard Ellis estimates that a third of private-rented homes are paid for using benefit, which equates to 1.2 million people.

The British Property Federation says more than half of local housing allowance claimants live in high-demand areas and so will find it hard to compete with workers for available homes.

- From April 2011, the benefit cap will be £400 for a four-bedroom house, £340 for a three-bedroom house, £290 for a two-bedroom home and £250 for a one-bedroom home.
- From October 2011, benefit for private rents will be limited to 30% of market levels, instead of 50%.
- From 2013/14, benefit will rise in line with the Consumer Price Index (CPI), rather than local market rents.

The BPF and Chartered Institute of Housing claim that index fails to reflect rental growth. Using the Consumer Prices Index, the institute calculates that in as little as two years there could be no properties available at the local housing allowance rate in some areas.

PHOTOGRAPH: JAMES WINSPEAR

where tenants on housing benefit form a significant proportion of demand, there will be additional downward pressure on rents.

Some of the biggest unanswered questions relate to how the new rented tenure will be used to meet local needs. Under the localist agenda, councils are likely to have greater discretion, so it will be crucial that the financial consequences of different options are understood by all parties.

Negotiation of a section 106 planning obligation, to provide affordable housing and other obligations to mitigate any impact of the development, will become much more complex.

It will require an understanding of the strength of local markets and how “reform proof” they are likely to be. It will also require an understanding of housing need in an area. We can expect a focus on the needs of lower-income working households. ■

Jim Ward is research director at Savills

## Landlords out of pocket

Private landlords have been up in arms over housing benefit since April 2008, when the last government changed the system of payment.

Rent used to be paid directly to landlords. Then the Labour government ruled that it should go to the tenants, who became responsible for paying the rent themselves.

However landlords soon reported that some tenants failed to pass on the money. The British Property Federation (BPF) claims that landlords of benefit claimants had lost £2,100 on average in the first year of the new regime.

The BPF believes that reinstating direct payments to landlords would save public money and “reduce the disincentive” to accommodate claimants.

While in opposition, the Conservative Party promised to do just that if it won the election. This now looks unlikely. Last month Lord Freud, minister for welfare reform, accused “unscrupulous” landlords of ripping off the benefit system. Last week the BPF hit back by accusing Freud “fiddling” the figures. ■

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Claimants in private-rented accommodation will have access to fewer properties as a result of the coalition’s changes to housing benefit and local housing allowance, says the Chartered Institute of Housing.

Its post-Budget response is a comprehensive analysis of government housing policy and can be read at [propertyweek.com/residential](http://propertyweek.com/residential)