

How do Paragon Rents compare to those of other Social Landlords and the Private Sector & how do we consider Affordability when looking at rent increases.

As part of the Rent harmonization exercise they are undertaking we asked Arneil Johnston to look at the affordability of our rents. As you can see, they believe that all households can comfortably afford PHA Rents although single tenants in 2 bed properties do have to devote a high proportion of their income to rent.

Housing Affordability: The latest thinking

Components of assessing housing affordability



What evidence do you need & what factors should be considered?

Measuring housing affordability focuses on the interaction between 3 key elements:

Housing costs

- Rental values
- Alternative tenure costs
- Shelter/running costs e.g. heating

Household incomes

- Area profiles
- Household profiles
- Minimum income measures

Consumer factors

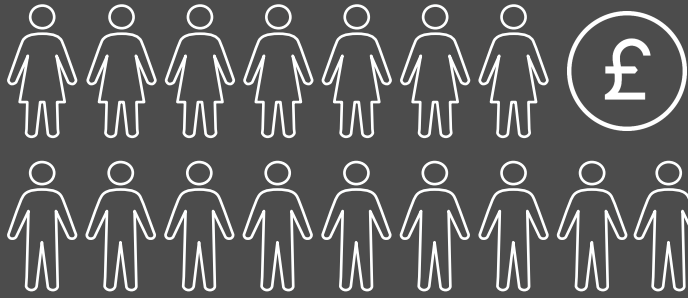
- Capability to pay: Residual household income
- Preference/value: willingness to pay

Good data intelligence & insight is essential in achieving a meaningful assessment of housing affordability



The Theory: Measuring rental affordability

How much income should be spent on rent?



What is an affordable level?

Rents are considered to be affordable if a household pays no more than 25%-35% of their income on housing costs
(HNDA Guidance)

In reality, some households will spend more than this depending on their household circumstances & rental cost

Most social landlords will test housing affordability using an income to rent test of 25% and 30%

How is rent affordability measured?

Housing of reasonable quality that's affordable to people on modest incomes

Scottish Planning Policy

No 1 definition - depends on household composition, size, income benefits and tax regimes

Chartered Institute of Housing

Rents well below market rents and LHA rates

UK Collaborative Centre

A household with 1 person working 35 hours+ should not be fully dependant on HB/UC to pay for housing costs

SFHA

20% below market rents

National Planning Policy Framework

Threshold is set at 35% of net household income

Shelter

Should not exceed 25% of income

National Housing Federation

Households should spend no more than 40% of their equivalised disposable income on housing

Eurostat

What are the key components in measuring affordability?



Rent Levels

Stock List
ARC Data



Benchmark

Peer Groups
LHA rates
Market Rents



Income Data

Tenant data
NRS
Living wage
Minimum wage



Income to Rent Ratio

% of income
devoted to rent
Income
equivalisation



Future Projections

Income
measures
Rental strategy

The Arneil Johnston Methodology and Rent Affordability Model

How do PHA rents compare to locally operating RSLs? (2021/22 vs RSL ARC Data inflated)

PHA rents are on average 3% less than locally operating RSLs

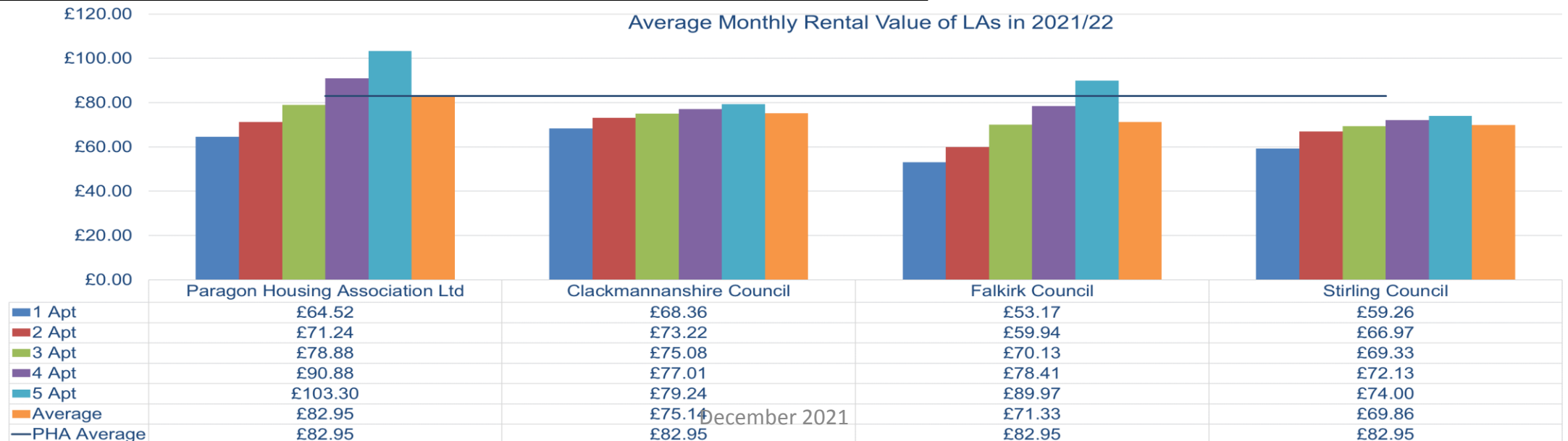


Housing Affordability Analysis:

How do PHA rents compare to local authorities? (2021/22 vs RSL ARC Data inflated)

Property Size	Paragon HA	Local Authority Avg Rents	Difference	%
Bedsit	£64.52	£60.76	£3.75	6%
1 bedroom	£71.24	£66.58	£4.66	7%
2 bedroom	£78.88	£72.61	£6.28	9%
3 bedroom	£90.88	£77.71	£13.17	17%
4 bedroom	£103.30	£84.61	£18.70	22%
Average	£82.95	£73.23	£9.72	13%

PHA rents are on average 13% higher than local authorities it operates in



How do PHA rents compare to Local Housing Allowance?

(5 Year Rent Strategy vs Forth Valley LHA Rates)

Test Local Housing Allowance (LHA) projection

Inflation Assumptions						
Paragon HA		102.50%	105.06%	107.69%	110.38%	112.59%
LHA		100.00%	100.00%	100.00%	100.00%	100.00%
21/22		22/23	23/24	24/25	25/26	26/27
e	%	%	%	%	%	%
	-13%	-11%	-9%	-6%	-4%	-2%
	-22%	-20%	-18%	-16%	-13%	-12%
	-31%	-30%	-28%	-26%	-24%	-23%
	-39%	-38%	-36%	-35%	-33%	-32%
	-53%	-52%	-50%	-49%	-48%	-47%
	-36%	-34%	-33%	-31%	-29%	-28%

Average PHA social rents sit below the average LHA rate for all sizes

If the LHA is frozen for 5 years and PHA rents increase at 2.5%, rents for all sizes will continue to sit comfortably below the Forth Valley LHA rate

Housing Affordability Analysis:

How do PHA rents compare to market rents?

Area	Paragon HA Rents	LHA Rents	LHA Value Difference	LHA Value %	Market Rents	Market Value Difference	Market Value %
Bedsit	£64.52	£74.12	-£9.60	-13%	£86.08	-£21.56	-25%
1 bedroom	£71.24	£90.90	-£19.66	-22%	£99.23	-£27.99	-28%
2 bedroom	£78.88	£115.07	-£36.19	-31%	£141.69	-£62.81	-44%
3 bedroom	£90.88	£149.59	-£58.71	-39%	£205.38	-£114.51	-56%
4 bedroom	£103.30	£218.63	-£115.33	-53%	£309.92	-£206.62	-67%
Average	£82.95	£129.66	-£46.71	-36%	£148.77	-£65.82	-44%

PHA rents make a significant contribution to rental market affordability and are on average 36% lower than Local Housing Allowance rates and 44% lower than Private Rented Sector rents in the local area.

December 2021

How do PHA rents compare to income to rent scenarios? (2021/22 Rents vs Benefit Cap)

Benefit cap calculator (outside Greater London)

- £384.62 per week (£20,000 a year) if you're in a couple, whether your children live with you or not
- £257.69 per week (£13,400 a year) if you're single and you don't have children, or children living with you

Couple, whether your children live with you or not	£20,000	
	PHA Annual Rent	Proportion of income spent on rent
1 bedroom	£3,705	19%
2 bedroom	£4,102	21%
3 bedroom	£4,726	24%
4 bedroom	£5,372	27%
Average	£4,314	22%

Single and you don't have children, or your children don't live with you	£13,400	
	PHA Annual Rent	Proportion of income spent on rent
Bedsit	£3,355	25%
1 Bedroom	£3,705	28%
2 Bedroom	£4,102	31%
Average	£4,314	32%

	Affordability %				
	Minimum Wage < 25	Minimum Wage > 25	Living Wage	UC Single Person	UC Couple
Bedsit -Single person 1* Multiplier	22%	21%	19%	25%	
1 bedroom - Single person 1* Multiplier	24%	23%	21%	28%	
1 bedroom Couple (1.5x Multiplier)	16%	15%	14%		19%
2 bedroom - Single Person 1 * Multiplier	27%	25%	24%	31%	
2 bedroom - Single Parent 1.3x Multiplier	21%	19%	18%	31%	
2 bedroom - Couple Multiplier *1.5	18%	17%	16%		21%
3 bedroom - Couple Multiplier *1.5	21%	19%	18%		24%
3 bedroom - Family 1.8x Multiplier	16%	15%	15%		24%
4 bedroom - Couple 1.5x multiplier	21%	19%	18%		24%
4 bedroom - Family 1.8x Multiplier	18%	17%	17%		27%
Average	20%	19%	18%	32%	22%

Equivalised income factor



All groups can comfortably afford PHA rents. Yet, single tenants in 2 bed properties will need to devote a higher % of income to rent. Households with dual incomes can afford rents more easily.

Equivalisation adjusts household income to reflect the different resource requirements of different households. Household income is recalculated to take into account differences in household size and composition.

Profiling Household Income (2021/22 PHA Rents)

December 2021

Rent & Service Restructuring Analysis:

How rational is the current structure?

336 rent levels for
1,435 properties

Wide variations in
values

Paragon HA
average rent

Reasonable
consistency?

Current structure - ratio
of values to units 1:4

Min: £58 p/w
Max: £142 p/w

£82.95 per week

No consistent logic in
property size and type.
Scope to streamline to
more manageable
structure.

Rent Restructuring: Next Steps

Rent Review: Next steps

1

Finalise affordability assessment:

Agree or add to affordability assessment



2

Rent Restructure:

Finalise stock list and agree scenarios to be tested for rent and services



3

Future meetings:

Agree project timetable following end of first assignment review meeting



You can find out more about our current rent consultation exercise in the newsletter sent out with this fact sheet, or you can go to our website www.paragonha.org.uk

If you would like to know more about the ongoing rent harmonisation exercise then please contact us:

Tel: 01324 878050

Email: enquiries@paragonha.org.uk