

Local Housing Allowance: increased due to Covid-19



Local Housing Allowance rates have increased, but will they cover the rents of new benefit claimants?

Local Housing Allowance (LHA) has recently experienced what is probably its biggest ever increase. LHA is the cap on the amount of housing benefit tenants in the private rented sector can receive. As part of the Social Security (Coronavirus) (Further Measures) Regulations 2020, the link between LHA levels and market rents was restored from 1st April 2020.

Until 2014 LHA was set at a percentile of local market rents within an area. In 2014 and 2015 it was increased by 1%, regardless of what had happened to rents. And since 2016 it had been frozen until 2020, unless an area has received ‘targeted affordability funding’.

In January the Government announced that LHA would increase from 1st April in line with CPI, but this was changed by the regulations released following the outbreak of coronavirus.

The return of LHA to the 30th percentile rent in each Broad Rental Market Area (BRMA) means that, in theory, 30% of rented homes in most areas are affordable to a housing benefit reliant household. There are nationwide caps which vary by number of bedrooms, which means that in some locations LHA is lower than the 30th percentile.

For the majority of private renters who are reliant on housing benefit to pay their rent, this move means that there should be properties in their area that they can afford. Over the last few years, many tenants in areas where rents had increased, needed to top up their housing benefit from other income. This put increased strain on the already stretched budgets of low income households.

But for some it will remain a challenge to find a home. In a small number of areas, more than 30% of private rented households are reliant on housing benefit. But only 30% of homes will now be priced below the LHA, so some households will still need to top up their rental payments from other income.

The scale of the increase in LHA levels between April 2019 and April 2020 gives some idea of the extent to which it had fallen behind rental levels over that period. The largest gaps were mostly in London and the south, where there is a greater scarcity of rented housing and rents have seen more growth. The biggest increase was for 4 bedroom homes in the Central London, Inner East London and Inner North London BRMAs, where LHA increased by 42.4% (£176.73, £168.68, £176.73 per week respectively). The highest increase outside London was for 1 bedroom LHA in Cambridge, which has increased by 41.5% (£52.31 per week).

These higher rent areas are also where the percentage difference equates to the highest differences in cash terms, that is the amount of additional money a benefit reliant household may have had to find from other sources to be able to pay their rent.

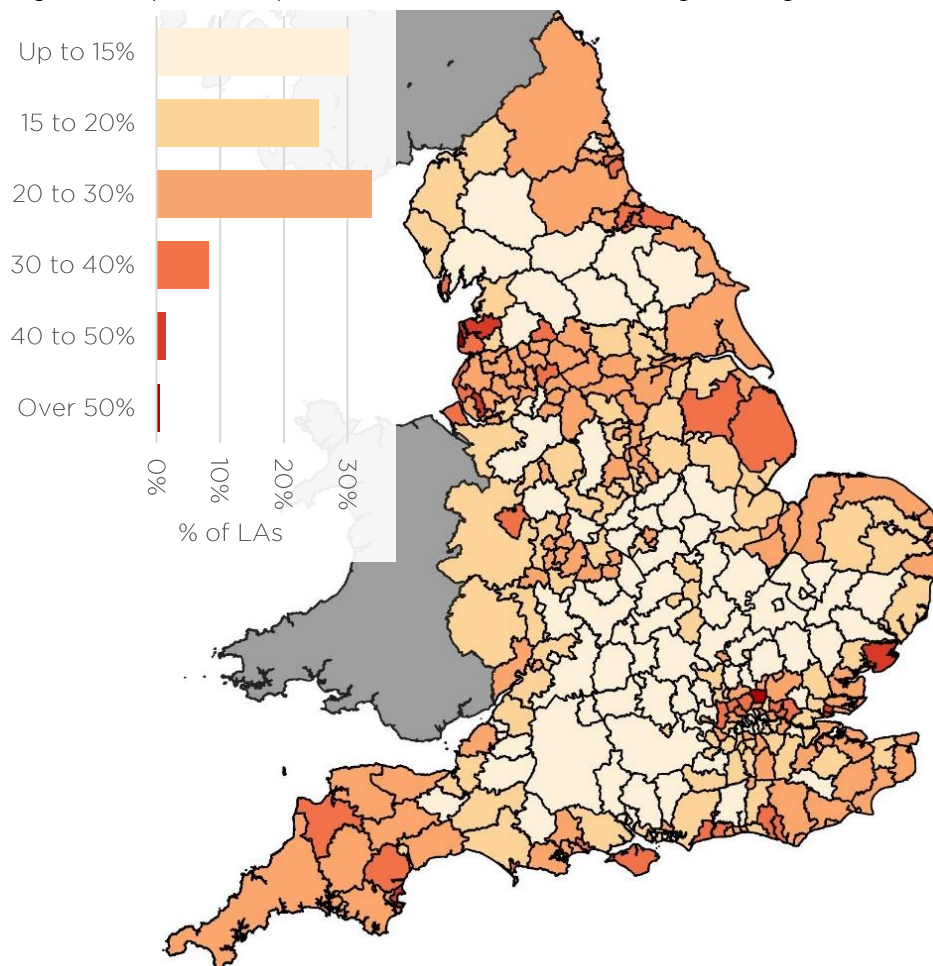
Whether LHA will remain at the 30th percentile of rents for the longer term is unknown. Covid-19 has sparked a substantial increase in benefit claims. Increasing numbers of people claiming housing benefit means that more areas will have a shortage of housing priced below LHA compared to the number of claimants. People who chose their home before the current crisis hit, many at rents higher than the 30th percentile, may be surprised at the limited extent to which welfare can help them. Shelter has argued that LHA should be increased to the average (50th percentile) rent in each area to cope with the “huge numbers of people” they expect to claim benefits for the first time as a result of Covid-19.

In the longer term, the huge increase to Government borrowing as a result of the current crisis may lead to a renewal of the austerity agenda that placed limits on LHA before.

The extent of reliance placed on the private rented sector to house those reliant on Housing Benefit is a result of an under provision of social housing. Over the last 40 years, the stock of social housing has been eroded by Right to Buy and not enough new low cost rented housing has been built.

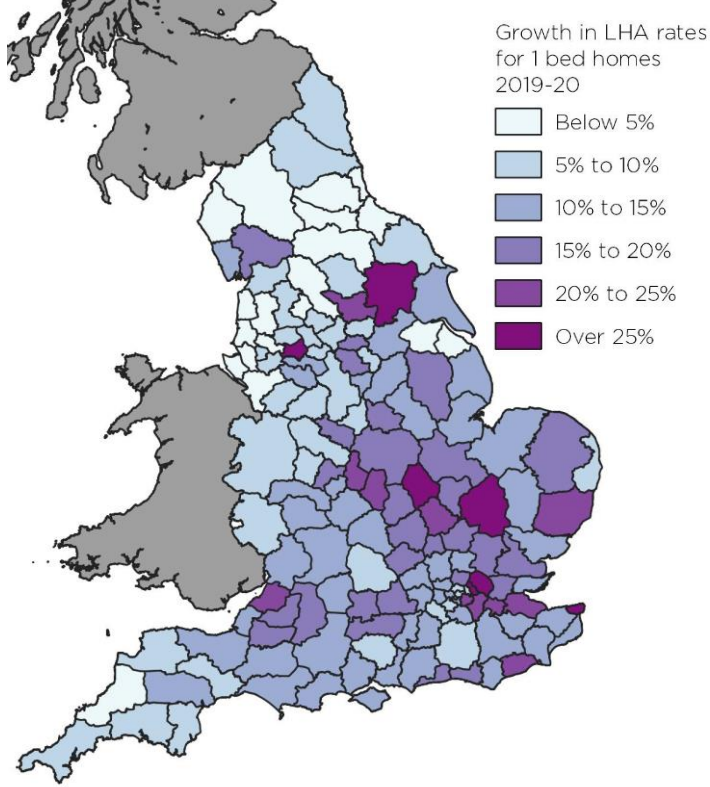
This could be the time for substantial Government investment in social housing, with persistent low interest rates and a housing construction sector that may require investment to help it out of the current crises. As we have argued before, this would provide an economic stimulus, boost the supply of new homes and cut the Housing Benefit bill (see Investing to Solve the Housing Crisis).

Figure 1 Proportion of private rented households claiming Housing Benefit



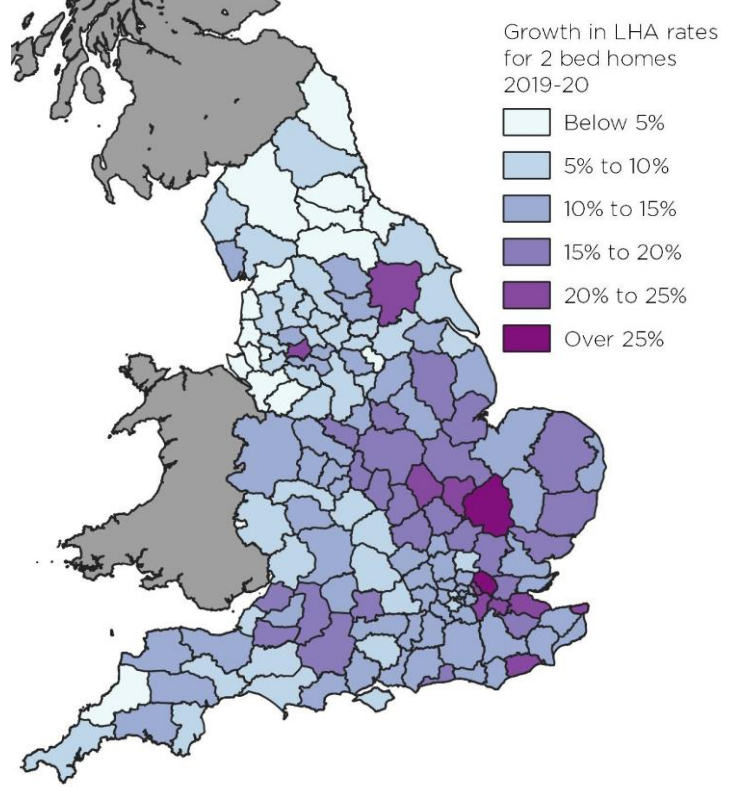
Source Savills using DWP, 2011 Census and English Housing Survey data

Figure 2 Increase in 1 bedroom LHA, April 2019 to 2020



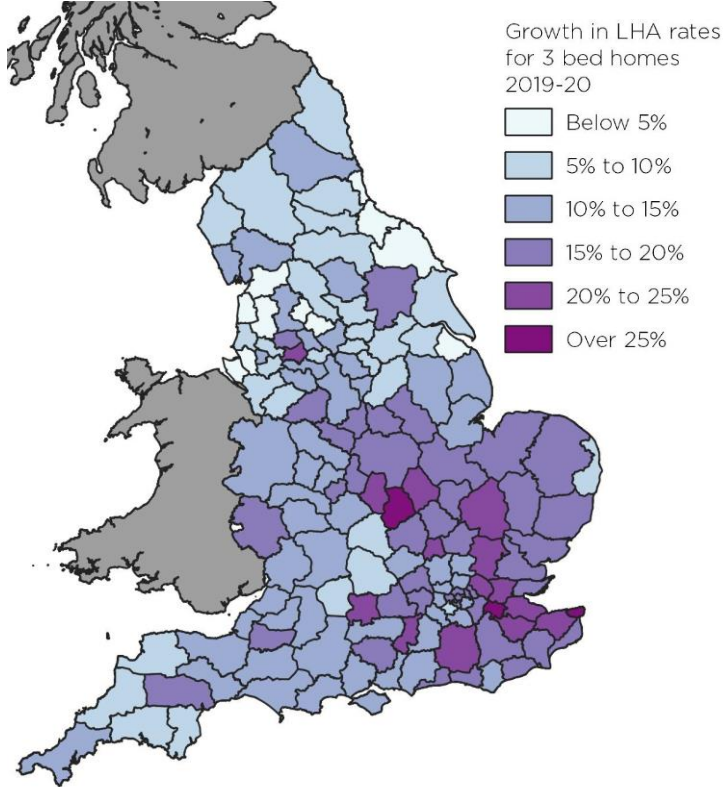
Source VOA April 2020 LHA tables

Figure 3 Increase in 2 bedroom LHA, April 2019 to 2020



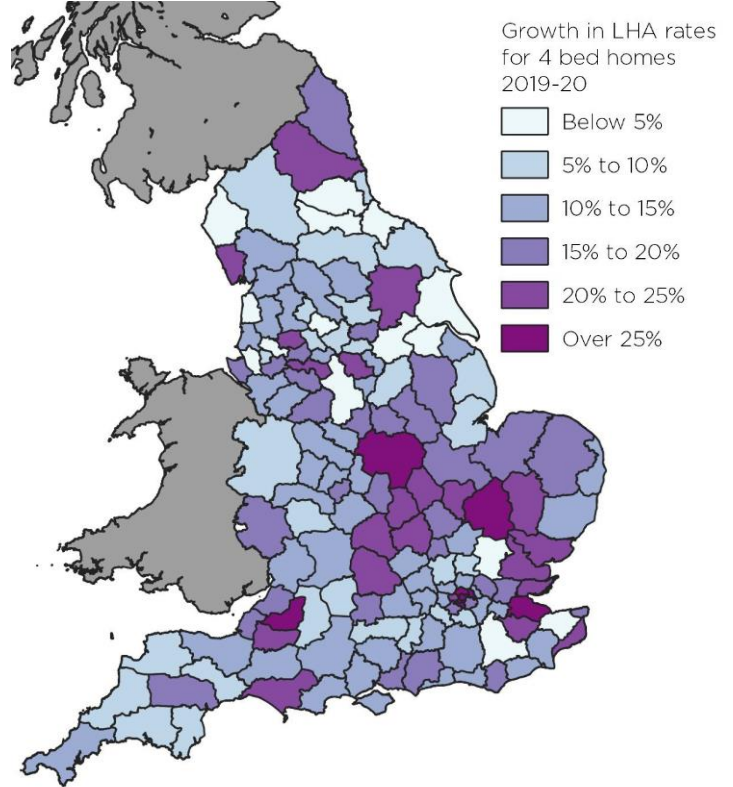
Source VOA April 2020 LHA tables

Figure 4 Increase in 3 bedroom LHA, April 2019 to 2020



Source VOA April 2020 LHA tables

Figure 5 Increase in 4 bedroom LHA, April 2019 to 2020



Source VOA April 2020 LHA tables

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