

# A review of affordable housing need in the Royal Borough of Kensington and Chelsea

## Introduction

1 RBKC commissioned Cobweb Consulting to update the affordable housing assessment contained within the 2015 SHMA, to take account of the latest information available on the elements of need which National Planning Practice Guidance (NPPG) requires Councils to take into account when determining affordable need. The Council was particularly concerned to update evidence to guide its policies on the breakdown of future affordable housing provision between housing provided at current social rent levels, and housing in the form of intermediate housing tenures. This report sets out our findings.

2 NPPG sets out the approach to assessing the need for affordable housing and this has not changed significantly since the previous SHMA in 2015 (see NPPG Para 018 Reference ID: 2a-018-20190220 to Para 024 Reference ID: 2a-024-20190220). Table 0 below summarises the approach. Stage A is to estimate the backlog of housing need (current unmet need) at the baseline point of the assessment, and to determine the period over which this backlog need can be met. Stage B is to estimate the need which will arise in the future as a result of new household formation, and as a result of changes in circumstances amongst existing households. Evidence on the ability of these households to afford market housing to rent or to buy must be considered to estimate the number of households who will require affordable housing, and the breakdown of need between various types of affordable housing. This gives the gross requirement for affordable housing (Stage C). Stage D is to assess the future supply of affordable housing of different types. Stage E is to deduct this affordable supply from gross affordable need to identify the overall shortfall of affordable housing and the breakdown of this shortfall between different types of provision. Stage F is to examine how net affordable need can be met. Cobweb Consulting uses a spreadsheet-based model to carry out this calculation.

**Table 0 Calculation of affordable housing need**

Stage	Description	NPPG reference
A	Backlog of need/demand from households currently in need which will be met each year	Paragraph: 019 Reference ID: 2a-019-20190220
B	Annual emerging need/demand from newly forming households, including households that will move into the authority who require affordable housing and those already present whose circumstances will change such that they fall into need.	Paragraph: 021 Reference ID: 2a-021-20190220
C	Gross requirement for affordable housing = A+ B	
D	Annual affordable housing supply from affordable properties becoming vacant	Paragraph: 022 Reference ID: 2a-022-20190220
E	Annual net new affordable need = C minus D	
F	Consideration of how net annual affordable need can be met, taking into account the probable percentage of affordable housing to be delivered by eligible market housing led developments. An increase in the total housing figures included in the plan may need to be considered where it could help deliver the required number of affordable homes.	Paragraph: 024 Reference ID: 2a-024-20190220

3 Most of the inputs to the calculation of affordable need have changed since the previous SHMA. Data on the components of backlog need at 2019 has been updated from 2015. The projection of household growth in the borough used is the 2014-based projection prepared by MCHLG, which the National Planning Policy Framework specified should be used in the standard calculation of housing need. Estimated local incomes and the incomes of households in need have been updated to 2019 levels. The threshold costs of different types of affordable housing provision and the levels of market rents have increased.

4 The results of each stage in the calculation of affordable need, the overall estimate of need, and its breakdown between provision at different cost levels are set out below.

### **Backlog need**

5 The first stage in the calculation of affordable housing need calculates the currently unmet need for affordable housing, or backlog need, as distinct from need which will arise in the future. Official guidance does not prescribe in detail which types of need should be included, but following are referred to in the guidance as important categories:

- Homeless households – these are in affordable need as by definition they cannot meet their need in the market. Local authority administrative data on homelessness shows a backlog of 2,235 households in some form of temporary accommodation in 2019. In this update we have included all homeless households, regardless of the type of accommodation which they occupy or its location, whereas the 2015 SHMA included only those homeless households in temporary accommodation. This better reflects current practice and is comparable with the estimate of need from homeless households on the Council's housing register.
- Concealed households – these are people living within other households wish to form an independent household but who cannot afford to do so. The 2011 Census provides local-level data on concealed households but it is considerably out of date. The estimate was updated from regional data from the English Housing Survey and was estimated to be 885 households. Some concealed households are in social rented housing, but meeting their needs will not release social housing units, as they are part of other households which will continue to exist after the needs of the concealed households within them are met, so they are not deducted from backlog need.
- Overcrowded households - in 2011 there were 2,269 overcrowded households in the Borough, living in the private rented sector. Those already living in the social rented sector would release an affordable dwelling for another household if rehoused so are not included. Evidence from the English Housing Survey demonstrates an overlap between overcrowded and concealed households – if concealed households were to be provided with their own home then many of the remaining households would no longer be overcrowded. EHS suggests a reduction of 19% is appropriate and this proportion has been applied to the total, reducing it to 1,830.
- The housing register – official guidance cautions against using data from housing registers unless they are up to date, and notes that registers may not capture all affordable need. The council reviewed its housing register in 2014 to focus on households with high priority need, and subjected the register to subsequent annual review, so the list of those in need is considered to be accurate and up to date. In addition to those in need as a result of homelessness, who are already included in backlog need, the register includes 156 households with high medical points, 144 households with high priority arising from the

Grenfell Towers fire and related circumstances, and 49 households with other exceptional needs, a total of 349 households. However, these include some households who are currently in social rented housing who if rehoused would in turn release another social housing unit. To allow for this, the estimate of backlog need makes a reduction of 50% and includes 175 households from this source.

6 Adding these elements together produces a total backlog need for affordable housing of 5,125. Ideally, backlog need would be met as quickly as possible, but official guidance recognises that it must be dealt with over a period of several years. A period of twenty years is increasingly used, so this has been assumed in the model. On this assumption the backlog of affordable need is 256 dwellings per annum. This should be regarded as the minimum level of requirement to address backlog need. Dealing with the backlog over 15 years would increase the backlog by 86 to 342 per annum and over ten years by 256 to 513 per annum

7 Table 1 shows the breakdown of backlog need per annum by bedroom requirement, assuming that the need in each size category is met at the same rate.

**Table 1 Minimum estimate of backlog need in households per annum by bedroom requirement**

	Number	Percent
1 bed	29	11%
2 bed	98	38%
3 bed	74	29%
4+ bed	56	22%
Total	256	100%

Unless otherwise indicated, all the following tables are outputs from the Cobweb Consulting Affordability Model

### Newly arising need

8 The second component of affordable housing need identified in the NPPG is newly arising need. This will be generated in the future by newly forming households unable to afford access to market housing, and by some existing households whose needs change. The first element of need arising from newly forming households is estimated from household projections. However, unlike an estimate of overall need, which is based on *net* new household formation, the estimate of affordable housing need must be derived from *gross* new household formation (that is all new household formation, without the deduction of households which dissolve). Affordable housing released by households which dissolve is taken into account later in the calculation as part of affordable supply. Household projections do not provide the required data directly, but the model uses an approach to estimating gross new household formation from published data on future household numbers set out in previous official guidance. The estimated gross number of newly forming households over the period 2019-2039 is 1,390 per annum. This is derived from the MHCLG 2014-based household projections for the Borough.

9 This projection is broken down by household type, which provides a basis for the estimation of the dwelling size requirement breakdown. Table 2 shows newly arising need per annum broken down by bedroom requirement.

**Table 2 Newly arising need per annum in households by bedroom requirement**

No. of beds	Number	Percent
1 bed	537	39%

2 bed	377	27%
3 bed	352	25%
4+ bed	125	9%
Total	1390	100%

### Existing households falling into need

10 In the future, as well as newly forming households, some households currently in existence may fall into need as a result of a change in circumstances. This is the most difficult category of need to estimate and official guidance does not specify an approach to use. The approach adopted in the model is based on CORE data on lettings in the social rented sector. It identifies new lettings to existing households falling into need as a result of a change in circumstances such as eviction, inability to afford mortgage payments or rent. To smooth out annual fluctuations in need, the number of households affected has been derived from an average of three years CORE data. To allow for the possibility that local authorities and their partners cannot house all those experiencing such problems in any one year, numbers in need have been increased by 25%. The model estimates that 110 existing households will fall into need annually. This excludes all households falling into need who were previously living in the social rented sector, as meeting their needs would release the dwelling which they were previously occupying.

**Table 3 Existing households falling into need per annum by bedroom requirement**

No. of beds	Number	Percent
1 bed	13	12%
2 bed	40	36%
3 bed	33	30%
4+ bed	25	22%
Total	110	100%

### Total need

11 The total of backlog need, newly arising need and existing households falling into need, is 1,756 households per annum.

### Estimating the proportion of households unable to afford market housing

12 The estimation of the proportion of households who require affordable housing requires data on their incomes and the application of assumptions about the proportion of their incomes which can reasonably be devoted to housing costs. Several commercial companies produce local estimates of the distribution of household incomes, and incomes produced by one company, CACI Paycheck, were used to produce estimates of the distribution of incomes for various groups. The methodology for the CACI estimates is not published in detail by the company which supplies them, but the estimates are modelled using a variety of information sources and indirect indicators rather than being fully based on a survey of incomes. The CACI Paycheck estimates were compared with other available sources, including small area income estimates produced by ONS<sup>1</sup> and by the Greater

<sup>1</sup> The most recent ONS Income Estimates for Small Areas can be viewed and downloaded from <https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/earningsandworkinghours/datasets/sm-allareaincomeestimatesformiddlelayersuperoutputareasenglandandwales> (accessed 01-07-19).

London Authority<sup>2</sup>. The CACI Paycheck data seemed to show a more uniform distribution of income estimates than those suggested by the other sources, with a higher estimate of the lower quartile income and a lower estimate of the upper quartile income than might have been expected, although precise comparisons were not possible. For this reason, and to ensure that the needs of lower income households were not under-estimated, the CACI income estimates were adjusted downwards by a range of factors up to 25% in the lower income bands.

13 The estimates cover all households, but income data is required for the different groups in need (concealed households, overcrowded households, homeless households, newly forming households and existing households falling into need). These have been estimated using data from the English Housing Survey (EHS). For each group, the ratio of their income to that of all households was calculated for each decile point on the income spectrum. These ratios were then applied to the CACI Paycheck data for all households to produce estimates of the incomes of each need group.

14 Table 4 below shows the estimated income distribution for the 1,756 households in need in the Borough. 50% of the households in need in the authority have an estimated income below £35,000 per annum, and 26% have an estimated income below £20,000 per annum. 7% have an income of less than £10,000 per annum. On the other hand, 30% have an income of £60,000 or more. The households on higher incomes are mainly newly forming households rather than those in backlog need. If it is desirable to tackle the backlog of need more quickly, the overall level of need would rise and higher proportions of households in need would be in the lower income bands. The table also shows the maximum amounts which households in each income band would be deemed able to pay for housing, based on the assumptions set out in para 15 below.

**Table 4 Incomes and housing cost assumptions**

Income band		Households in need					
Bottom	Top	Number	Cumulative	Percent	Cumulative	Max housing costs pa	Max housing costs pcm
Up to	10000	152	152	8.7%	9%	2500	208
10001	15000	174	326	9.9%	19%	3750	313
15001	20000	139	465	7.9%	26%	6000	500
20001	25000	93	558	5.3%	32%	7500	625
25001	30000	94	652	5.4%	37%	10500	875
30001	35000	221	874	12.6%	50%	12250	1021
35001	40000	14	888	0.8%	51%	14000	1167
40001	45000	114	1002	6.5%	57%	15750	1313
45001	50000	150	1152	8.6%	66%	17500	1458
50001	55000	6	1158	0.3%	66%	19250	1604
55001	60000	40	1198	2.3%	68%	21000	1750
60001	65000	38	1236	2.2%	70%	22750	1896
65001	70000	75	1311	4.3%	75%	24500	2042
70001	75000	0	1311	0.0%	75%	26250	2188
75001	80000	85	1396	4.9%	80%	28000	2333
80001	85000	56	1452	3.2%	83%	29750	2479
85001	90000	41	1493	2.3%	85%	31500	2625

<sup>2</sup> The most recent GLA incomes estimates can be viewed and downloaded from <https://data.london.gov.uk/dataset/household-income-estimates-small-areas> (accessed 01-07-19)

Income band		Households in need					
Bottom	Top	Number	Cumulative	Percent	Cumulative	Max housing costs pa	Max housing costs pcm
90001	95000	5	1497	0.3%	85%	33250	2771
95001	100000	19	1516	1.1%	86%	35000	2917
100001	105000	54	1570	3.1%	89%	36750	3063
105001	110000	39	1609	2.2%	92%	38500	3208
110001	115000	0	1609	0.0%	92%	40250	3354
115001	120000	19	1628	1.1%	93%	42000	3500
120001	125000	2	1630	0.1%	93%	43750	3646
125001	130000	0	1630	0.0%	93%	45500	3792
130001	135000	0	1630	0.0%	93%	47250	3938
135001	140000	2	1632	0.1%	93%	49000	4083
140001	145000	27	1659	1.5%	94%	50750	4229
145001	or more	97	1756	5.5%	100%	NA	NA

Source: Cobweb Consulting Affordability Model applied to CACI Paycheck income estimates for RBKC, 2019

15 Household incomes are translated into an estimate of the housing costs which they could pay for – an income of £X per annum will enable a household to afford a mortgage of £Y, or monthly rental of £Z. Several assumptions are required to produce these estimates, as follows:

- The maximum percentage of income to be spent on housing costs, whether mortgage payments, monthly rent, or a combination of these. In practice the model assumes this to be the actual percentage spent, in order to minimise the demand for affordable housing. The the maximum percentage of income to be spent on housing costs by those with incomes below £15,000 per annum income decile is set at 25%, rising to 30% for those with incomes up to £25,000 and to 35% for those with incomes above this level.
- The maximum percentage of house value represented by a mortgage loan. This was assumed to be 90%.
- The mortgage interest rate. This was assumed to be 5%.
- The mortgage repayment period. This was assumed to be 25 years.

16 The next step in the calculation of affordable need is to estimate the proportion of these households who will be unable to afford to buy or rent a market dwelling. Following official guidance, the lower quartile market price/rent levels were determined from an analysis of sale prices and rents for housing of different sizes. The thresholds used for access to the market were the lower quartile cost of buying on the open market or of renting, whichever was the cheaper, with mortgage costs converted to monthly costs on the basis of the assumptions relating to deposit and interest rates set out above. The lower quartile thresholds derived for market prices and rents in the Borough are shown in Table 5, broken down by bedroom requirement. At each bedroom size the lower quartile rent threshold is cheaper than the cost of buying at the lower quartile price and it is this threshold which determines affordability. As a result, households at the margin of those deemed able to afford market housing will only be able to rent rather than to buy. The table also shows other cost levels for housing. These are:

- Current average rents in the social rented sector, derived from published national data on local authority lettings;
- A threshold based on current affordable rent levels in the social rented sector (as reported by Registered Providers);
- An intermediate housing cost, based on the average level of London Living Rents set for wards in the Borough for 2018-19.

17 These thresholds, taken together, provide a wide range of potential housing costs for comparison with incomes.

**Table 5 Market and affordable threshold prices/rents**

Beds	Market solutions		Affordable housing solutions		
	Buying: lower quartile threshold price (£)	Renting in the market: lower quartile threshold rent (£ per month)	Renting at current average social rents (£ per month)	Renting at current affordable rent level (£ per month)	Average London Living Rent level (£ per month)
1	616,500	1690	472	891	1483
2	685,000	2383	556	1044	1786
3	3,075,000	3250	615	959	2266
4+	5,104,500	5742	707	1175	2967

Sources: HM Land Registry, VOA, GLA, and model estimates of price/rent differentials by dwelling size.

18 Table 6 shows the number and percentage of households in need who are able/unable to afford market housing at the thresholds shown in Table 5. This is the overall number and proportion of households in need who will require affordable housing in one form or another. Within the category of those unable to afford market housing are a wide range of incomes, including those falling well below and those only slightly below the market threshold. As a result of the very high lower quartile private rented sector rents in the Borough, a high proportion of households in need cannot afford to access market housing (80%), or 1,408 households per annum. This is the level of need before taking account of the annual supply through relets.

**Table 6 Ability to afford market threshold housing cost**

		1 bed	2 bed	3 bed	4+ bed	Total
	Cost pcm (£)	1,690	2,383	3,250	5,742	
	Cost per annum (£)	20,280	28,596	39,000	68,904	
Number	Total need	578	514	459	205	1,756
	Can afford	165	86	81	16	349
	Can't afford	413	428	377	189	1,408
Percentage	Can afford	29%	17%	18%	8%	20%
	Can't afford	71%	83%	82%	92%	80%

19 Table 7 breaks down the overall affordable need (1,408 households) into those who can afford the costs of different types of affordable provision. 20% of those in need cannot afford even social rent levels. As the estimates of household incomes include benefits, this demonstrates that for some households the benefit system does not provide them with an income sufficient to meet this basic option. To meet the costs of renting a social housing unit they would need to devote a higher proportion of their income to housing than has been assumed (25% in most cases). A further 28% of those who cannot afford market housing costs could afford a social rent, but not the estimated affordable housing rent levels in the Borough. A further 34% could not meet the estimated cost of an intermediate tenure dwelling. In total, 82% of those in affordable housing need could not afford the London Living Rent threshold cost, before the existing supply of different types of provision is netted off. It is important to bear in mind that whilst the costs of various forms of affordable housing are assumed to be fixed at the various thresholds shown in Table 5, actual costs and rents may vary from these thresholds. In addition, household incomes form a continuous spectrum rather than a series of thresholds. Around each cost threshold, there will be some households who can afford the threshold relatively easily and others who can only just afford it, so these proportions should be treated as providing guidance rather than an exact measure of the ability of households to afford housing. In addition, some households may choose, or be forced, to spend a higher or lower proportion of their income on housing than that assumed in the calculations. For each category in the table below, the estimates are broken down further by bedroom requirement, but for clarity these estimates are not shown in the table.

**Table 7 Summary of affordable housing need and ability to afford market and affordable housing cost thresholds**

Affordability	In each category	
	Number	Percent
Can pay London Living Rent but not lower quartile market rent	257	18%
Can pay affordable rent but not London living Rent cost	475	34%
Can afford current average social rent but not affordable rent	398	28%
Can only afford rent below average social rent level	278	20%

Note that the number of households in each category includes some whose capacity to pay for housing falls close to the thresholds (as well as others whose capacity falls closer to the centre of the range for that band). There is likely to be some flexibility over the appropriate solution for households falling close to the thresholds. The numbers in the table may differ slightly from those in the text due to rounding.

### **Affordable supply**

20 The next stage in the calculation of affordable housing need requires an estimate of the total affordable stock available to meet affordable need. The main component of supply is annual relets from the existing stock. This has been calculated in line with official guidance on the basis of past trends as an average of the past three years' supply. In order to ensure that the estimate reflects the longer-term supply of stock, first time lettings of new dwellings are excluded. The estimate is also limited to re-lets to new tenants and excludes transfer lettings.

21 The largest element of affordable housing supply is general needs lettings (179 units per annum). New housing in the pipeline is excluded from this element of supply, as it is a one-off element of supply rather than part of the continuing flow provided by relets. If a major quantum of new affordable supply were to be anticipated, the impact of this on future relets would need to be factored into annual supply in the year of completion. A second element of supply is housing at affordable rents, estimated at 64 units per annum. The third element of supply is supported housing lettings as these units are normally let to households in affordable need. This amounts to 101 units per annum. The final element of supply is intermediate tenure housing, from which 13 units per

annum arise as a result of the re-use of existing units. CORE returns and local authority lettings data are the sources used for these estimates.

**Table 8 Future annual supply of affordable homes**

Social sector re-lets	1 Bed	122
	2 Beds	45
	3 Beds	11
	4+ Beds	2
	Total	179
Affordable rent relets	1 Bed	45
	2 Beds	15
	3 Beds	3
	4+ Beds	1
	Total	64
Supported housing	1 Bed	98
	2 Beds	3
	3 Beds	0
	4+ Beds	0
	Total	101
Intermediate tenure housing	1 Bed	4
	2 Beds	2
	3 Beds	1
	4+ Beds	7
	Total	13
Total	1 Bed	268
	2 Beds	64
	3 Beds	14
	4+ Beds	10
	Total	356

### Finalising the calculation

22 The final stage is to subtract affordable housing supply from affordable need. This results in an estimate of net annual need for affordable housing of 1,052 units (1,408 minus 356). Table 9 shows this total and provides a breakdown of net need by type and size of housing. 23% of net affordable need is for intermediate tenure housing at the London Living Rent level, with the remaining 77% of households requiring housing at social or affordable rents. The split of need between these categories of supply should be treated with caution, as some households will be close to the various thresholds, and the proportion able to afford intermediate housing could increase if some households wished to spend slightly more on housing than the model assumes. Likewise the breakdown of need by bedroom requirement is based on the bedroom standard and some households might desire more or fewer bedrooms than the standard allows.

**Table 9 Future annual need for affordable homes**

		Annual need	Annual supply	Surplus (+) or shortfall (-)
Can afford a social rent*	1 Bed	191	220	29
	2 Beds	304	47	-257
	3 Beds	79	11	-69
	4+ Beds	101	2	-100
	Total	676	279	-397
Can pay an affordable rent but not London Living Rent	1 Bed	115	45	-70
	2 Beds	86	15	-71
	3 Beds	191	3	-188
	4+ Beds	83	1	-82
	Total	475	64	-411
Can afford London Living Rent costs but not market rent	1 Bed	107	4	-103
	2 Beds	38	2	-36
	3 Beds	107	1	-107
	4+ Beds	5	7	2
	Total	257	13	-244
All who cannot afford full market rent	1 Bed	413	268	-145
	2 Beds	428	64	-364
	3 Beds	377	14	-363
	4+ Beds	189	10	-180
	Total	1408	356	-1052

\*Includes those who cannot afford a social rent, who will be required to spend more of their income on housing than the assumed maximum

## Conclusions

23 The overall number of households who are in need of affordable housing in the Royal Borough of Kensington and Chelsea is estimated to be 1,408 per annum, or 1,052 per annum after affordable supply is taken into account. This is similar to the level of net need in 2015, 1,170 per annum. The majority of net affordable need is for two and three bed units (35% of overall net need in each case or 70% in total). 38% of the net need is for social rented units (with some households having to spend more than the 25% of gross incomes assumed in the model) to afford even this type of provision. A further 39% require housing at rent levels below London Living Rent cost levels but above social housing rent levels. 77% of households in need therefore require housing at a social or affordable rent. Finally, 23% can afford housing at or above the London Living Rent cost, but below the lower quartile open market cost. These proportions should be treated as broadly indicative rather than as exact targets because they are based on specific assumptions about how much of their income different households can afford to spend on housing, and because there is a spread of households around each rent threshold level rather than clear cut bands of household incomes. Clearly, however, the majority of those in need are towards the lower end of the income spectrum and this suggests that a similar majority of affordable provision should be devoted to the lower cost end of the spectrum.

Philip Leather

For Cobweb Consulting

21-Aug-2019

NB An over-estimate in the supply of relet housing was corrected on 05-12-2019. This reduced supply by 5 units, and thus increased affordable need from 1,045 to 1,052 units per annum.