



Sustainability and transformation in European Social Policy

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Stream 16: Housing policy in crisis

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FIRST DRAFT

Low-income private tenants in an era of fiscal austerity

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1. Introduction

The aim of this paper is to examine how the recent transformation in the private rental housing market, and cuts in housing benefit, are affecting the risks and opportunities facing low-income tenants in England. These developments are likely to create a crisis of affordability and insecurity for such tenants at a time when other parts of the welfare state are also undergoing substantial retrenchment, recalibration and recommodification.

In most of the liberal welfare regimes the private rental market has always been the most important source of accommodation for low-income households. Britain is a partial exception to this in that, unlike Australia, Canada, New Zealand and the USA, it has a substantial social rented sector. However, since the late 1970s, the stock of social housing has declined in both relative and absolute terms. Meanwhile, in the wake of rent deregulation and a significant reduction in security of tenure for tenants, the private rental sector has undergone a revival. Indeed, a notable feature of the property and credit boom of the 2000s was a marked surge of investment in private rental housing by so-called 'buy to let' landlords.

As a result of this revival, the private rental market in Britain has once again become an important source of housing for the poor. In fact, a quarter all income poor households in Britain now rent their accommodation from a private landlord. Yet they do so on very insecure terms: not only do they have to pay free market rents, the modal length of leases is only six months. Although low-income private tenants can claim means-tested housing benefit, a significant minority find it difficult to afford their rent.

In the wake of the great recession, the new centre-right coalition government is proceeding with deep cuts in housing benefit as part of a wider programme of retrenchment aimed at reducing the fiscal deficit. The first wave of cuts in these cuts is being introduced in 2011 and 2012 and will reduce the average by payment by around ten percent and is likely to result in increased affordability problems, overcrowding and homelessness. Further cuts in housing benefit are being introduced from 2013/14. Thus, housing benefit provides income protection against the risk of unaffordable rents in the private market, the extent to which it will do so is being substantially reduced at the same time as other forms of social protection are being cut back.

The structure of this paper is as follows. The next section provides a brief overview of recent trends in housing in England, focusing especially on rental housing provision. The third section describes the data and methods employed and the fourth presents the results of the empirical

analysis. Section five examines the cuts in housing benefit that were announced by the Conservative-Liberal Democrat Coalition shortly after it was elected in 2010. The final section presents conclusions.

2. Restructuring housing provision

The private rental housing market has always been an important provider of accommodation for low-income households. Prior to the First World War, of course, it was almost the only source of accommodation for the poor. In fact, at that time, private renting was by far the predominant tenure even for better-off households in the urban housing market (Kemp, 1987). Since then, rising real incomes and developments in mortgage finance (among other things) have enabled many better-off households to live in the owner-occupied sector.

The emergence and growth of social rented housing in the twentieth century provided low-income - and in some countries, middle-income - households with a new and often more highly regarded alternative to the private rental market (Harloe, 1995). The extent to which low-income households have been able and wished to gain access to social housing has depended, among other things, on whether they meet the entry criteria, can afford the rent, and the relative size of the sector. These factors have varied between countries and over time. In the liberal market economies of Australia, Canada, New Zealand and the USA, social housing is largely focused on the poorest households (Hulse, 2003). Nevertheless, because of the small size of the social housing sector in these countries, the majority of low-income households have no choice but to rely on the private landlord for their accommodation. Malpezzi's observation (1998) about the USA, that although most private renters are not poor, most poor people rent privately, is true for these liberal market economies.

However, in England (and Britain more generally) social housing developed into a substantial supplier of rental accommodation during the twentieth century. By the late 1970s, three out of ten households in England lived in social housing; and today one in five of them do so. This compares with around one in 20 households in Australia, Canada, the USA and New Zealand. Since the late 1970s the social housing sector in England has become increasingly targeted on the poor and disadvantaged (Hills, 2007).

The social housing sector in England has declined in both absolute and relative terms over the past three decades (Hills, 2007; Malpass, 2005). The proportion of households renting from a social landlord, for instance, declined from 31 per cent in 1980 to only 17 per cent in 2009/10. This decline seems likely to continue for the foreseeable future. On the one hand, sales to sitting tenants under the Right to Buy, though well below the levels reached in the 1980s and 1990s, will continue. And, on the other hand, new construction within the sector is likely to remain at low levels. The scope to build subsidised housing will be constrained by the new era of fiscal austerity in the wake of the Great Recession of 2008/09.

Meanwhile, after many years of decline, the private rental sector (PRS) in England has significantly increased over the past three decades and especially since the turn of the century. The *proportion* of households renting from private landlords rose from nine per cent in 1990 to 16 per cent in 2009/10 (Table 1) and the *number* of private tenants increased by 82 per cent. Over the same period, the share of renting households who live in the PRS increased from 28 per cent to 48 per cent, while the proportion in social housing declined from 71 per cent to 52 per cent.

The revival of private renting was facilitated by the Housing Act 1988, which deregulated and reduced security of tenure all new private lettings from January 1989. However, the evidence suggests that this was a necessary rather than a sufficient condition. A range of supply and demand side factors were also important, including rising real incomes, innovations in mortgage finance and low interest rates in the decade prior to the credit crunch in 2007 (Kemp, 2009; Crook & Kemp, 2011). The boom in 'buy to let' housing that has occurred since the late 1990s has been accompanied by a generally more positive attitude to private renting than was the case in the 1970s and 1980s (Kemp, 2004). Even though homeownership remains the preferred tenure for most households, private renting has once again become a tenure of choice and not just of constraint.

The continuing decline of social housing is likely to place more pressure on the private rented sector to accommodate low-income households. The demand for private rental housing has also increased from moderate and better-off households, especially since the 2007/8 credit crunch and subsequent recession. Meanwhile, private rents are currently at rates in excess of both retail price inflation and wage growth. Concerns have also been raised about the affordability of rents for low-income private tenants, especially in the wake of substantial cuts in housing benefit – an income-related rent allowance - announced by the newly-elected Coalition Government in 2010.

3. Data and Methods

The results presented in section 4 are based on secondary analysis of the 2007 English House Condition Survey dataset. The analysis draws on data from both the household interview survey and the physical stock condition survey. The 2007 EHCS involved interviews with 15,604 households and surveys by chartered surveyors of 16,217 dwellings. Here, we analyse the 'core' sample of 15,604 households for whom there is a matching set of cases from the both the household and the physical surveys. The 2007 EHCS dataset is based on continuous fieldwork conducted between April 2006 and March 2008, with a mid-point of April 2007.

The household grossing weight provided with the 2007 EHCS dataset was used in order to produce national estimates for England. Thus, the results are based on the *weighted* data. However, the chi square tests of statistical significance were calculated using the unweighted data and the base numbers shown in the tables are also the unweighted cases. All differences in findings between sub-samples that are discussed in the text are statistically significant at the 0.05 per cent level or higher.

In this paper, we confine our attention to low-income households in the private rental market who are poor. What may be regarded as income 'poverty' can be defined and measured in a variety of different ways. Here, we follow the method commonly employed in the international poverty literature. Households are defined as living in poverty if their disposable (i.e. net) income is below 60 per cent of the median. In order to correct for household size and composition, income is equivalised using the 'modified OECD scale'. We use the income 'after-housing-costs' (AHC) measure of poverty rather than the 'before-housing-costs' measure (see Johnson & Webb, 1992). AHC income includes housing benefit, an income-related rent allowance. Thus, in this paper households are defined as being poor if their equivalised, after-housing-costs disposable income is below 60 per cent of the median. We use the terms 'poor' and 'low-income' interchangeably.

4. Results

Low-income private tenants

This section looks at low-income private tenants in 2007 and shows the situation prior to the economic recession and cuts in the Local Housing Allowance.

Table 2 shows that the private rented sector plays a disproportionately important role in accommodating households living in income poverty. Almost a quarter of low-income

households in England in 2007 were renting their home in the private rental market. And over a third of private tenants were living in poverty. Furthermore, when a range of demographic and socio-economic variables controlled for, the odds of private tenants being poor were more than three times higher than for owner-occupiers and about the same as for social housing tenants. In other words, even though social housing is targeted on the poor and disadvantaged, private tenants are just as likely to be living in poverty.

In Table 3, columns 2 and 3 compare poor and non-poor private renters on a range of key demographic and socio-economic variables. For five of the six variables – age, gender, ethnic background, household type and employment status – there are statistically significant differences between the characteristics of poor and non-poor private renters. Low-income private renters are *more* likely than the non-poor to be under 25, female, black or from another minority ethnic group, couples with dependent children, lone parents, and working part-time. They are *less* likely to be couples living without dependent children, single people aged 60 and above, and people in full-time work.

Among households with dependent children, 221,000 couples, and 172,000 lone parent families, were living in income poverty within the PRS in England in 2007. Survey evidence suggests antipathy by some private landlords towards households with children (Crook and Kemp, 1996; CLG, 2008), making it difficult for them to gain access to accommodation. Moreover, low-income families face competition for houses within the private rented sector from students (McDowall, 1978), a demand group that has trebled over the past two decades (Kemp, 2004) and now constitutes an important segment of the market (Rugg *et al*, 2002). In recent years, low-income families have also faced competition for private rental houses from economic migrants from eastern European countries in the European Union such as Poland. Groups of students (as McDowall, 1978, pointed out), and single economic migrants sharing their accommodation, can typically pay more in rent for a house than a low-income family can afford.

The fourth and fifth columns of Table 3, respectively, show the percentage of private renters who are poor in each demographic or socio-economic group and their odds of being poor relative to a comparator within each group (for whom the odds of poverty, of course, are 1.0). Particularly noteworthy in Table 3 is the very high rates of poverty among private tenants who are: living in workless households (78%), lone parents (61%), working part-time (60%), aged under 25 (55%) or from black or other minority ethnic groups (50%). This suggests that the PRS is not simply accommodating niche groups of low-income households, but instead is catering for the poor more generally.

Private tenants sharing their accommodation are no more likely to be poor than are couples living in self-contained accommodation (Table 3). Although this might seem surprising, it reflects the largely bi-modal nature of shared rental housing, which caters both for young urban professionals and students as well as for low-income tenants living in houses in multiple occupation (HMOs). Indeed, as Table 3 shows, about one in six of both poor and non-poor private renters comprised multi-person households in 2007. While young professionals and students typically share flats or houses from choice (Kenyon & Heath, 2001), low-income tenants are more likely to be living in HMOs from constraint. Moreover, the 'lived experience' of sharing a flat or house with friends or other young professionals is often very different from living with strangers in a dingy HMO at the bottom end of the private rented sector (Kemp and Rugg, 2001).

The constraints facing poor people living in the private rented sector reflect not just their low-income. They also face difficulties in finding and in keeping accommodation while in receipt of housing benefit, despite the extra purchasing power that this income-related payment gives them. These difficulties are a function of poor administration of housing benefit by local authorities, shortfalls between their rent and the amount of housing benefit they receive, and some private landlords' negative attitudes to letting accommodation to people on housing benefit (Bevan et al, 1995; Crook and Kemp, 1996; Rhodes and Rugg, 2005; Rugg, 2006). Shortfalls between housing benefit and rent are particularly large for young single people under 25 living in self-contained homes, whose benefit is restricted to the average rent for shared accommodation (Kemp & Rugg, 2001; Harvey & Houston, 2005).

Private Tenancies

Once low-income households have obtained accommodation, on what terms do they rent it from their private landlord? Table 4 shows tenancy-related characteristics for poor and non-poor private tenants and the percentage of them living in poverty. A higher proportion of private tenants renting furnished accommodation were living in poverty than those renting on an unfurnished basis. Renting furnished accommodation is usually a characteristic of new, young and mobile households. However, among low-income households, especially if they are long-term private renters, furnished lettings are more likely to be an outcome of chronic (i.e. long-term) poverty.

Long-term renters – defined here as tenants who have lived at their present address for ten or more years – are less likely to be poor than more short-term tenants (cf. Wulff & Maher, 1998). In other words, long-term private renters do not disproportionately comprise households living in poverty. What we cannot tell from the data, however, is how long tenants (whether short-term or long-term renters) have lived in the private rented sector; we only

know how long they have lived at their current address. It is possible, therefore, that some of the low-income private tenants whom we have defined as shorter-term renters are in fact long-term renters who have moved within the sector in the past ten years.

Although long-term renters are less likely to be poor than shorter-term renters, they are more likely to be in receipt of housing benefit. Thus, 41 per cent of long-term renters were on housing benefit, compared with only 23 per cent of shorter-term renters, in England in 2007. Looked at the other way around, the proportion of tenants who have rented their current address for ten or more years is twice as high among housing benefit recipients (19%) as among non-recipients (9%). In other words, housing benefit recipients are more likely to be long-term private renters (Rugg & Rhodes, 2008).

Table 4 also shows separately for poor and non-poor private tenants their description of the type of tenancy on which they occupy their home. Although in law most lettings taken out since January 1989 must be either 'assured shorthold' or 'assured' tenancies, only two-thirds of tenants said they had either of these types of lease. Yet 94 per cent of tenants had commenced their tenancy since that date. This suggests that a substantial minority of tenants is unaware of the type of tenancy on which they are renting their accommodation (cf. Lister, 2002), a finding that mirrors that found among surveys of private landlords in England (Crook & Kemp, 1996). One in six assured shorthold tenants living in income poverty had been resident at their address for five or more years and one in 20 for a decade or more. This indicates that low-income is often combined with insecure tenancies, not just among short-term tenants, but also among long-term renters in the private rental housing market.

How Affordable?

Finally, we turn to the question of the affordability of the accommodation occupied by low-income households. Among households living in poverty, private tenants are much *less* likely than social housing tenants to report finding it easy to afford their rent. Conversely, private renters are more likely than social housing tenants to report finding it 'difficult' to afford the cost of their housing. Indeed, one in three low-income private renters report finding it difficult, a figure that is twice as high as for low-income social housing tenants (Table 7). This difference, of course, to some extent reflects the generally much higher level of rents in the private market compared with the social housing sector. Across England as a whole in 2006/7, the median weekly social housing rent was only 53 per cent of the median private rent (£66 compared with £125 respectively).

As one might expect, among private tenants, those living in poverty are more likely than those who are not poor to report finding it difficult to afford the rent. Table 8 shows that, even

taking housing benefit receipt into account (see below), and controlling for a range of demographic and socio-economic characteristics, the odds of finding it difficult to afford the rent are 2.8 times higher for private tenants who are poor compared with those who are not poor.

Excluding those living in rent-free accommodation, one in four (25%) private tenants is in receipt of HB. A significantly higher proportion of these HB recipients (61%) are living in poverty than are non-recipients (30%). This is not surprising because the British HB scheme is relatively pro-poor (Gibbs and Kemp, 1993; Stephens, 2005). What is surprising, however, is that only 40 per cent of poor private tenants are in receipt of HB. In other words, most low-income private tenants are paying for their housing out of their own pockets.

Within the PRS, HB recipients (17%) were twice as likely as non-recipients (34%) to find it difficult to afford their rent in 2007 (Table 9). This remains true even when controlling for poverty status. Thus, the odds of finding it difficult to afford the rent are 1.8 times higher for private tenants who are in receipt of HB than for those who are non-recipients, after adjusting for poverty status and a range of demographic and socio-economic characteristics (Table 8). In other words, whether poor or not, private tenants on HB are significantly more likely than non-recipients to report having difficulty affording their rent. Despite the existence of HB, therefore, affordability was significant problem for a substantial minority of low-income tenants in the private rental market in England in 2007.

5. Cutbacks in housing benefit

Since the 2007 EHCS was completed, a new form of HB for private tenants, called the Local Housing Allowance (LHA), was introduced nationally in 2008. Two years later, in the wake of the global financial crisis, the newly elected Conservative-Liberal Coalition Government announced substantial cuts in housing benefit – most of which affect LHA recipients - as part of a wider programme of cuts in the welfare state (Taylor-Gooby, 2011). This wider retrenchment includes substantial cutbacks in income-related social security benefits for unemployed and economically inactive working age claimants.

The first wave of LHA cuts is being introduced in 2011 and 2012 and mainly affect working-age households. This includes people in low-paid work, the unemployed, and claimants who are not economically active particularly lone parents and people in receipt of incapacity benefits (Table 8). Government estimates suggest that almost all LHA recipients will suffer a reduction in the amount of benefit they receive (Table 9). On average, recipients will lose ten per cent of

their LHA, with the reduction being highest for large families and those living in London (DWP, 2010).¹ Central London will become unaffordable for most LHA recipients, with the result that those currently living there will have little alternative but to move elsewhere.

These cuts will exacerbate the affordability problems faced by many private tenants in receipt of the LHA. The Government has itself implicitly acknowledged that the cuts are likely to produce financial hardship and explicitly accepted that they may result in increased child poverty, overcrowding and homelessness (DWP, 2010). Nevertheless, a further major cut affecting the LHA is planned for 2013.

6. Conclusions

In the 'golden age' of the post-war welfare state, social housing in England offered a growing number of low and moderate income tenants below-market rents and what was, in effect, very strong security of tenure. Meanwhile, those living in the shrinking private rental sector benefited from controlled rents and strong security of tenure. But since the late 1970s, the social rented sector has been declining both in both absolute and relative size as existing homes were sold to their sitting tenants and new construction was cutback to historically low levels. And in 1989, rents on were decontrolled, and security of tenure was reduced, on new lettings in the private market. This paved the way for private landlords to invest in the rental market during the credit and property boom in the decade prior to the 2007 credit crunch.

As a result of these developments, a growing number of low-income tenants are living in the private rented sector, paying market rents and occupying their accommodation on mostly very short-term tenancies. Yet, low-income tenants are facing increasing competition in the private rental housing market, from students, economic migrants and middle-income households. As a result of these strong demand pressures, and low levels of new housing supply in the market as a whole, private rents are rising in real terms. The 2011/12 cuts in the Local Housing Allowance are likely to exacerbate the affordability problems that were already being faced by a substantial minority of low-income tenants. And the further round of LHA cuts planned by the Coalition Government, due to be implemented in 2013, are likely to make it still more difficult for recipients to gain access to and afford rental accommodation in the private market. Moreover, cuts in other social security benefits for working age claimants are also being introduced alongside cuts in housing benefit, which will make it more difficult for out-of-work LHA recipients to cope with the reduction in their housing benefit. Hence, in the new era of fiscal austerity, when the private rental market is expected to take a larger role in housing

¹ These estimates of the average amount by which the LHA is being cut do not include (i) cuts affecting housing benefit claimants who share their home with adults who are not dependent on them (such as grown-up children or elderly parents, nor (ii) the further cut in LHA from 2013.

low-income tenants, its ability to do so is being made much more difficult by cutbacks in housing benefit.

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Table 1. Households by tenure in England (%)

Year	Owner-occupiers	Social renters	Private Renters	Total
1980	57	31	12	100
1990	67	24	9	100
2000	71	20	10	100
2009-10	67	17	16	100

Source: CLG (2011) *English Housing Survey: headline report 2009-10*.

Table 2. After-housing-costs poverty by housing tenure

Tenure	Percentage in poverty ***	Percentage of poor ***	Odds of poverty
Owner-occupation	11	42	1.0
Private rented	36	23	3.5 ***
Housing association	39	18	3.3 ***
Local authority	39	18	3.3 ***
All	19	100	

N = 15,604

Odds are controlled for age, gender, ethnicity, disability, household type, employment & region

Significance: *** < 0.001

Source: EHCS2007 (own analysis)

Table 3. Socio-economic characteristics of private renters

	Poor	Non-poor	Percentage in poverty	Odds of poverty	N
	%	%	(row %)		
<i>Age ***</i>					
16 to 24	22	10	55	1.0	307
25 to 34	27	35	31	0.5 ***	631
35 to 44	23	21	38	0.5 **	473
45 to 54	15	14	38	0.7	309
55 to 64	6	9	28	0.5 **	189
65+	8	11	30	0.5	252
<i>Gender ***</i>					
Male	52	62	32	1.0	1269
Female	48	38	42	1.2	892
<i>Ethnicity ***</i>					
White	76	86	34	1.0	1826
Black or other ethnic minority	24	14	50	1.5 **	335
<i>Registered disabled</i>					
No	95	95	36	1.0	2035
Yes	5	6	36	0.4 ***	125
<i>Household type ***</i>					

Couple	15	32	21	1.0	535
Couple with children	25	19	43	3.3 ***	460
Lone parent	19	7	61	1.5	252
Single under 60	19	17	40	1.8 **	367
Single aged 60+	5	10	22	0.4 ***	192
Multi-person	17	16	38	0.9	355
<i>Employment status***</i>					
1+ in full-time work	34	76	20	1.0	1281
1+ in part-time work	14	5	60	6.1 ***	172
None working, none retired	9	12	78	7.6 ***	264
None working & 1+ retired	43	7	32	16.7 ***	444
All	100	100	36		2161

Odds are controlled for age, gender, ethnicity, disability, household type, employment & region

Significance: *** < 0.001

Source: EHCS2007 (own analysis)

Table 4. Tenancy characteristics of private renters

	Poor	Non-poor	Percentage in poverty (row %)	N
	%	%		
<i>Letting ***</i>				
Furnished	48	38	42	817
Unfurnished	52	62	32	1327
<i>Self-description of tenancy *</i>				
Assured	25	27	35	512
Assured shorthold	54	50	38	929
Regulated	5	5	35	98
License agreement	7	7	34	125
Other	10	12	30	213
<i>Length of tenancy ***</i>				
Up to 6 months	23	28	32	552
More than 6 months, up to 1 year	30	22	44	483
More than 1 year	33	33	36	745
No [fixed] tenancy agreement	14	17	32	342
<i>Length of residence **</i>				
Less than 5 years	77	73	38	1546
5 to 9 years	13	12	39	289
10+ years	10	15	27	325

All	100	100	36	2160
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Significance: *** < 0.001; ** < 0.01; * < 0.05

Source: EHCS2007 (own analysis)

Table 5. Affordability of the rent among low-income private tenants

<i>How easy to afford the rent?</i>	%
Easy	48
Neither easy nor difficult	20
Difficult	32
Total	100

N = 774

Source: EHCS2007 (own analysis)

Table 6. Logistic regression estimates of the odds of private tenants finding it difficult to afford the rent

	Odds	N
<i>Poor?</i>		
No	1.0	1228
Yes	2.8 ***	761
<i>Receives HB?</i>		
No	1.0	517
Yes	1.8 ***	1472

Odds are controlled for age, gender, ethnicity, disability, household type, employment & region

Note: excludes tenants living rent-free

Significance: *** < 0.001

Source: EHCS2007 (own analysis)

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Table 7. Ease or difficulty of affording the rent among private tenants

	Poor ***		Non-poor **		All HB	All PRS	N
	HB	Non-HB	HB	Non-HB			
	%	%	%	%			
Easy	45	49	59	71	51	61	1217
Neither	14	23	19	17	16	18	353
Difficult	41	27	22	13	34	21	405
Total	100	100	100	100	100	100	1975

Note: excludes tenants living rent-free

Significance: *** < 0.001; ** < 0.01

Source: EHCS2007 (own analysis)

Table 8. Local Housing Allowance recipients (March 2010)

	000s	%
In work	242	26
Unemployed *	206	22
Not economically active +	309	33
Pensioners ~	52	6
Others ^	130	14
Total	939	100

* Income-related Jobseekers Allowance claimants

+ Income Support and income-related Employment and Support Allowance claimants

~ Income related Pension Credit (Guarantee Credit) claimants

^ includes pensioners, unemployed and economically inactive claimants of insurance-based benefits

Source: DWP (2010)

Table 9. Local Housing Allowance Budget 2010 cuts

Recipients losing	
- 000s	936,000
- %	99.7%
Average maximum LHA	£126
– £ per week	
Average loss per loser	
- £ per week	£12
- %	9.5%
% of recipients with post-cut shortfall	68%

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Note: this table does not take into account (i) cuts affecting LHA claimants who share their home with adults who are not dependent on them (such as grown-up children or elderly parents, nor (ii) the further cuts planned for 2013.
Source: DWP (2010)