

1 Summary of main findings

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1.1 Introduction

This report is a summary of interim outputs from the independent evaluation of the recent changes to the Local Housing Allowance (LHA) arrangements, which apply to people claiming Housing Benefit (HB) in the private rented sector (PRS) in the United Kingdom, commissioned by the Government in 2011. It brings together findings from different strands of the research project – spatial analysis and econometric analysis based on nationwide data on HB claimants and qualitative interviews in 19 case study areas in Great Britain (GB) with LHA claimants, landlords and housing advisers.

The evaluation is being undertaken by a research consortium from the Centre for Regional Economic and Social Research (CRESR) at Sheffield Hallam University, the Institute for Fiscal Studies (IFS), the Blavatnik School of Government at the University of Oxford and Ipsos MORI. The evaluation in GB is funded by the Department for Work and Pensions (DWP), the Department for Communities and Local Government (CLG), the Scottish Government and the Welsh Government. It comprises national analysis of secondary data and primary research undertaken in local housing markets in GB. A parallel evaluation is being undertaken in three additional case study areas in Northern Ireland and this element of the research is being funded by the Northern Ireland Executive, through the Department for Social Development.

The changes to LHA, announced in the June 2010 Budget and the Comprehensive Spending Review of 2010, formed an important part of the Government's package of measures to reform HB. The measures included: changing the basis for setting LHA rates from the median (50th) to the 30th percentile of local market rents; capping weekly LHA rates (in 2012, £250 per week for one bed; £290 per week for two bed; £340 for three bed; £400 for four bed or more – thereby scrapping the five bed rate); uprating HB rates annually from April 2013 at the 30th percentile of market rents or the September 2012 Consumer Price Index (CPI) rate, whichever is the lower. A more recent measure annually uprates HB by one per cent for April 2014 and April 2015.

Other relevant measures included an increase in the government's contribution to the *Discretionary Housing Payment* (DHP) budget by £10 million in 2011/12 and by £40 million in 2012/13. DHPs can be paid to claimants to ease the process of transition to the new regime, such as where there is an increased shortfall¹ between the LHA entitlement and the contractual rent. The Government also announced in 2010 that the discretion of local

¹ There are several reasons why claimants might experience a shortfall: their LHA might be less than their rent if they are in work and have an assessable income above the applicable amount; they may have non-dependants living with them; or if they may not have rented, or could not rent, a property at the LHA rate.

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authorities (LAs) to make *direct payments to landlords* would be widened temporarily where it was considered that this would support tenants in retaining and securing a tenancy.

These changes apply to *new* claimants from April 2011 and to existing claimants from the anniversary of their claim, with an additional nine months transitional protection, unless they had a change of circumstances which required the LA to redetermine the maximum rent. Existing claimants were, therefore, to be brought under these measures (depending on the date of their review) in the period from **January 2012 to December 2012**.

Two further measures were announced in October 2010. The first of these measures involved raising the age at which the Shared Accommodation Rate (SAR) (formerly the Single Room Rate (SRR)) applied from 25 to 35. This was introduced in **January 2012**. For existing claimants, it will apply on their next review after January 2012 or, if they are covered by the transitional protection period, when this period ends. The second measure concerned capping benefits at £500 per week for a family and £350 per week for a single person with no children, to be introduced in four London boroughs from **April 2013**, and implemented in all other LAs during summer 2013, with all households identified as being appropriate to be capped by the end of **September 2013**. This measure does not form part of this evaluation directly, but it will have a potential impact on some HB claimants in the PRS since the cap will be achieved by reducing HB payments.

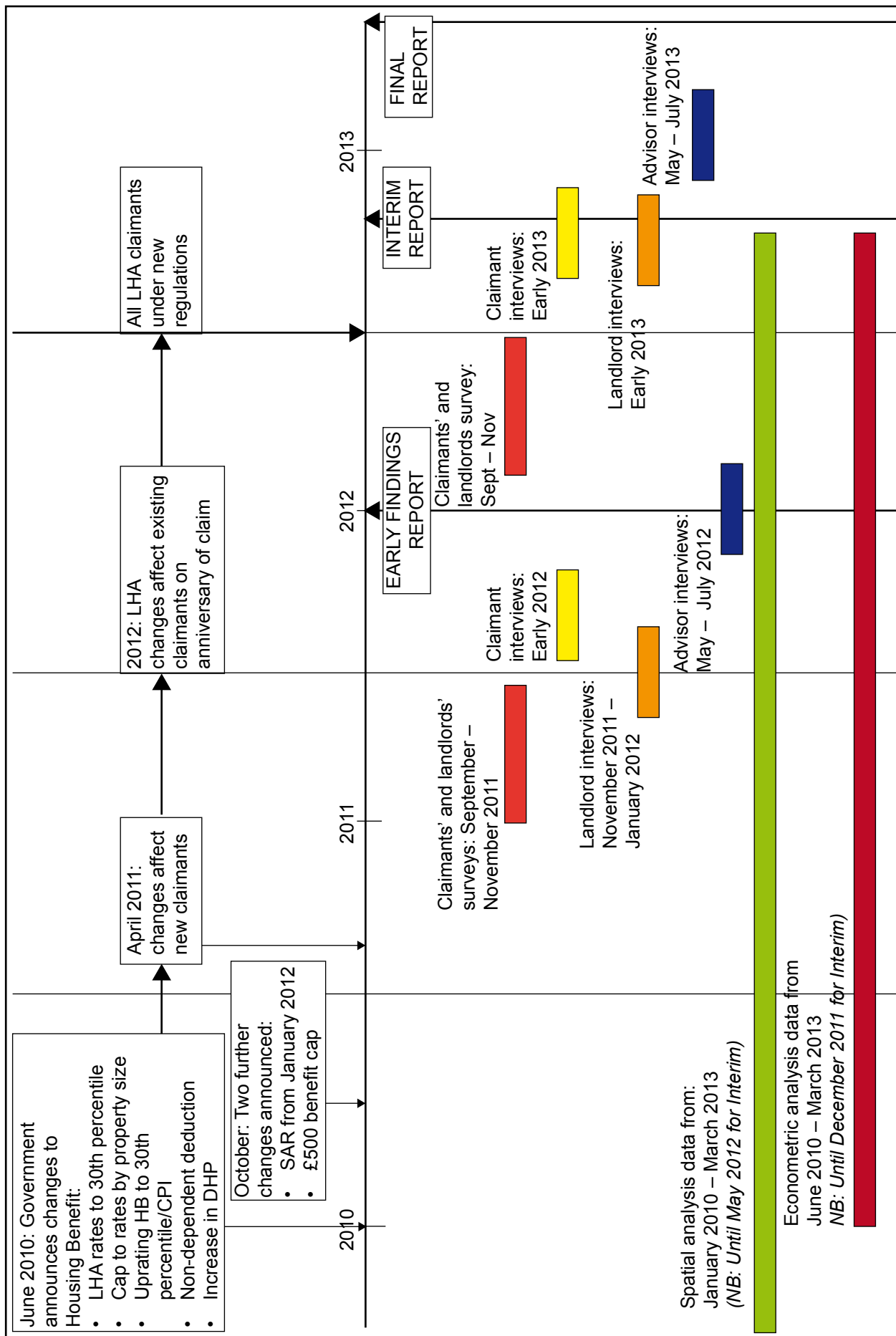
The research programme to evaluate this programme of policy measures runs from April 2011 until December 2013. The first report from the research team examined the findings of a large-scale face-to-face survey of claimants and a postal survey of landlords in the 19 case study areas in GB (DWP, 2012). These surveys were undertaken in autumn 2011: several months after the measures had been introduced for new LHA claimants², but before they had an impact on the rents and housing circumstances of existing (pre April 2011) LHA claimants (for further details of the research programme and the surveys, see DWP, 2012). This interim report draws on the initial analysis provided by the other strands of the evaluation.

Figure 1.1 provides a timeline of the phasing of the different strands of the research programme alongside the introduction of the main LHA reforms, including the transitional protection period.

The overall research programme involves a combination of quantitative methods, to assess some national impacts and experiences across diverse local housing markets in GB, and qualitative methods, to assess behavioural change and the direct and indirect consequences for claimants and landlords. It also draws on the experiences and insights of housing advisers working with HB claimants in local authorities and voluntary and community sector (VCS) agencies at the local level. This broad-based approach to the research is designed to monitor some of the impacts of the LHA measures in the short to medium term, while being sensitive to different local housing market contexts, and to assess the extent to which LHA reforms are starting to induce attitudinal and behavioural changes among landlords and tenants in the PRS.

² Throughout these reports the term 'LHA claimant' is used as shorthand for 'Housing Benefit claimants subject to the LHA rules'.

Figure 1.1 Timeline of main policy measures and research programme



1.2 The research programme

1.2.1 Structure of the research

The **spatial analysis** component of the evaluation has involved mapping trends over time for different types of housing and labour markets across Britain, using national data from the Single Housing Benefit Extract (SHBE) on HB caseloads. It examines some of the early differences in the extent to which different LA areas in GB have been affected by on-flows and off-flows of claimants. At this interim stage it has examined trends in LHA caseloads between January 2010 and May 2012. (For a full discussion of the initial spatial analysis see [Section 2](#)).

The **econometric analysis** component of the evaluation, undertaken by the Institute for Fiscal Studies (IFS), uses SHBE data to provide estimates of the impacts of the reforms on outcomes for new LHA claimants³ until December 2011. It examines the differences between maximum LHA entitlements and contractual rents, and the incidence of these differences between claimants, on one hand, and landlords, on the other. The analysis also considers the outcomes for different sub-groups of claimants. (For a full discussion of the findings from the initial phase of this research strand see [Section 3](#)).

The large scale face-to-face survey of HB claimants and the postal survey of landlords undertaken in autumn 2011 were complemented by **qualitative interviews** with a sub-sample of claimants and landlords, and the findings from the qualitative research are included here. (For a detailed discussion of the findings of the large scale surveys, see DWP, 2012). The surveys and qualitative interviews were undertaken in 19 LA case study areas across GB in late 2011 and early 2012. Eleven claimant qualitative interviews and eight landlord qualitative interviews were undertaken in each case study area.

The 19 case study areas were not chosen to provide a nationally representative sample, but to ensure that a wide range of local housing market and labour market circumstances were included. Four London Boroughs (Barking and Dagenham, Brent, Hackney, Westminster), three Welsh local authorities (Cardiff, Denbighshire, Rhondda Cynon Taf), three Scottish local authorities (Edinburgh, North Lanarkshire, Perth and Kinross) and nine other local authorities across the English regions (Blackburn, Bradford, Exeter, Fenland, Newcastle, Portsmouth, Tendring, Thanet and Walsall) were selected as case study areas.

The **qualitative interviews** with claimants covered their awareness of the LHA changes (for both new and existing LHA claimants), and their experiences in terms of gaining access to affordable PRS accommodation, meeting any shortfalls between LHA entitlements and contracted rents, and whether they had moved home, or had considered doing so, and their reasons for this. The interviews also discussed claimants' experiences of negotiating with landlords over rent levels. The findings from this strand of the research programme are discussed more fully in [Section 4](#).

³ 'New LHA claimants' covers both those individuals who start a claim for the first time, and those who have a previous claim which ceased and subsequently start another claim.

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The **qualitative interviews with landlords** covered whether they had reduced rents or considered doing so in the wake of the LHA changes, the influence on their decisions of potentially receiving direct HB payments, their relative preference between LHA and non-LHA households when letting property and whether this had changed, and the influence of wider changes in the local housing market on their rental business. The findings from this strand of this research programme are discussed more fully in [Section 5](#).

The final strand of the evaluation included in this interim report involves a small number of interviews in each of the 19 case study areas with LA **housing advisers** and others working in the public and voluntary sectors to provide advice and support for HB claimants. The interviews with advisers were intended to shed light on some of the wider impacts of the LHA reforms on the housing market and on services in the case study areas, as well as the use of measures to support the transition of claimants to the new LHA regime such as Discretionary Housing Payments. The findings of this strand of the evaluation are presented more fully in [Section 6](#).

1.2.2 Key research questions

Overall, the evidence provided by the different strands of the research programme can address a series of questions about the impact of the LHA measures in terms of:

- **Spatial Distribution of Impacts:** how the impacts of the LHA reforms on tenants, landlords and the market differ at the LA level and by certain area classifications.
- **Impacts on PRS rents:** the incidence of shortfalls affecting landlords, on the one hand, and new LHA claimants, on the other; the impacts on landlords' rent setting decisions; and whether landlords are negotiating with tenants over rents.
- **Claimant behaviour:** how tenants are responding to any shortfalls between their LHA entitlements and contractual rents; whether tenants are staying put or moving to cheaper PRS accommodation, either in their locality or further afield; whether tenants are attempting to negotiate rent reductions with landlords.
- **Sub groups of claimants:** whether any particular groups of claimants are experiencing different impacts, such as people with disabilities, single people below the age of 35, lone parents, large families⁴ and claimants in employment.
- **Landlord behaviour:** whether landlords are expanding or reducing their portfolios in the local PRS as a result of the reforms; whether letting preferences between LHA and non-LHA households are changing; whether landlords are taking more court actions to evict LHA tenants in arrears, or ending or not renewing tenancies.
- **Housing supply:** the impact of the reforms on the supply of properties available to rent to HB claimants; the perceived impact on stock quality in the HB sector of the PRS.
- **Transitional support:** how local public and VCS agencies are helping claimants with changes in their HB, and how DHPs are being allocated.

In this summary report, we draw together the findings from the different strands of the foregoing analysis to address these questions. To reiterate, these findings are based on an assessment of some of the early impacts of the LHA measures and further analysis will be undertaken to assess whether the trends and issues identified here are sustained once the measures extend to all existing LHA claimants, as well as new claimants, from the start of 2013. There will doubtless be further time lags until some of the impacts become evident.

⁴ Defined as those households requiring five bedrooms or more.

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As shown in Figure 1.1, each strand of the analysis presented in this report has been based on a different time frame. The interviews with claimants and landlords were undertaken at the end of 2011 and early in 2012, before most existing claimants had been brought under the measures and when the SAR changes, for example, had only just been introduced. The econometric analysis utilises national data with new claimants only (and, therefore, excludes the stock of existing LHA claimants), by analysing changes until the end of December 2011. The spatial analysis tracks trends from the national data until the end of May 2012. The interviews with housing advisers were undertaken between May and July 2012. These differences are important to bear in mind, given the fact that the LHA measures have been phased in over a 21-month period from April 2011.

The findings presented in this summary are, therefore, not a conclusive picture of the overall effects of the LHA measures on landlords and claimants in the PRS and some caution is needed in any broader interpretation of their impact so far. The final report on the research, drawing on wave 2 analysis and mapping longitudinal change, will be published in spring 2014.

The findings are organised around the main aims of the research listed at the end of the Introduction.

1.3 Initial spatial impacts

A number of distinct spatial patterns are evident from the analysis of national HB data. The **spatial distribution** of LHA claimants is not evenly spread across GB and LHA claimants tend to be more prevalent in areas with a larger PRS, higher rates of worklessness and/or high private market rents. The association between a weaker labour market and higher LHA claimant rates does not hold for London, however, where out-of-work benefit claimant rates are around the national average. By contrast, Scotland has high out-of-work benefit claimant rates and relatively low LHA rates, reflecting the more prominent role of the social rented sector (SRS) here.

LHA weekly rates at which individual claims are assessed are a function of private market rents in an area which, in turn, are strongly related to local house prices. The highest LHA rates are in London and its immediately surrounding areas. In GB as a whole by May 2012, **weekly LHA awards for claimants had reduced by an average of £8.36** since the introduction of the reforms; the reduction was £5 or less a week in 122 LA districts; was more than £5 but less than or equal to £10 in 229 districts; and was over £10 a week in 28 LA districts. The largest decreases have been in London, and in and around Cambridge and York (two cities with a high student population and limited PRS supply in adjacent districts). The largest reductions, more than £140 a week, were in three London boroughs with relatively high PRS market rents reflecting high levels of demand relative to supply: Westminster, Kensington and Chelsea and the City of London.

The term 'on-flow' refers to those households who are counted as new LHA claimants within the LA district, (i.e. they have 'joined' existing LHA claimants in the locality), while an 'off-flow' refers to those who are no longer claiming LHA in the district (i.e. no longer claim HB or have moved elsewhere). In terms of change over time, over the past two years (pre- and post-reform) **LHA on-flows have remained relatively stable outside London compared to the year before the LHA reforms**. On-flows have reduced notably in areas classified as Central London (a 31 per cent reduction) and London Cosmopolitan (a 20 per cent reduction) In other words, not as many new households are claiming HB in these districts as they were before

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the reforms were introduced. However, the rate of decline was similar to that in the year before the reforms were introduced and is not, therefore, directly attributable to the measures.

These reductions in on-flows in London Centre and London Cosmopolitan could reflect the limited supply of affordable PRS accommodation generally available, as suggested by local housing advisers ([Section 6](#)), or as some landlords withdraw from the LHA market, which landlords and advisers also referred to ([Section 5](#) and [Section 6](#)). The wave 1 survey of claimants indicated that there was greater awareness of the LHA reforms in London (DWP, 2012) and the large differential between pre- and post-reform LHA rates, might also have influenced the behaviour of some London claimants, in that those starting new tenancies may have rented properties in alternative, lower rent areas. The wave 2 claimants' interviews being conducted in 2013 will provide some evidence on whether search behaviour has changed in this way.

There was **little evidence at this stage of the displacement of LHA claimants to more affordable PRS markets elsewhere**. In particular, there was no marked increase in on-flows of LHA claimants to areas with a large PRS and strong HB sub-market, such as seaside towns, during the two-year period. This might be because PRS supply for LHA claimants is becoming saturated in these areas, or, as several local landlords suggested, because the ability to expand the supply of rental properties may be constrained by planning issues such as Article 4, restricting the development of Housing of Multiple Occupation (HMO) in certain localities.

There has not been any notable increase in LHA off-flows by area type including London Centre, since April 2011, when the reforms were introduced. In the first period of analysis when existing LHA tenants were brought under the new measures (December 2011/ February 2012), **the overall number of LHA claimants in Central London fell**, for the first time in the two-year period under study.

The spatial ramifications of changes in the LHA claimant population are, therefore, most evident in London, especially in Central London, where the high rents and introduction of LHA maximum rate caps have had a particular impact. Housing advisers in all four London case study areas had also noted ([Section 6](#)) an intensification in the early part of 2012 of a trend that was already extant – the growing demand pressures, with consequent increases in rent levels, in the PRS.

The various time lags, through measures such as transitional protection and DHPs, may well have blunted the spatial impacts (as they were intended to) outside central London. Future analysis will be able to track whether emerging changes in local housing markets outside London, such as Cambridge and York, will become more pronounced over time.

Only a small minority of landlords who were interviewed (see [Section 5](#)) reported that some tenants had been displaced from their current area due to the LHA reforms, but this was often difficult for them to ascertain, as they did not often know the destination of tenants who had left or been evicted. In the London case study areas (especially Brent and Westminster), landlords were more likely to say that they were evicting tenants or ending or not renewing tenancies preemptively. In some districts, such as seaside towns, landlords perceived a continuing increase in the in-flow of claimants from other areas. These interviews were undertaken in late 2011/early 2012, before most existing LHA claimants were brought under the new LHA rules. The statistical analysis, which draws on data until the end of May 2012, in fact shows that the rate of in-flow slowed down in the year after the reforms were introduced (for new claimants) compared to the year before. The LHA reforms did not, therefore, create additional in-flows to these areas.

1.4 Initial impacts on PRS rents

The econometric analysis explored the main early outcomes of the LHA reforms relating to LHA entitlements, contractual rents, the differences between the two, and the types of properties that LHA claimants live in. The analysis at this stage was undertaken for new claimants only, as transitional protection measures meant that existing claimants were not brought under the new rules until the anniversary of their claim in 2012 ([Section 3](#)). The wave 2 analysis for the final research report will incorporate outcomes for existing claimants as well.

It is estimated that, taken together, the reforms (including the removal of the excess of up to £15 per week for some claimants) **reduced maximum LHA entitlements**⁵ for new claimants in given property types by an average of **£8.21 per week** up to the end of 2011, and results in **rent reductions** for the same group of claimants in given property types averaging **£0.46 per week** over the same period. This comparison expresses the relationship between the extent to which shortfalls between maximum LHA entitlements and contractual rents are met by tenants paying more, or by landlords reducing contractual rents to become closer to LHA rates. The analysis for new claimants, therefore, implies that **94 per cent** of the incidence of LHA cuts due to the reforms was on **tenants**, through increased shortfalls, with the other **6 per cent** falling on **landlords**, through reduced contractual rents. This is the initial impact of the changes, and there may of course be further market adaptations that will emerge in the longer term.

There is variation in these results by sub-group. Single claimants and younger claimants seem to have been able to pass a greater share of the incidence of the reforms onto landlords via reduced rents, which may reflect their greater propensity to move house. Additionally, the incidence on landlords was greater in urban areas outside London, and in the suburbs of London.

The low incidence of the measures on landlords may be attributed partly to the fact that the removal of the £15 weekly excess is different to a typical cut to rent subsidies; there is no reason to expect rents to fall as a result of it. There may well be other reasons for the low incidence of the reforms on landlords estimated here, and consequently there are various reasons to be cautious about the results at this stage. It may take some time, for example, for the local PRS market to adapt, especially in LHA dominated areas. This initial assessment covers new LHA claimants only right at the start of their claims and only in short periods before and after the reforms were implemented. It may take tenants time either to negotiate a lower rent or move to cheaper accommodation. With the data used in the analysis it is only possible to examine the impact of the reforms on contractual rents. There is no guarantee that this is what tenants are actually paying in all cases. The qualitative interviews with landlords ([Section 5](#)) and housing advisers ([Section 6](#)) indicated that one response to the reforms has been for some landlords to accept informally lower rents from LHA tenants without changing their contractual rents. Future analysis will, therefore, use data from after the introduction of the reforms to investigate its longer term impact on landlords and tenants. This analysis will, therefore, provide a much fuller assessment of the long-run impact of the LHA reforms.

⁵ Entitlements before any means-tests or non-dependent deductions are taken into account.

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The interviews with landlords showed that demand for PRS accommodation from non-LHA tenants was seen as particularly strong, and unlikely to change in the short to medium term. Respondents felt that there were, therefore, **few market pressures to stabilise or reduce rent levels in the market**. The majority of respondents outside London claimed that rents in their area had been fairly steady over the preceding year. The majority of London landlords, however, thought that rents had risen over the previous year, as a direct result of increased demand.

The majority of landlords interviewed said they had **no intention of reducing rents** in the wake of the LHA reforms. (The wave 2 landlord survey will be able to check such intentions against outcomes one year later.) However, a few landlords had reduced rents systematically for all tenants, while more of the respondents had done so on a case-by-case basis. The most common reason for reducing rents was reluctance to chase top-ups from tenants on low incomes who were unable or unwilling to pay. A small number of landlords did not lower rents formally, but accepted de facto rent reductions when certain tenants failed to pay the top-ups requested.

The majority of landlords had not negotiated over rents with tenants at the time of interview. Two main reasons were cited by landlords for not reducing rents. The first was that demand was sufficiently high to sustain rents at existing level so they were already seen as competitive. A second reason was that reduced rents would no longer cover their mortgage payments. Most landlords who expressed a view on Direct Payments did not consider them as a sufficient incentive to negotiate reduced rents.

The issues on the horizon that shape future landlord behaviour may not stem directly from the ripple effects of LHA measures so much as wider factors such as any increase in interest rates and the perceived shift towards HB being paid direct to the tenant rather than the landlord, which was seen as introducing further uncertainty into the reliability of future income streams. In the wave 2 interviews, which will be conducted with many of these respondents, it will be possible to judge whether the overall mood of pessimism among landlords about the future had begun to dissipate or had intensified, as the LHA measures bed down and as other welfare reform measures draw closer.

The majority of housing advisers interviewed in all case study areas also felt that most landlords would not reduce rent levels, at least in terms of the contracted rent. Certainly, few landlords were reducing the contractual rent prior to letting a tenancy. In areas with LHA dominated PRS markets outside London, housing advisers said that landlords were more prepared to reduce rents to the new LHA rates rather than pursue shortfalls, especially if they did not have mortgages to pay on buy-to-let property, or if they were smaller landlords mindful of reletting costs. Negotiations with tenants over rent were more likely to culminate in reduced rents if the resultant loss of income to the landlord was deemed 'small' (less than £5 a week), if it did not have a significant impact on profits, and if it enabled landlords to keep a 'good' tenant.

By contrast, housing advisers in London, some of whom were actively involved in negotiations, reported that only a minority of landlords were prepared even to contemplate reducing rents in the wake of the LHA reforms. Advisers had discerned steadily increasing PRS rents, driven by persistent and rising demand. It was a similar picture in other PRS markets where demand from non-LHA households was relatively strong.

1.5 Initial impacts on claimant behaviour and experiences

Awareness of the LHA, and of the changes to the scheme, among claimants was relatively poor. The qualitative interviews revealed that, when probed, even participants who felt they had some understanding of the scheme appeared to have incomplete or inaccurate knowledge and found it difficult to articulate what changes were being made to the LHA. The majority of those claimants who were already on the new rules seemed unaware that the LHA scheme had recently changed. Most 'existing' claimants had not yet been affected by the LHA changes at the time of the wave 1 interview, nor had they taken any action in advance to deal with them, and **many did not know at the time of interview how the changes would affect them financially.**

Most of the participants who did know by how much their LHA was likely to be reduced had also not yet taken any action to deal with the pending reduction. Often this was because they thought or hoped they would be able to absorb the loss; for example, by cutting back on spending in other areas.

Some claimants said they might now look for work, or try to increase their hours of work in response to the LHA changes and any increased shortfall on their entitlements, though most believed these efforts would be unsuccessful due to high unemployment; few jobs in general; and few low-skilled jobs in particular. Unemployed participants wanted to work and were already looking for work prior to the introduction of the reforms. One participant, when asked what they would do if their LHA was cut, did say that they would try 'even harder' to find work. The wave 2 interviews with claimants will be able to shed further light on the extent to which the LHA reforms have had an impact on actual job seeking behaviour.

Claimants' ability to cope with the reduction in their LHA appeared likely to depend on the **size of the shortfall** and their **overall financial resilience**. People in work were less worried than those who had been on benefits for some time. Some respondents were already struggling with shortfalls before they had been moved on to the new LHA regime and they felt they would find it very difficult to cope with a further reduction in their LHA. Others said they would have to move home because the size of the likely cut in their benefit was sufficiently large that no amount of economising on non-essentials would cover the loss.

In general, claimants (interviewed in early 2012) said they were **hanging on to their current accommodation for as long as possible** because they did not want to move, even if they would probably have to do so eventually. Some had not moved because doing so would be costly (given the outlays on deposits, rent in advance, credit checks, agency fees and removal costs), or because they were early in their lease. Others mentioned that they would have difficulty finding somewhere below the caps or a landlord that would take LHA claimants in their locality. Parents with school-age children were especially worried about the impact that moving to a new area would have on their children's education and wellbeing. The interviews revealed the strong local attachments of many households that have built up over time and made them very reluctant to leave, even when faced with a marked shortfall on their LHA entitlement: moving was a last resort for them. However, a minority of participants had begun to look for new accommodation and a few had moved already.

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Housing advisers thought there was **some evidence of increased mobility as a result of the LHA changes, but not to the extent that they had originally anticipated.**

However, in some case study areas outside London, advisers had noticed more mobility within urban areas, with **LHA households becoming more concentrated in particular neighbourhoods.** They felt there had been relatively little mobility out of the LA area as yet due to the LHA measures.

Landlords cited a few cases where tenants had slipped into arrears as a direct result of the LHA reforms. Many respondents were very concerned about the extent of rent arrears that some of their tenants had accrued, although this was not necessarily due to the recent LHA measures. Letting agents in higher demand PRS areas also reported that the arrears situation was getting worse.

In the case study areas outside London, council officers and housing advisers were cautious about attributing any increase in evictions in the PRS directly to the LHA reforms. They thought there would be a time lag until any effects in terms of evictions were discernible, as landlords are reluctant to take court action over arrears if they can avoid it. Advisers suggested that in LHA dominated markets evictions would not increase on a major scale, due to the lack of non-LHA demand. In higher demand areas, landlords might be more tempted not to renew the tenancies for households receiving LHA rather than take court action.

There were mixed views about the impact of the LHA measures on homelessness in the case study areas outside London. **Where clients were at risk of homelessness, the main cause was a combination of receiving notice to quit from landlords, relationship breakdowns, family evictions (especially of adult children) and affordability issues** – factors that might be related in part to LHA, but could also be influenced by changing personal circumstances and general financial pressures on household budgets. In many cases, advisers thought the biggest increase was in hidden homelessness or non-priority cases.

Across the four London case study areas, advisers said that they thought homelessness had increased recently and that LHA reforms were a contributory, but not the primary, factor behind the increase. This general perception is not necessarily reflected in official CLG figures on statutory homelessness and numbers of households in temporary accommodation, which show a more mixed picture. There was an increase on both counts in Westminster and Brent between 2010 and 2012. The number of statutory homeless cases fell in Barking and Dagenham, and Hackney, and the numbers in temporary accommodation increased marginally in Hackney and substantially in Barking and Dagenham (by 54 per cent between 2011 and 2012).

1.6 Initial impacts on sub groups of claimants

In terms of the changing LHA claimant profile, **working households** have been the fastest growing sub-group of all claimants since 2010. They account for approximately **a third of all PRS claimants and over 40 per cent of claimants in London suburbs and London cosmopolitan areas.** However, the growth of this group is **not attributable to the LHA reforms**, as the rate of growth slows down after the measures were introduced. The growth in working households has been most marked (both pre- and post-reform) in the London suburbs. London suburbs also witnessed the largest increase in couples with children.

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Lone parent LHA claimants consistently accounted for a third of all the national LHA caseload in each year from 2010 to 2012. There were, on average, 725,400 children in these households in the latest period for which data were available for the analysis: March to May 2012. Nationally, claimants aged 25 to 34 accounted for 11 per cent of all LHA claimants in 2010, but only nine per cent by 2012. **The growth in LHA claimants aged 25 to 34 in GB slowed substantially from 2011 to 2012** compared to 2010 to 2011, even though the increase in the age limit for SAR only occurred in the later part of this period (January 2012).

The LHA claimant profile in **Central London** has changed more than any other area type between March/May 2010 and March/May 2012: **the proportion of 25 to 34-year-olds has dropped markedly since the SAR changes in January 2012**. It is also the only area type where the proportion of lone parents has decreased. The rate of increase in **the number of working households has declined in the year after the reforms in central London (from an increase of 37 per cent down to 10 per cent), as has the number of couples with children (down from an annual increase of 24 per cent before the reforms to an increase of 7 per cent after)**

The econometric analysis showed that single claimants and younger claimants seemed able to pass a greater share of the incidence of the LHA cuts on to the landlords through reduced rents. This could be because they are more mobile, and hence able to 'shop around' more readily than households with children or older claimants.

Some of the LHA measures affect landlords in some of the case study areas, but not in others, reflecting the diversity of the PRS and the wider local housing market context. However, the SAR changes were the one element of the LHA reform package that affected landlords across all case study areas. Where landlords had tenants aged between 25 and 34 who had been, or were due to be, affected by the increase of the age threshold for SAR, tenants who lost eligibility to the one-bed LHA rate faced significant shortfalls between their LHA entitlement and rents. In these cases, landlords said they would ask the tenant to leave and then serve notice if they did not do so. Whilst most landlords wanted tenants on SAR who faced shortfalls to leave, a smaller number said they had offered existing or prospective tenants **the option of sharing**.

Landlords and advisers thought that the SAR reforms had made a significant impact on letting strategies, and many landlords said they had decided to cease renting to LHA tenants under the age of 35 because of the perceived lack of profitability in this market.

Housing advisers thought that larger families had also been strongly affected by the reduction in the LHA rates and the abolition of the five bedroom rate, and this group was considered much less mobile due to their attachment to local social networks and proximity to schools for their children. This attachment to place was seen as especially strong for some members of Black and Minority Ethnic (BME) communities, where social networks are often tightly clustered.

In London, many advisers felt that the LHA measures would result in more overcrowding, as an inevitable consequence of families trying to remain in their local area if at all possible and, therefore, moving to smaller properties where rents were within their household LHA entitlement. Given the scale of the shortfalls facing these families in some areas, many advisers thought that moving elsewhere would be the only viable long-term option, although they believed this might require a move out of London altogether, given current pressures on the PRS, even in areas that used to be more affordable.

1.7 Initial impacts on landlord behaviour

The impetus for the growth of the PRS in recent years has taken on a different complexion in different local markets, with varied implications for the position of LHA households and the type and quality of accommodation they have access to. In the qualitative interviews with landlords and housing advisers, the recent growth in demand in the local PRS was attributed to the difficulties households faced in accessing mortgage finance in order to buy property (for example in Newcastle), the growth of the student market (Cardiff, Exeter) and the influx of economic in-migrants (Fenland, Denbighshire). Most landlords were confident about the continued buoyancy of the market, and the extent to which there were alternative sources of demand outside the LHA sub-market was a crucial factor in their assessments of the future of their businesses.

A majority of landlords, especially smaller and ‘accidental’ landlords⁶, (were uncertain about the early impact of the LHA reforms on their lettings procedures and policies. This tendency was reinforced because the fieldwork was being conducted during the transitional protection period for existing LHA households. Typically, respondents felt that the new LHA measures were contributing to an overall trend of ‘squeezing’ tenants financially. In some cases, landlords preferred to leave properties vacant and ‘wait for the right tenant’ to come along rather than let to LHA tenants, despite the loss of income incurred through the void period. Those landlords who stated that they would continue letting to tenants in receipt of LHA often had properties in areas with high concentrations of LHA claimants and, therefore, had few alternative options. Nearly all respondents in this group said they were becoming more cautious in letting to LHA tenants. Many had **changed their approach to vetting applicants and insisted on various safeguards** that would protect them from arrears and the costs of any damage to their property.

Many of the landlords interviewed expressed concerns about the increased extent of making HB payments directly to tenants, which they felt had increased the level of arrears and had been reinforced by the LHA reforms. Nevertheless, most landlords interviewed did not consider it was a sufficient incentive to reduce rents in order to receive HB payments direct in exchange. For many landlords operating in high demand PRS markets, **alternative options for letting were being actively pursued**, such as non-LHA tenants, economic in-migrants and students. Some landlords in high demand areas (primarily London) said they intended to exit the LHA sub-market and were looking to replace all existing LHA tenants due to the scale of reduction required to meet new LHA rates. For landlords in low demand areas, by contrast, the impact at the time of interview was relatively limited. Even so, a sizeable minority of respondents stated that they were, or would be, replacing their current LHA tenants with non-LHA (often termed ‘private’) tenants where possible. In other areas, landlords were tending to take a pragmatic approach and had delayed any major decisions on their lettings priorities and plans for future investment.

Housing advisers in all case study areas also noted that landlords were less willing to let to LHA tenants than before, although this was related to the current buoyancy of demand in the PRS as much as LHA measures *per se*. The preference for non-LHA applicants was more marked, as one might expect, in higher demand markets. It was also suggested that landlords taking on LHA tenants were apparently placing a raft of **additional requirements** on them, including larger deposits, rent in advance, guarantors and large administration fees.

⁶ ‘Accidental’ landlords refers to those landlords who had been unable to sell a property (or command the desired price for it) on the market or had inadvertently acquired a property (e.g. through inheritance) and decided to let them out. These landlords usually had only one or two properties and intended to sell up when market conditions improved.

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Housing advisers in the **four London case study areas noted an increase in the number of landlords exiting the HB sub-market altogether**, primarily due to the reduction in LHA rates and, therefore, rental yields. Advisers also suggested that the practice of making direct HB payments to the tenant was a contributory factor behind landlords' decisions to exit. When asked whether the offer of paying HB directly to landlords had acted as an incentive to reduce rents, advisers agreed with landlords that the effect had been negligible. Advisers suggested that the incentive was not seen as sufficiently strong compared to the perceived advantages of letting to non-LHA tenants at existing rent levels.

1.8 Initial impacts on housing access and affordability

The supply of PRS properties had increased in all the case study areas since 2008 and had been accompanied by the growth of 'accidental' landlords⁷. However, even outside the high demand areas, in lower value districts such as Rhondda Cynon Taf and Thanet, letting agents mentioned that they sometimes had to *'talk landlords round'* to letting to LHA tenants. The interviews with housing advisers suggested that access to PRS housing within the four London case study areas was becoming an acute problem for many LHA households. The main implication of the LHA reforms for Housing Options teams (or equivalents) in these four boroughs was the scarcity of affordable housing within the PRS due to the LHA caps and landlords exiting the market. Advisers in Barking and Dagenham noted that there was increased competition over PRS lets, especially from other central London boroughs seeking to source properties through private sector leasing in order to fulfil their statutory homeless responsibilities.

Landlords seemed generally reluctant to undertake conversions or develop their HMO portfolios in response to SAR changes, and expressed concerns about the management burden of HMOs and the impact of Article 4 planning restrictions in some areas. Indeed, a common theme in interviews with landlords and housing advisers in differing housing market contexts was the mismatch between the increased demand for shared accommodation, brought about in part by the LHA changes, and the slow supply response. Landlords in all case study areas said they were reluctant to move more strongly into the HMO market, often due to what they perceived as the burden of managing shared accommodation. It remains to be seen whether this view will change as the SAR changes bed down, or whether other companies will move into this market.

Most of those landlords who thought that property quality in the PRS had declined in recent years attributed this to their precarious overall financial position in a difficult economic climate, rather than to any reduction in rental income as a result of tenants failing to meet shortfalls. This reason was much more prominent among buy-to-let landlords who held several mortgages. Some landlords acknowledged that they now adopted an explicit strategy: letting to LHA tenants was equated with offering poorer quality properties. In particular, some landlords suggested that tenants in receipt of SAR would end up renting poorer quality properties due to the shortage of this type of accommodation in the local market.

⁷ 'Accidental landlords' refers to those landlords who had been unable to sell a property (or command the desired price for it) on the market or had inadvertently acquired a property (e.g. through inheritance) and decided to let them out. These landlords usually had only one or two properties and intended to sell up when market conditions improved.

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Housing advisers in some of the lower value PRS markets, in Blackburn, Bradford, Denbighshire and Rhondda Cynon Taf, also suggested that the quality of accommodation on offer to LHA claimants was deteriorating in terms of the general condition of the property when it was let. In some cases (notably Bradford and North Lanarkshire) standards of management were also considered to be very poor in the LHA sub-market. Many advisers in the London case studies also perceived that the quality of accommodation in the PRS was declining, and overcrowding increasing, and that these trends would continue, as claimants found it increasingly difficult to find affordable accommodation in the city.

1.9 The initial impact of transitional support

Claimants and landlords were asked about their awareness and experiences of DHPs. At the time of interview (late 2011 and early 2012), most respondents had a fairly limited awareness of them, and only a few claimants said they had experience of receiving them. One of the claimants said they had found it difficult to find out about DHPs from their LA. A few landlords said they had played a role in raising awareness of DHPs among their tenants, and had sometimes encouraged tenants to apply for a DHP or helped them with their application.

The interviews with housing advisers, undertaken in the middle of 2012, threw more light on the approach being taken to dispense DHPs. Officers from all the case study areas reported that applications for DHPs and awards had increased over the past year. **London boroughs in particular had adopted a very proactive approach over DHPs to mitigate the impact of the LHA changes and to raise awareness among tenants.** DHPs were generally considered as a positive policy instrument for reducing the negative impacts of changes to the new LHA regime on households.

Many councils were now placing conditions on DHP applications, or making additional requests for information from the applicants, in order to prioritise the awards. While the average length of DHP support in most of the areas was three months, in some cases more stringent criteria were applied and then support given for a longer period. While the use of DHPs was generally seen by advisers as an invaluable aid in supporting the transition of tenants from the old to the new LHA regime, and offered some flexibility of application by LAs, some of the local processes that had been developed were subject to some criticism. These criticisms included the fact that DHPs were often used in a reactive ('first come, first served') and narrow rather than proactive manner, the lack of accountability in the process and the fact that there was no right of appeal. Advisers also stressed that the temporary nature of the scheme might inevitably just delay impacts rather than alter the fundamental challenges facing households receiving DHPs. Overall, it is appropriate to summarise the verdict of advisers towards the system of awarding DHPs in the case study areas as invaluable, if imperfect.

1.10 Conclusion and next steps

Overall, the research into the early impacts of the LHA reforms shows that the main effects have been quite limited. This is not wholly unexpected, given the transitional protections that were put in place alongside the measures. There was very little evidence of household displacement since the introduction of the measures in April 2011, in the period up to early 2012. Landlords and housing advisers suggested that the LHA measures might be a contributory factor behind increases in homelessness, but were not the main reason for such a trend. The impact on evictions was also muted. Landlords said they were reluctant anyway to undertake eviction proceedings over tenants building up arrears, for a mixture of business and practical reasons; they might be more prepared, they suggested, to terminate or not to renew tenancies in such cases.

The impact is more marked in the London housing market than elsewhere, as expected, given extremely tight local housing markets and generally a larger scale of reductions in the LHA rates here following the reforms. The on-flows of LHA claimants at LA level since the reforms have, therefore, reduced most sharply in the London central areas, reflecting the wider gap between average rents and LHA rates in these boroughs. The anticipated displacement of existing LHA households in these areas has not (yet) taken place and there is evidence that households are ‘holding on’ to their current tenancies where possible, not least given the paucity of alternative affordable accommodation in these localities. The transitional measures may well have blunted the spatial impacts in London and tighter PRS markets elsewhere (such as York and Cambridge), as they were partly intended to do.

In terms of the balance between landlords and tenants for meeting shortfalls between maximum LHA entitlements and contracted rents, the analysis for new (but not existing) LHA claimants indicates that 94 per cent of the gap falls to tenants to meet (through increased shortfalls), while 6 per cent of the gap is met by landlords (through reducing rents). These are preliminary findings, however, and one needs to be cautious about the results at this stage. It may, for instance, take time for market rents to adjust and there may also be informal arrangements, not captured by the administrative data, whereby landlords ‘turn a blind eye’ to tenants who fail to meet the full rent payment, at least for the remainder of their current tenancy. Whether that practice is continued beyond this period is likely to depend a great deal on the buoyancy of the non-LHA PRS locally. Only a minority of landlords had negotiated rents with their tenants at this stage, and few felt that they would reduce rents in order to receive HB directly, as this outcome could be achieved through other means, which did not involve reducing rents. Alternatively, they felt they could let to non-LHA tenants on termination of the current tenancy.

Many claimants thought that they would try to stay put if at all possible, and economise on other expenditure in order to meet any shortfalls on rent, given the cost and disruption of moving elsewhere – especially for those households with school age children. The SAR changes were having an effect across all types of local housing market and the number of 25 to 34-year-old LHA claimants in central London had fallen since January 2012. Landlords said they were reluctant to increase their HMO portfolios, or to convert existing properties to HMO, so there are clear risks of a supply-demand mismatch building up in some localities as a result. It is not possible to predict at this stage whether this will just be a transitional effect before the market adapts, whether through increased supply or through LHA claimants forming multi-person households, for example.

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Many of the research findings at this early stage have inevitably been provisional. It is important to track changes for both claimants and landlords, taking more account of the various potential lagged effects of the measures. Many tenants were still in the transitional protection period at the time of the wave 1 interviews and housing advisers felt that the impacts of the measures would not become evident until 2013. Housing advisers in high demand areas thought that the measures would lead to the displacement of many LHA households, especially among larger families and single people in the 25 to 35-year-old age range.

Housing advisers in the London case studies also believed that it would be some time before a more comprehensive assessment of impacts of the LHA reforms could be made. There was a consensus among these advisers that evictions and homelessness would increase, that a significant number of households would have to relocate and that the quality of accommodation on offer would continue to decline at the lower end of the PRS. At the time of the wave 1 research, however, the early effects of the LHA measures had been fairly limited in terms of displacement, additional evictions or more cases of homelessness. Underlying housing market pressures in the London PRS were seen as more important drivers of landlord and claimant behaviour.

The next phase of this research project will involve a follow-up large scale claimant survey, measuring the impact of changes on a sub-sample of those responding to the initial large-scale survey and complemented by follow-up depth qualitative interviews. The landlord postal survey has also been repeated one year on and the results from this will establish how responses to the LHA measures have changed in terms of rent setting, lettings and whether landlords have increased or decreased their involvement in the HB market. This will also be followed up with in-depth qualitative interviews with five landlords in each case study area. Housing adviser focus groups will also be held in Stage 3, bringing together different stakeholders across the case studies, with the discussion targeted on specific LHA impacts.

The spatial analysis will be updated in Stage 3 to evaluate how patterns have shifted over time, running through to early 2013. Similarly, the econometric analysis will be followed through to early 2013 and include existing LHA claimants brought under the new rules as well as new and repeat claimants. Through these combined methods it will be possible to ascertain whether many of the concerns expressed in these interim research outputs about the longer term impacts of the LHA measures are supported by empirical analysis, or whether they will prove in the end to have been overstated, as landlords and claimants both continue to adapt to the new regime.