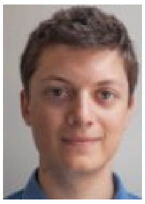
High rents are holding back the recovery

[Peter Jefferys](#) argues for building affordable social homes and reforming the private rented sector. He makes the case that lower rent is vital for economic recovery, stating, if average rents in England had risen at the rate of inflation since 2000, rather than well above, then renters would have an extra £8 billion per year of disposable income.



High rents for private tenants are increasingly a politically salient issue, especially in high-demand areas such as London and the South East. Private tenants feel trapped between expensive renting and unaffordable mortgages, with banks still demanding much higher deposits than before the financial crisis. While this trap is frustrating for those who want to buy and devastating for low-income families with no other options, it may also be having an impact on economic recovery.

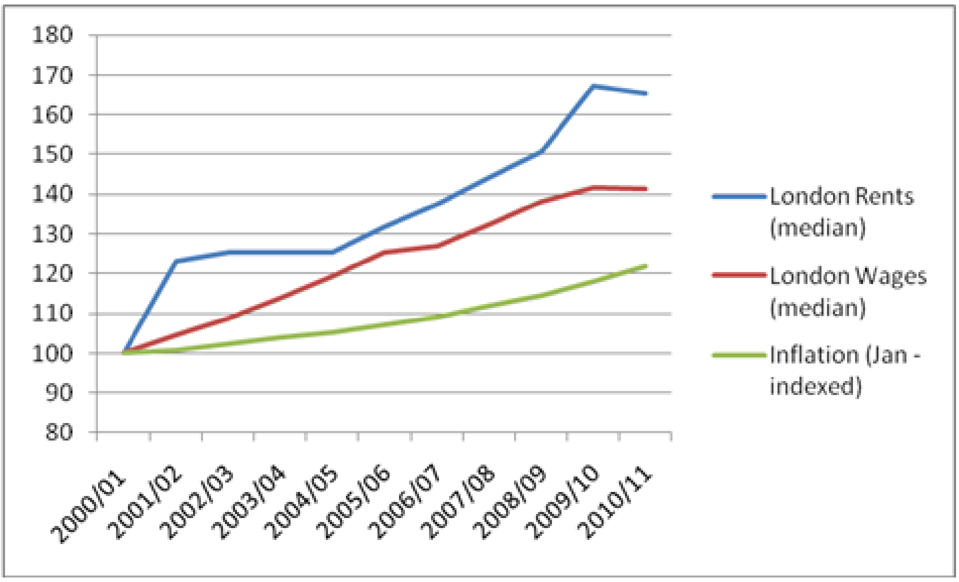
Credit: Sludge gulper (CC-BY-SA) via Flickr

Renters are increasingly paying more in housing costs than those buying a property with a mortgage. For some low-income renters, especially in London, the proportion of their wage going towards rent can be over 70%.

We have collected evidence that these costs and uncertainties mean that renters are cutting back their spending on consumer goods and services. Increasing numbers are relying on high-cost credit to make up the shortfall, entailing high cost repayments and deferred spending cuts.

As the chart below shows, the cumulative gap between rents and wages was growing in London before the financial crisis but post-crisis it has grown even wider. Coupled with falling household incomes this means that rents are eating up even more disposable income.

London rents and wages (source ONS, DCLG)



Many economists say that we face a demand crisis. There simply isn't enough spending in shops and on British products to get people back into work. Given that there are 8.5 million renters in England (including 1 in 4 Londoners) and in the capital renters pay on average between 42 and 46% of their wage in rent, there is a strong case that a lot of potential consumer spending is being lost.

But doesn't the rent we pay go back into the economy anyway? There is a strong argument that a lot of it doesn't.

The majority of landlords are individuals or couples renting out just one or two homes. Many of those landlords are using the rents to pay off their mortgages and make a small yield. A huge amount of money paid in rent is not re-circulating into the economy, but rather it is financing mortgage debt. If banks were re-lending this money, again it might not be a problem. But, as we're constantly hearing – bank lending has dropped massively since 2008.

Equally, even if all rent went straight into the pockets of landlords there would still be a case that this is reducing spending in the economy. Higher earners spend proportionately less of their income compared to lower earners and on average landlords have higher incomes.

Astonishingly, if average rents in England had risen at the rate of inflation since 2000, rather than well above inflation, then renters would have an extra £8 billion per year of disposable income, or more than £2000 extra per household per year (Figures from the English Housing Survey and ONS). That would have meant far more going directly into the pockets of lower earners to be spent in the economy than Labour's proposed VAT cut (which would cost the Treasury £12bn per year).

There is also the crucial point that high private rents increase the housing benefit bill, which currently costs the government more than £20bn per year (having doubled over the last decade). In a recent report we set out how the balance of government spending on housing has shifted from spending on house building to spending on housing benefits. Our analysis shows that if just 8% of private rented tenants moved to affordable social homes the government would recover £200 million in savings.

How then might we overcome the economic drag of high rents? Shifting the balance of government subsidies towards increasing the supply of affordable homes is an issue we explore in detail in our report Bricks or Benefits?. Building more affordable social homes has the double advantage of reducing pressure on the overheated private rented sector and increasing spending power dramatically for those families who do get into social rented homes.

Equally, reform of the private rented itself is long overdue. A major new Shelter report, published last week, makes the case for five year, inflation linked tenancies with two month break clauses for tenants. The benefits of this model include stability for renting families, more disposable income over the long term and are even beneficially for landlords' business models.

By building affordable social homes and reforming the private rented sector we would certainly be helping millions of families who are struggling with the third highest housing costs in Europe. We would also be putting cash into people's pockets to sustain an increase in consumer demand that is reliant neither on personal debt nor expensive tax cuts.

Author's note: 3.62 million renting households in 2010/11 would be paying on average just £95 rent per week if the median £78 per week average rent from 2000/01 had risen with CPI inflation, rather than the actual 2010/11 median figure of £137 per week. Across England this equates to £7.9 billion extra rent paid per year. The difference between £95 and £137 is £42, so on average a renting family would have £42 per week extra disposable income, or £2184 per year.

About the author

Pete Jefferys is in the policy team at Shelter. Before joining Shelter, Pete worked for the Co-operative Party and the Labour Party as well as on climate change policy in the civil service.

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