The Resolution Foundation Housing Outlook Q4 2024

Alex Clegg & Lindsay Judge[1]

Welcome to our final Housing Outlook of 2024. This quarter, we turn our attention to those families with children whose housing costs push them below the poverty line. We start by noting 1.1 million children in the UK today live in a household whose income would not fall below the poverty line if housing costs were not taken into account. But it is children growing up in the private rented sector (PRS) that are truly at the sharp end: high rents pushed an additional 670,000 children in private rented homes into poverty in 2022-23.

Given this, the greatest scope for reducing child poverty via housing policy is clearly in the PRS. Local Housing Allowance (LHA), which sets limits on the level of housing benefit support private renting families can receive, is currently frozen indefinitely at the 2024 rate. Permanently repegging LHA rates to the 30th percentile of local rents instead would mean 75,000 fewer children in poverty by the end of the Parliament. And the Government could choose to go further: aligning LHA with the 50th percentile of local rents from 2025 onwards would lift 130,000 children out of poverty by 2029-30.

There would, of course, be a price tag attached to these reforms: £1.8 billion for uprating at the 30th percentile, and £3.1 billion at the 50th percentile in 2029-30 (in 2024-25 prices) based on current rent growth forecasts. But these costs are not set in stone. Supply-side investments, particularly in the social rented sector, could play a considerable role in bringing rents down for families in poverty *and* keeping a lid on the costs of uprating LHA each year for the Government too.

Finally, action to reduce housing costs for families on the lowest incomes would plausibly lead to improvements not just on the headline child poverty measure, but on other critical metrics too. In 2022-23, over a quarter (28 per cent) of children growing up in poverty lived in an overcrowded home (compared to 8 per cent of their more fortunate peers). Lower housing costs could enable all families to afford housing of the size and quality that every child needs to flourish.

Housing costs are a significant driver of child poverty in the UK today

Housing affordability in the UK is an issue that we and many others have problematised in the past: indeed, in our first Housing Outlook of 2024, we showed that we pay a lot for our housing, and get a poor product in return, compared to our OECD peers. As a result, high rents and mortgage repayments act as a living standards headwind for many families in the UK today.[2] But some are truly living at the sharp end when it comes to housing affordability, and none more so than children growing up in poverty because housing costs reduce their household's income to an unacceptably low level.

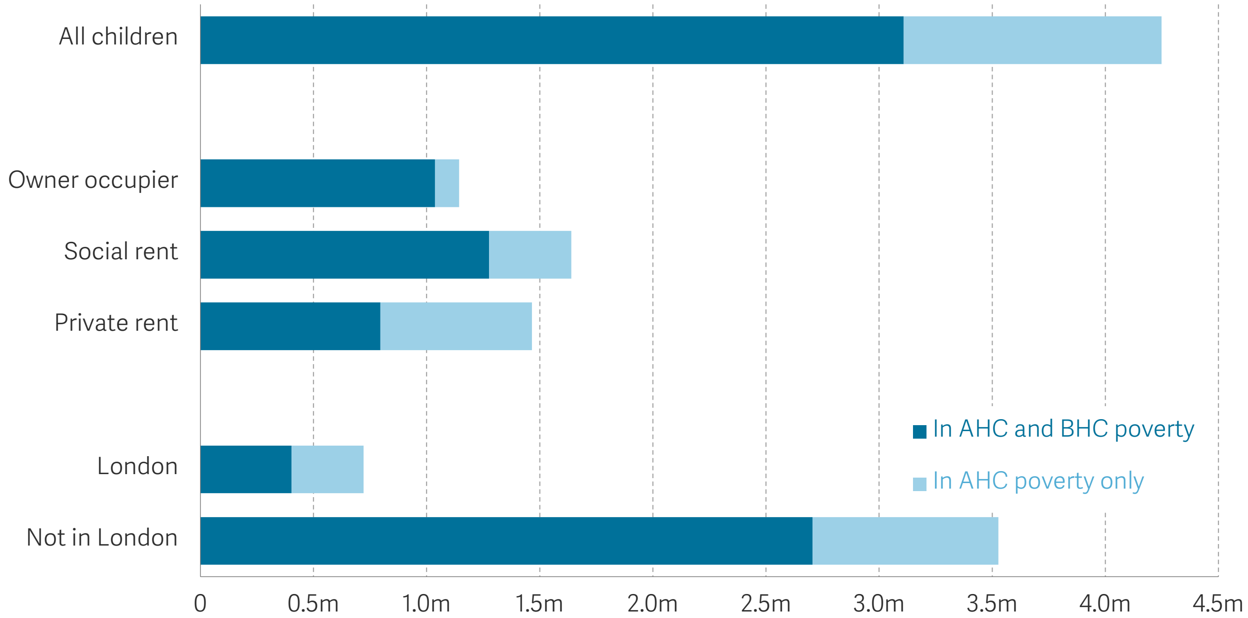
[1] The authors thank Mike Brewer, Adam Corlett, Cara Pacitti and Lalitha Try for their comments and analytical support.

[2] In 2022-23, 16 per cent of families in the UK spent more than 30 per cent of their income on housing costs, for example. Source: RF analysis of DWP, Households Below Average Income.

Figure 1 sets out the scale of the problem. In 2022-23 (the latest year of data available), there were 4.2 million children growing up in relative poverty in the UK on what is known as an 'after housing costs' (AHC) basis.[3] But strikingly, more than one-quarter (27 per cent) of these children lived in households with an equivalised income that did *not* fall below the 'before housing costs' (BHC) relative poverty line, a separate measure based on household incomes without housing costs deducted. As a result, in 2022-23, 1.1 million children lived in families with housing costs that weighed down on their household income to such an extent that they were pushed below the (AHC) poverty line.

FIGURE 1: **Housing costs push an additional 1.1 million children into poverty in the UK**

Number of children in relative poverty after housing costs (AHC), by before housing costs (BHC) poverty status: UK, 2022-23



NOTES: Relative poverty is defined as having an equivalised household income below 60 per cent of the equivalised median household income in the given year. The poverty line is recalculated for before housing costs and after housing costs poverty (i.e. the line is different for each measure).
SOURCE: RF analysis of DWP, Households Below Average Income.

Figure 1 also makes plain that children growing up in certain types of households are more affected by housing costs than others.[4] Child poverty rates differ considerably by housing tenure (56 per cent of children living in a social rented home, and 46 per cent in private rented properties, were in AHC relative poverty in 2022-23, compared to 14 per cent growing up in owner occupation). But although numerically there are more children growing up in relative poverty on an AHC basis in the social rented sector than in any other tenure type (over 1.6 million in 2022-23), housing costs increase poverty *risk* the most for children living in private rented homes. Close to half (46 per cent) of the 1.5 million children growing up in poverty in the private rented sector (PRS) in 2022-23 lived in households with an income that was above the poverty line before housing costs are taken into

[3] A household is said to be in relative income poverty if their net equivalised disposable household income is below a threshold set at 60 per cent of median income.

[4] The 10,000 households with children currently living in temporary accommodation such as hotels and bed and breakfasts (source: ONS, Statutory homelessness live tables) who are arguably at the very sharpest end of the housing crisis are not included in the Household Below Average Income dataset and are therefore missing from this analysis.

account. And there are stark regional differences too. Given the high cost of housing in the capital, it is not surprising that 320,000 out of the 720,000 children (or 44 per cent) growing up in AHC poverty in London in 2022-23 were in poverty due to their household's housing costs.

Repegging Local Housing Allowance to actual rents is a sure-fire way to reduce child poverty for private renters

The Government is clearly aware of this relationship between housing costs and child poverty: action to 'bring down essential household costs' is one of the four stated objectives of its forthcoming Child Poverty Strategy, due to be published in Spring 2025. But which policies would be most effective in achieving this laudable objective, and critically, how much would they cost?

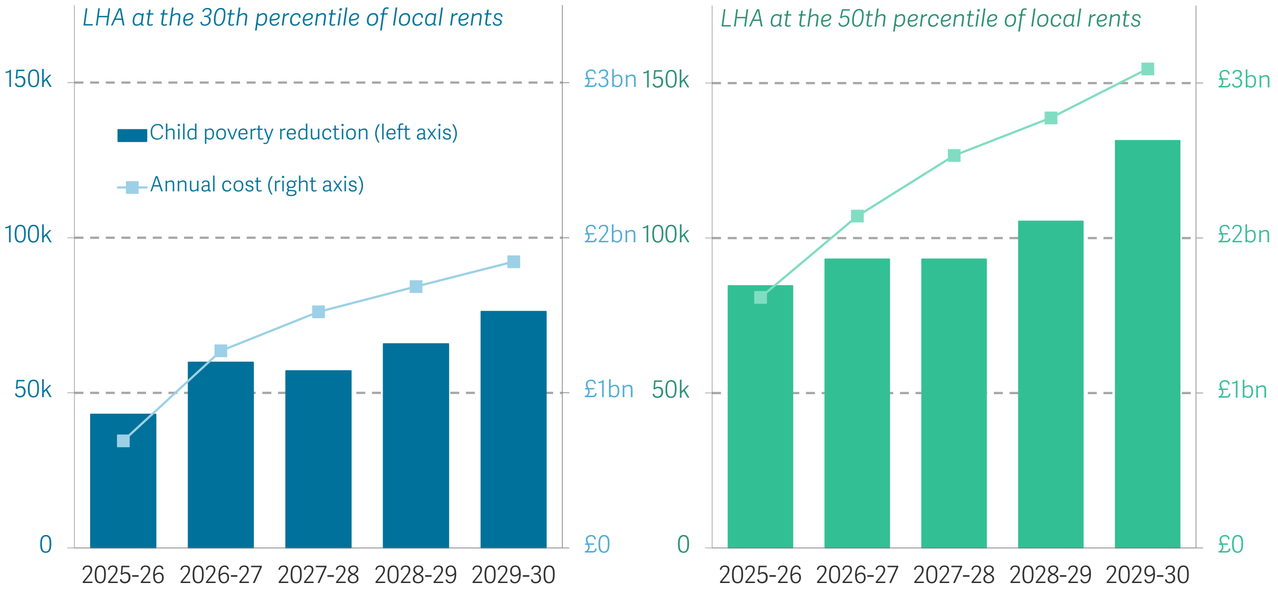
The strong downward pressure that housing costs put on the incomes of families with children living in the PRS points to an obvious first-order intervention: repegging Local Housing Allowance (LHA) to actual local rents. LHA sets limits on the level of housing support that low-income private renters can receive from the benefits system, but its annual uprating has been highly inconsistent since 2012-13. Rates were re-set at the 30th percentile of market rents in April 2024, but the previous Government said that it would then freeze them in nominal terms thereafter, and the current Government has so far given no indication that it will depart from that approach. But if LHA is not adjusted in line with growing rents then serious shortfalls develop between benefit support and housing costs for private renting families (and in ways that vary according to the strength of the local housing market), as we saw in the 2010s and early 2020s.

So, how material an effect would a commitment to uprate LHA rates annually in line with the 30th percentiles of local rents make on child poverty? The modelling we present in Figure 2 shows that around 75,000 children would be lifted out of poverty by 2029-30 if LHA was repegged to the 30th percentile of local rents, rather than keeping it frozen at its current level. We estimate that uprating LHA in this way for all recipients (not just those in poverty with children) would cost the Government around £1.8 billion in 2029-30 (in 2024-25 prices). Put another way, freezing LHA rates at their current rate, as is current Government policy, will mean 75,000 more children will be in poverty in 2029-30 than if LHA is uprated at the 30th percentile of rents.

Lifting 75,000 children out of poverty would clearly be a positive, but may sound somewhat underwhelming (ending the two-child limit would lift closer to half a million children out of poverty overnight). But of course, the Government could choose to be more ambitious. We estimate that aligning LHA with the 50th percentile of local rents, for example, would reduce child poverty by 130,000 in 2029-30 compared to maintaining rates at their current value. And there is historical precedent for setting housing support at this level: LHA rates were set at median local rents when introduced in April 2008 and uprated consistently at this level until April 2011, before the Conservative-Liberal Democrat coalition Government reduced them to the 30th percentile. But a more generous settlement would naturally come with a much larger price tag than 30th percentile uprating: £3.1 billion in 2029-30 (2024-25 prices) (see Figure 2).

FIGURE 2: **Repegging LHA rates to rents would help to bring down child poverty for families in the PRS**

Estimated reduction in child poverty (left axis) and real annual cost (right axis) from uprating Local Housing Allowance in line with 30th percentile (left panel) and 50th percentile (right panel) rents: UK



NOTES: 2024-25 prices, deflated by CPI. The counter-factual is Local Housing Allowance frozen at its 2024-25 level. Assumes private rents grow in line with the OBR's forecast for average weekly earnings growth, lagged by 12 months.
SOURCE: RF analysis of DWP, Family Resources Survey using the IPPR tax-benefit model; ONS, Price Index of Private Rents; ONS, Private Rental Market Statistics; OBR, Economic and Fiscal Outlook, October 2024.

There is, then, scope to make a material impact on child poverty through uprating LHA compared to the status quo of frozen rates, albeit at a not-immaterial cost. This would not only benefit children in poverty, but all households with and without children that have their housing support capped by LHA, of which there were 680,000 claiming Universal Credit in May 2024. Linking LHA to the 30th percentile of rents would mean a total of 125,000 fewer adults in poverty in 2029-30, while linking to the 50th would lift 215,000 adults out of poverty.

Long-term investment in social housing could reduce the cost of benefit support

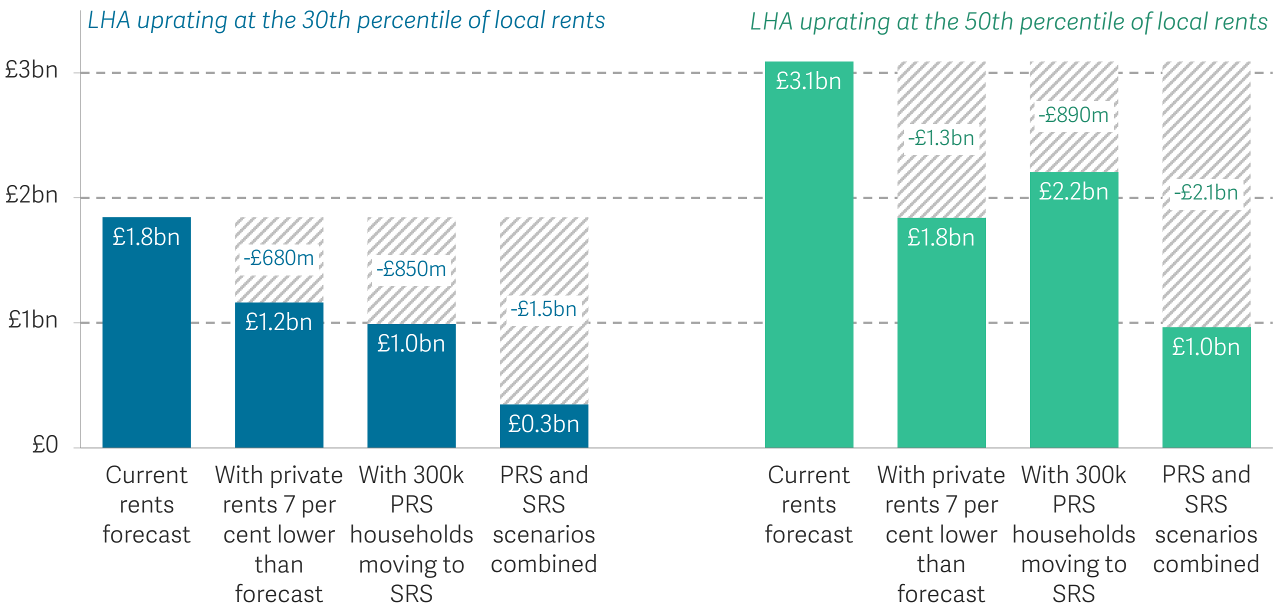
It is important to keep in mind, though, that the estimated costs presented above are not set in stone. They are highly dependent on private rent levels, which in our modelling we have assumed will grow in line with forecasted earnings growth, as the OBR projects. But action to reduce the upfront rents that lower-income families are paying (and the Government is subsidising) could have a significant impact on the cost of uprating LHA.

The most efficient way to help low-income families pay lower rents, and the method most under the Government's control, is to invest in social housing. The Government has set out an ambitious target to build 1.5 million new homes by the end of the Parliament and has signalled its intention that a significant proportion of these will be for social rent. Delivering on this target is clearly not without its challenges, but potentially could make a serious dent in the cost of a stable settlement when it comes to Local Housing Allowance.

Figure 3 sets out the potential gains for Government in one such scenario. We estimate that if enough new homes were built to enable 300,000 households with children that are currently renting privately to move to social renting, the cost of uprating LHA to the 30th percentile of rents would be reduced by £850 million in 2029-30, a saving that rises to £890 million when it comes to uprating at the 50th percentile (2024-25 prices).[5] It is interesting to note, however, that the gains go mostly to Government. The interaction between rents and housing support means the impact on poverty numbers would be limited: only private renting families that are LHA-capped or those who do not claim housing support would see a difference in their after housing costs income if moved into the social rented sector.

FIGURE 3: **The long-term cost of uprating LHA could be significantly reduced with action to reduce rents**

Estimated annual cost of uprating Local Housing Allowance in line with 30th and 50th percentile of local rents: UK



NOTES: 2024-25 prices, deflated by CPI. The counter-factual is Local Housing Allowance frozen at its 2024-25 level. Current rents forecast assumes private rents grow in line with the OBR's forecast for average weekly earnings growth, lagged by 12 months. The SRS scenario assumes 300k new social homes go to households with children currently in the PRS with similar characteristics to current social renters.
SOURCE: RF analysis of DWP, Family Resources Survey using the IPPR tax-benefit model; ONS, Price Index of Private Rents; ONS, Private Rental Market Statistics; OBR, Economic and Fiscal Outlook, October 2024.

[5] RF analysis of DWP, Family Resources Survey using the IPPR tax-benefit model. Households in the PRS were matched to households in the SRS using propensity score matching to identify households currently renting privately that have similar characteristics to those renting in the SRS. The first 300,000 of these PRS household, i.e. those most similar to current SRS household, were then given the rents of their matching SRS household. The cost saving of this scenario is relatively similar with LHA uprating at the 30th and 50th percentile of rents because the same number of households are affected and only those with rent above their LHA level would see a differential change in their housing support between the two scenarios.

But Figure 3 also considers another scenario. The housebuilding boom the Government promises to preside over in this Parliament could also exert downwards pressure on private rents.[6] Slower private rent growth would also reduce the cost of LHA uprating (albeit with a minimal additional impact on child poverty for the same reasons outlined above). If private rents grew at half the rate of earnings over the next five years rather than in lockstep, they would be around 7 per cent lower than forecast in 2029-30 (a 7 per cent fall would essentially reverse the real growth in private rents the UK has experienced since April 2022).[7] This would reduce the estimated cost of LHA uprating from £1.8 billion to £1.2 billion at the 30th percentile, and from £3.1 billion to £1.8 billion at the 50th percentile. And if we run our two scenarios together, a boost in social housing supply alongside such a slowing of private rent growth would have a dramatic effect on the cost of LHA uprating: it would fall from £1.8 billion to £350 million at the 30th percentile and from £3.1 billion to £960 million at the 50th percentile in 2029-30 (all in 2024-25 prices).

Growing up in poverty often goes hand-in-hand with poor housing conditions

Action to reduce housing costs for families on the lowest incomes would plausibly lead to improvements not just on the headline child poverty measure, but on other critical metrics too. As Figure 4 shows, living in poverty means significant compromises for many families when it comes to housing conditions. In 2022-23, for example, more than one-in-ten (11 per cent) children living in a poor household had no nearby outdoor space in which to play (compared to 4 per cent of children not in poverty) – with all the implications this has for childhood (and indeed parental) health and wellbeing. In addition, over a quarter (28 per cent) of children growing up in poverty lived in an overcrowded home (compared to 8 per cent of their more fortunate peers) – a state of affairs that unsurprisingly has proven links to poor education and health outcomes relative to those living in appropriately-sized homes.[8]

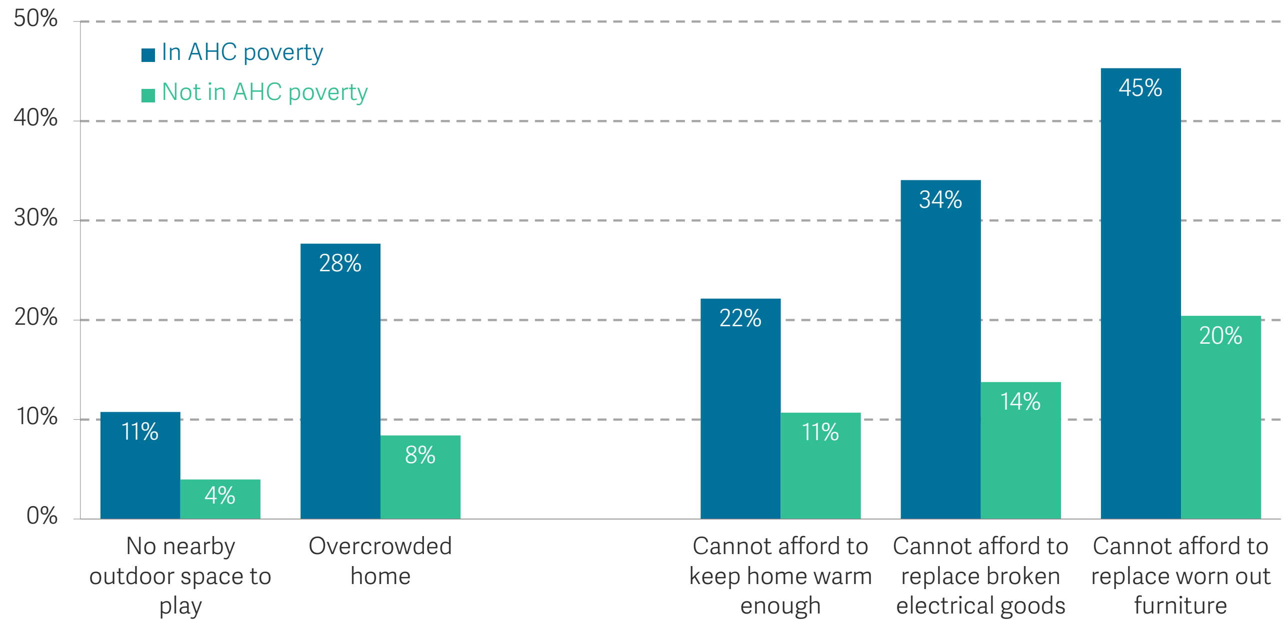
[6] It would be wrong to be too optimistic about this effect though: studies have suggested elasticities between house prices and supply to be relatively weak in the UK. See for example, E Drayton, P Levell & D Sturrock, The determinants of local housing supply in England, Institute for Fiscal Studies, August 2024.

[7] UK private rents grew 7 per cent in real terms between April 2022 and September 2024 (deflated by CPI). RF analysis of ONS, Price Index of Private Rents.

[8] The bedroom standard is the most widely used occupancy rating used in the UK. The standard assumes that every household should contain a separate bedroom for each of the following (i) adult couple (ii) any remaining adult (aged 21 years or over) (iii) two adolescents (aged 10 to 20 years) of the same sex (iv) one adolescent (aged 10 to 20 years) and one child (aged 9 years or under) of the same sex (vi) two children (aged 9 years or under) regardless of sex (vii) any remaining child (aged 9 years or under).

FIGURE 4: **Reducing housing costs could improve other housing outcomes for children growing up in poverty today**

Proportion of children living in a home that does not meet basic acceptable conditions, by after housing costs (AHC) relative poverty status: UK, 2022-23



NOTES: Survey respondents are asked if child/children have "an outdoor place or facilities nearby to safely play". 'Overcrowded home' indicates home is in breach of the bedroom standard.
SOURCE: RF analysis of DWP, Households Below Average Income.

But the housing consequences of growing up in a low-income household do not end there. As Figure 4 also illustrates, more than one-in-five (22 percent) of children in AHC poverty in 2022-23 were living in a home that their family struggled to heat (this figure stood at 13 per cent in 2019-20 when energy prices were significantly lower); more than one-third (34 per cent) were growing up in a home where their parents could not afford to replace faulty electrical goods (which brings with it an increased risk of domestic fire); and not far shy of one-half (45 per cent) lived in a home where the money was not available to replace worn out furniture (with all the practical and social harms that stem from that). Action to reduce the burden that housing costs put on the incomes of the poorest families could plausibly lead to improvements when it comes to dismal statistics such as these too.

Conclusion

High housing costs are an important driver of child poverty: indeed, the LHA freeze is currently driving child poverty upwards and will continue to do so without Government reform. As a result, it is vital that the Government's forthcoming Child Poverty Strategy includes action to bring housing costs down for low-income families, both by indexing support through the benefit system appropriately in the future, and by addressing the high levels of rent directly through building more homes.

Both the highest levels of unaffordability and the biggest scope for housing support reforms to reduce child poverty come in the private rented sector, the reason why we have mainly focused on measures that benefit PRS households in this Outlook. But families with children in poverty living in the social rented sector or with mortgages should not be overlooked. But when it comes to these groups, it is harder to see how Government action can boost their after housing costs incomes via housing policy alone (housing support for SRS households is based on the actual rents they pay, so will fall in line with any fall in rents, for example). Instead, action on the incomes side is clearly needed, a topic to which Resolution Foundation will shortly return.