THE LINKS BETWEEN HOUSING AND POVERTY

Poverty and low incomes prevent people from accessing potential housing options, and make others hard to sustain. This evidence review explores how housing can mitigate or exacerbate the impact of poverty on people’s lives.

Key points

- ‘Housing costs induced poverty’ (see page 2) has been increasing over the last two decades. However good quality, low-cost housing has, at least partly, broken the link between poor housing conditions and poverty in the UK.

- An extra 3.1 million people in the UK are in poverty after their housing costs have been paid. One million of these are in London, reflecting its high housing costs.

- Low rents are important in reducing poverty. The private rented sector is playing an increasingly important role with 18 per cent of private tenants in poverty before housing costs are taken into account and 38 per cent in poverty after housing costs are paid.

- In the social sector, which is highly targeted on people with low incomes, 29 per cent of social renters are living in poverty before housing costs. Despite sub-market social rents, 43 per cent are living in poverty after housing costs have been paid.

- For over 20 years, home-owners have made up more than half of people living in (before housing costs) poverty in the UK. Although they receive only 2 per cent of all state support for housing costs home-owners are less likely to be living without essential items than tenants on the same income.

- Policy needs to pay closer attention to links between housing and poverty. Efforts to reduce poverty need to consider limiting rent costs, maintaining good housing conditions in all tenures and monitoring the impact of welfare reform cuts.

The research
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BACKGROUND

The significance of the links between housing, poverty and material deprivation over people’s life course deserves more attention. This study analyses UK evidence to explore the relationship between people’s housing circumstances and their experience of poverty.

Impact of poverty on housing

The most widely-used definition of poverty in the UK and across Europe describes individuals as experiencing poverty if their household income is below 60 per cent of the national median, after taking into account the number of adults and children in the household. Around a fifth of the UK population experience poverty in any given year, but around a tenth experience ‘persistent poverty’, defined as having a poverty income in at least three out of four years.

Evidence that poverty affects housing circumstances is generally stronger than evidence that housing circumstances affect poverty. Low incomes prevent access to many potential housing options, or make them hard to sustain. However, the housing system, with social housing, housing benefit and support for homeless people, acts as a buffer against the effects of poverty, so that although people living in poverty have a higher risk of bad housing conditions, they generally avoid them.

Impact of housing on poverty

Housing costs constitute the most important and most direct impact of housing on poverty and material deprivation. Overall 5 per cent more of the UK population or 3.1m more people experienced poverty in the UK in 2010/11 when the impact of housing costs on income is taken into account. Not taking this into account significantly underestimates the risk of poverty and material deprivation for workless households, minority ethnic groups, single people, renters and Londoners. For example, 18 per cent of private tenants are in poverty before housing costs are taken into account and 38 per cent are in poverty after housing costs are paid. This also means that the targets set in the Child Poverty Act 2010 (which are based on income before housing costs) overlook 1 million children living in poverty.

Variations in housing costs between places also have a substantial impact. The number of Londoners living in poverty almost doubles to just over two million once housing costs are taken into account. Those in the South East of England are also affected.

The number of people in ‘housing cost induced poverty’ (not poor before housing costs but poor once they are taken into account) has increased over the past two decades.

Low rents, such as council and housing association rents, make an important contribution to reducing the degree of ‘housing cost induced poverty’ and material deprivation amongst social tenants. Social housing is highly targeted on people with low incomes and has been shown to be the most ‘pro-poor’ and redistributive major aspect of the entire welfare state. However 29 per cent of social renters are living in poverty before housing costs and, despite sub-market rents, 43 per cent are living in poverty after housing costs have been paid.

Housing benefits for tenants make a major contribution to reducing ‘housing cost induced poverty’ and are second in importance only to housing costs themselves. However, many tenants do not realise that housing benefit is available to those in work, and only about half of eligible working tenants receive the benefit. Welfare reform means that hundreds of thousands of social and private renters will see shortfalls between housing benefit and the rent they have to pay. These are likely to increase
poverty, however it is measured. US and some UK evidence suggests it may lead to increased food insecurity.

It is not widely recognised that for over 20 years, home-owners have made up more than half of people living in (before housing costs) poverty in the UK. During the same period, the proportion of all people living in poverty who were social tenants fell from 41 per cent to 29 per cent, and the proportion in the private rented sector rose from 8 per cent to 19 per cent, reflecting the change in the size of these tenures.

However, after housing costs are taken into account, home-owners make up only 37 per cent of those in poverty, because many have paid off mortgages and have low or no housing costs. If 'imputed rents' (the value home-owners get from their homes) were included in measures of household income, as they are in some national tax systems, income inequality would be reduced and three quarters of pensioner poverty and much of home-owner poverty would disappear.

Housing equity has little effect on poverty as the poorest owners have least equity and often cannot release it. Home-owners receive only 2 per cent of all state support for housing costs. Support for home-owners who lose their jobs reaches too few to have much impact on poverty. However, poor owners are less likely to be living without essential items than tenants with the same income. It is hard to say whether these differences are due to tenure itself or to differences in average incomes over the lifetime.

There is substantial evidence to show that poor housing conditions affect some aspects of child development or elements of adult health.

**Impact of housing on employment**

The principal financial work incentive is the level of wages rather than housing circumstances. However, low-cost housing such as council and housing association homes makes it easier to 'make work pay'. While it has a positive impact on poverty and material living conditions, housing benefit can create a poverty trap. For any given set of low-paid job opportunities, housing stock and rents, there will be a trade-off between using housing benefits to prevent poverty, material deprivation and housing deprivation on the one hand, and avoiding a 'poverty trap' on the other.

Regional location is an important contributor to a ‘housing effect’ on employment, and potentially on poverty, since different labour markets offer very different opportunities. Evidence suggests that the ability to move home does affect employment, but the effects do not appear to be significant. Most social landlords provide some services intended to prevent poverty and increase employment, and many individual schemes appear effective, although gauging the total impact is difficult.

**Policy implications**

*Policy* needs to pay closer attention to the links between housing, income and welfare, which have been neglected. Those interested in the links between poverty and housing need to consider measuring poverty after taking into account housing costs, at least as a supplement to income measured before housing costs. They also need to pay particular attention to groups living in poverty because of high housing costs.

Those who want to use housing policy to reduce poverty should aim to reduce housing costs, particularly for renters, or at least to limit further increases. This could be achieved through maintaining and developing traditional social housing, and in England by limiting the conversion of social housing tenancies to ‘affordable rents’ (capped at 80 per cent of market rents). Rent levels in the private rented sector are an increasingly important part of the picture, but are largely uncontrolled.
Benefits are the other key factor in housing costs. The impact of housing benefit cuts on claimant households’ residual incomes, material deprivation and location relative to job opportunities needs monitoring. Increased ‘in work’ take-up and more efficient administration of Housing Benefit/Universal Credit need to be encouraged, and eligibility for Universal Credit for low-income home-owners in work extended. Continued attempts are needed to reduce the impact of the Housing Benefit poverty trap, building on the Universal Credit reform. Local authorities need support in designing Council Tax Benefit systems to limit work disincentives.

Monitoring and maintaining good housing conditions for all households in all tenures is necessary. Bad housing conditions affect health and may have long-term effects on incomes and employment.

Those who want to use housing policy to increase employment need to consider prioritising lower cost tenures for those who can only command low wages.

Building homes creates jobs, and may have a bigger effect on employment and poverty than many other kinds of other economic activity. Particular attention should be paid to the location of new homes relative to job opportunities.

**Conclusion**

People’s experience of poverty, material deprivation and housing circumstances are intertwined. Housing forms an important part of people’s material living conditions and contributes to their life chances. Greater understanding is required of how poverty and employment traps vary by area and rent levels. The significance of the links between housing, poverty and material deprivation deserves greater recognition in policy.

**About the project**

This study reviewed relevant empirical literature published in the UK since 2000, supplemented by additional searches and consultation with experts.