

London Living Rent: Updated rent benchmarks for 2021/22

November 2020

Introduction

This note summarises the approach behind the updated ward-level London Living Rent (LLR) benchmark rent figures, which will be published in late November 2020 and will apply to homes let in 2021/22.

Background

The LLR benchmarks set the maximum monthly rent chargeable in each ward, and are updated by the GLA each year in line with the method developed for the initial introduction of London Living Rent in 2016.

This method calculates the maximum rent chargeable in each ward as a third of the estimated median gross household income in the relevant London borough, with an allowance made for the variation of housing costs between different wards in each borough, and between different sizes of property (measured by the number of bedrooms).

From 2021/22, the monthly benchmark rents are capped at £1,400, to align with planning guidance on affordability and the £60,000 maximum income cap for intermediate rented products.

Details of the calculation

The method for calculating the benchmarks has six main stages, set out below.

1. Estimate median London-wide household income

The first stage calculates the median gross household income for London as a whole, using data from the official Households Below Average Income survey (which despite the name covers households of all incomes). In order to generate robust estimates and minimise year-to-year volatility caused by limited annual samples, the mean average of estimates from the last three years is used.

The latest three years of data cover 2016/17 to 2018/19, and the estimated median gross household income in London for this period is £38,421, an increase of 2.7 per cent from the previous three-year rolling period (2015/16 to 2017/18). This figure establishes a baseline increase for the LLR benchmarks, which is modified in the following stages.

2. Rescale London-wide income using borough-level earnings

The second stage takes this London-wide estimate of median household income and re-scales it to the London borough level using data on median individual earnings (in the absence of any local-level estimates of household income).

The earnings data used is the median gross annual earnings for all workers from the ONS Annual Survey of Hours and Earnings, averaged over the three years 2017 to 2019¹. For 32 of the 33 councils the average earnings by place of residence is used, but for the City of London earnings by place of work are used due to its small resident population.

¹ In Kensington & Chelsea there is no estimate of median annual earnings for 2017, or for any year since 2013. The values for 2013, 2018 and 2019 are therefore averaged.

The following worked example shows how this re-scaling works. The estimated earnings figure for London is £30,345, and for Southwark it is £32,596, 7.4 per cent higher. Applying this increment to the London-wide median household income figure of £38,421 results in a re-scaled estimated median household income for Southwark of £41,272.

3. Calculate borough-level benchmarks

The LLR benchmarks are based on a third of estimated household. In the case of Southwark, the annualised borough-level benchmark would be one third of £41,272, or £13,757 a year. Dividing this by 12 gives a monthly figure of £1,146.

This figure does not actually apply anywhere, but forms the basis for the next stage.

4. Vary borough-level figures using ward-level house prices

Having derived borough-level benchmarks, the next stage is to disaggregate these to ward level, using data on the ratio of median prices in each ward to median prices for the relevant borough².

To reduce the distorting effect of different property type mixes, only the prices of flats are used. Ward-level price figures were last calculated in the 2017 round of benchmarks (for 2018/19), using data for 2014-16. That data is increasingly out of kilter with current market conditions, so for this update it has been decided to use five years of data covering the period 2015 to 2019. The overlap with the previous data minimises volatility from one set of benchmarks to the next.

The calculation used takes the borough-wide figure derived in the previous stage and sets it equal to the notional two-bedroom benchmark for that borough. It then varies this borough-wide benchmark according to the ratio of median ward-level flat prices to the borough median, with the variation re-scaled so that the maximum amount in each direction is 20%.

For example, the notional benchmark for Southwark as a whole is £1,146 a month, but in the most expensive ward (Borough and Bankside) it is 20% higher at £1,376, while in the cheapest ward (Peckham) it is 20% lower at £917.

5. Vary ward-level figures by number of bedrooms

The next stage takes the two-bedroom benchmark for each ward calculated in the previous stage and varies it according to the number of bedrooms, with a change of 10% for each additional or fewer bedroom. For example, the two-bedroom benchmark for Peckham is £917, so the three-bedroom benchmark is 10% higher at £1,009, the one-bedroom benchmark is 10% lower at £825, the three-bedroom benchmark is 20% higher at £1,101, and so on up to six bedrooms.

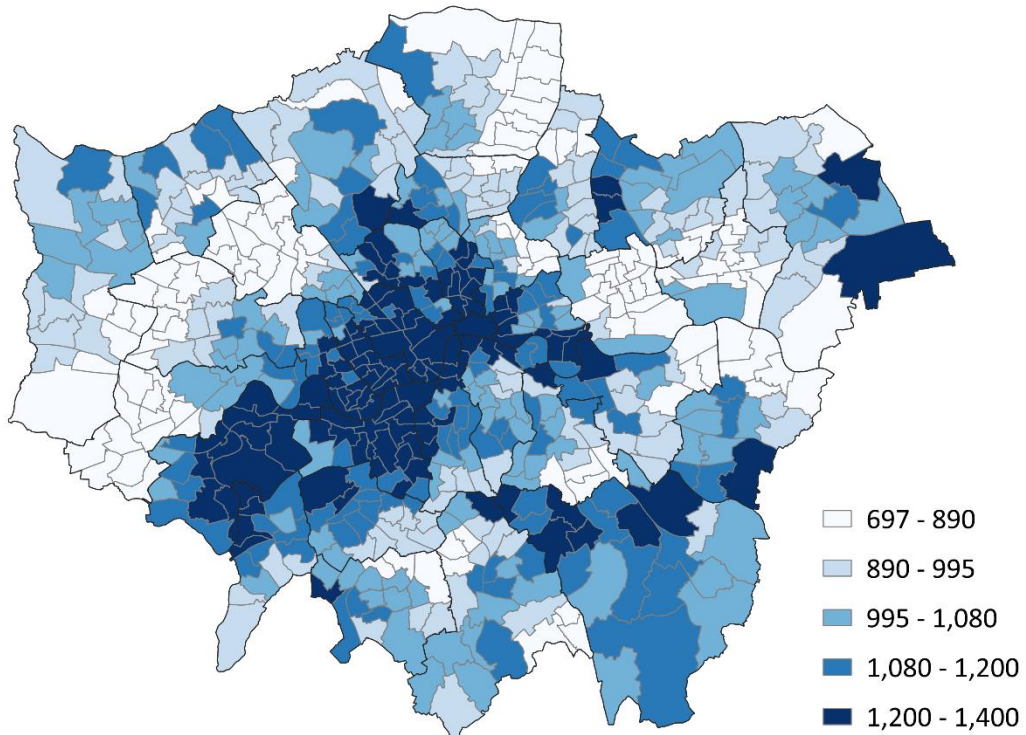
6. Cap ward-level benchmarks at £1,400

The final stage, introduced for the first time this year, is to cap each benchmark (for any property size) at £1,400 a month. This cap ensures that every benchmark is consistent with GLA planning guidance which states that the maximum gross household income for tenants accessing LLR is £60,000 and that households should not spend more than 40% of their net income on housing costs (with net income assumed to be 70% of gross income).

² In this analysis the City of London is assumed to consist of a single ward.

Results

The map below shows the resulting monthly benchmark rent for a two-bedroom LLR home in each London ward. In 29 wards the benchmark is capped at £1,400, while the lowest figure is £697 in the Newham ward of East Ham North.



The impact of the cap on benchmarks for homes of different sizes is shown in the chart below. In only seven out of 633 wards (including the City of London, one in Hammersmith & Fulham, two in Kensington & Chelsea, one in Wandsworth and two in Westminster) does the cap affect rents for one-bedroom homes, rising to 29 for two-beds, 79 for three-beds, up to 368 for six-bedroom homes. In practice there are likely to be few six-bedroom LLR homes built, so it is likely that the great majority of new LLR homes will be in wards with uncapped benchmarks.

