

## Affordability and rent increases

Social security payments in the form of universal credit (UC) (working-age) and housing benefit (HB) (pension-age) help ensure that tenants can afford their rent payments (we use 'housing benefit' to cover both types of payment). These benefits are means-tested which means the actual amount paid depends on the individual's household income and savings. Those with an income below a prescribed minimum threshold (in UC, 'the standard allowance', or the 'standard minimum guarantee' for those receiving state pension credit) have their income topped up to it and receive the maximum help with their rent. The minimum threshold for pension-age households is around 2.4 times more than that than for working-age households.

The maximum help is 100 per cent of the claimant's rent, although for private tenants this is subject to an overall maximum (the 'local housing allowance'). For those with incomes above the minimum threshold the maximum support is tapered away by a prescribed percentage of the claimant's 'excess income' (55 per cent of earned income for UC and 65 per cent of all income for HB). But for a given level of income provided it is low enough to qualify for housing benefit, the **full marginal cost** is covered. For example, if two similar households have the same income and the first qualifies for £5 per week housing benefit but the second has a rent that is £50 per week higher, the second will get £55 per week. So, once a tenant's income is low enough to qualify for housing benefit, any increase in their rent is fully covered (if their rent goes up by £5, their housing benefit also goes up by £5).

For a given rent and household type there is an income at which housing benefit expires (tapers to zero) this is sometimes called the upper threshold. When affordability is measured as the ratio of rent (net of housing benefit) to disposable income the upper threshold is also the point at which the ratio is highest.

## The poverty trap

The downside of protecting low-income households from rent increases is the poverty trap, which works as follows:

- As the rent rises, so does the range of incomes that are covered by housing benefit – the higher the rent the **wider** the trap. For example, for a basic rate taxpayer increasing the rent by £10 per week means that the range of earnings covered by the trap extends by £1,725 per year.
- As earnings increase benefit is withdrawn, reducing work incentives and making it more difficult to escape the trap. Because of other deductions (tax, national insurance, pension contributions) the overall withdrawal rate varies across the earnings continuum – the higher the overall withdrawal rate, the **deeper** the trap. For example, a basic rate taxpayer who earns an extra £10.00 per week will only be better off by £3.02.<sup>1</sup>
- Those whose incomes are at or just above the upper threshold are arguably the most affected by a rent increase. If the increase raises the upper threshold and pulls the household into benefit only that part of the increase that takes them above the upper threshold is covered by benefit. For those whose income is just

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<sup>1</sup> Assumption auto-enrolment into a pension at five per cent (the minimum for an employee). Tax and national insurance at 28 per cent.

above the upper threshold even after the increase must cover the whole of the increase from their existing income (and so are worse off by the whole of the increase).

When affordability is measured as a rent-to-income ratio the impact on households with incomes just above the upper threshold varies according to their household composition, with smaller households being the most adversely affected. Smaller households have a lower UC maximum award and therefore a lower upper threshold resulting in a higher rent-to-income ratio.

For example, the maximum UC for a lone parent includes one or two UC child elements, their child benefit is not counted as income and part of their earnings is disregarded by the UC work allowance. Lone parents who pay for childcare also benefit from the UC childcare costs element. Whereas working-age couples have a greater earnings potential than single person households and benefit from two income tax personal allowances which reduce the depth of the trap.

The effect of each of these factors can be seen when affordability ratios are compared. A lone parent with one child paying a weekly rent of £100 per week with earnings at the upper threshold will pay 16.9 per cent of their income on rent, whereas a single person paying a rent of £80 per week with earnings at the upper threshold pays 25.5 per cent of their income. A flat-rate increase of £3.00 per week would raise the ratio for the same households with earnings at the new upper threshold to 17.1 and 26.0 per cent respectively. As a result of the Universal Credit Act 2025 the UC standard allowance will increase by 14.5 per cent in real terms over a five-year period. The residual incomes of uncapped households will improve somewhat and the rent-to-income ratios for households at the upper threshold will also fall.

The numbers affected are difficult to estimate but as the description above shows those that are the most adversely affected lie in a narrow band of incomes either side of the upper threshold for each household type, and numbers are likely to be small.

## The benefit cap

The exception to housing benefit covering the full marginal cost is the benefit cap, which applies to working-age households. When the cap is active (UC claimants earning less than £846 per month) and if the claimant's welfare benefits exceed the cap, their UC is reduced by the excess (so their total welfare benefits are equal to the cap). 'Welfare benefits' in this case means the claimant's or their partner's UC - including the housing costs element, child benefit, jobseeker's allowance and employment and support allowance. Households that have a person in their benefit unit who gets a disability benefit (e.g. personal independence payment) are exempt from the cap. Once the claimant's benefit is capped none of the marginal increase is covered.

The cap is reviewed every five years (the last review was in 2023); rates are shown in table one.

**Table one: Benefit cap levels**

| <b>Greater London</b>        | <b>Monthly</b> | <b>Weekly</b> |
|------------------------------|----------------|---------------|
| (a) Single person            | £1,413.92      | £326.29       |
| (b) All other households     | £2,110.25      | £486.98       |
| <b>Rest of Great Britain</b> |                |               |
| (a) Single person            | £1,229.42      | £283.71       |
| (b) All other households     | £1,835.00      | £423.46       |

Since the UC standard allowance and child benefit are meant for basic living expenses other than rent if these are deducted from the cap what remains is the 'headroom' for rent without the household's residual income being affected. If the rent is within the headroom (including any increase) the full marginal cost of the increase continues to be covered by UC. Once the rent exceeds the headroom any excess must be covered by the claimant from their welfare benefits (in other words, none of the marginal cost is covered). Because there are two cap levels each for inside and outside London the headroom for rent varies with the household size. The effective headroom for 2025/26 is shown in table two.

**Table two: Rent headroom 2025/26**

| <b>Greater London</b>               | <b>Weekly</b> |
|-------------------------------------|---------------|
| (a) Single person (aged 25 or over) | £233.95       |
| (b) Single with one child           | £301.02       |
| (c) Single with two children        | £216.12       |
| (d) Couple without children         | £342.03       |
| (e) Couple with one child           | £248.41       |
| (f) Couple with two children        | £163.59       |
| <b>Rest of Great Britain</b>        |               |
| (a) Single person                   | £191.37       |
| (b) Single with one child           | £237.50       |
| (c) Single with two children        | £152.68       |
| (d) Couple                          | £278.51       |
| (e) Couple with one child           | £184.89       |
| (f) Couple with two children        | £100.07       |

For households with more than two children the headroom reduces by a further £17.25 per week for each additional child, but this assumes that the basic living expenses required for each child only increase by the same amount as the amount of child benefit (UC child elements are limited to a maximum of two). It would be more reasonable to assume that the basic living expenses reduce by £84.82 for each child (UC child element + child benefit). This would mean that all out-of-work households on UC with three or more children (one or two parent households) would find the additional rent unaffordable – although this would be true of any rent increase with or without rent restructuring.

The headroom reduces each year with each annual benefits uprating. At the time of writing CPI inflation is running at 3.6 percent (July 2025), if this continues through to September then the headroom for a couple with two children would reduce by £11.64 following the April 2026 uprating, and by £9.75 for a lone parent with two children.

Table two shows that in London during the current year and the following year only couple households with two (or more) children are at risk of capping and the same also applies outside of London, with a smaller risk that some lone parent households with two children might be affected in the higher rent areas. Table three shows the average rents for two- and three-bedroom properties by English region and landlord type.<sup>2</sup>

**Table three: Estimated average social rents (general needs) by English region and landlord type**

|  | <b>Two bedrooms</b> |            | <b>Three bedrooms</b> |            |
|--|---------------------|------------|-----------------------|------------|
|  | <b>LA</b>           | <b>PRP</b> | <b>LA</b>             | <b>PRP</b> |

<sup>2</sup> Based on average rents by property size from the Regulator of Social Housing's look-up tool for the year 2023/24, and then indexed by CPI plus one per cent for 2024/25 and 2025/26 to arrive at estimates for the current year.

|                                 |         |         |         |         |
|---------------------------------|---------|---------|---------|---------|
| <b>North East</b>               | £92.36  | £98.19  | £100.96 | £108.40 |
| <b>North West</b>               | £93.92  | £102.62 | £102.93 | £114.14 |
| <b>Yorkshire and the Humber</b> | £93.25  | £104.06 | £101.50 | £113.93 |
| <b>East Midlands</b>            | £94.99  | £110.60 | £103.03 | £120.81 |
| <b>West Midlands</b>            | £96.89  | £111.57 | £109.94 | £123.43 |
| <b>East of England</b>          | £112.57 | £123.06 | £127.42 | £138.35 |
| <b>London</b>                   | £133.63 | £151.90 | £152.47 | £169.20 |
| <b>South East</b>               | £115.29 | £134.29 | £132.09 | £151.96 |
| <b>South West</b>               | £99.44  | £115.73 | £111.44 | £129.51 |

After adjusting for the rent increase in April 2026, rent at £95 per week or more for a couple with two children and £145 per week or more for a lone parent with two children will be within the range of the cap if the element for rent restructuring is added.

As with the upper threshold the numbers affected (other than those who are already capped) is difficult to estimate but it is likely to be small because of the circumstances in which it can occur are so specific (see tables two and three). As for those who are already capped the ability of the household to afford the increase will depend on the size of their current shortfall (i.e. the amount by which they already exceed the headroom).

**Table four: Number of social rent households with children in England capped by £ per week - February 2025**

|                       | <b>Lone parent</b> |                    | <b>Couple</b>     |                    |
|-----------------------|--------------------|--------------------|-------------------|--------------------|
|                       | <b>2 children</b>  | <b>3+ children</b> | <b>2 children</b> | <b>3+ children</b> |
| <b>Up to £25</b>      | 3,702              | 5,950              | 907               | 927                |
| <b>£25.01 to £50</b>  | 1,955              | 4,779              | 474               | 1,001              |
| <b>£50.01 or more</b> | 1,824              | 8,958              | 532               | 2,554              |

Table four shows the number of social rent households with two or more children on UC or HB who are capped by the amount per week. It shows there around 9,400 two child families in England who are capped and 24,200 families with three or more children that were capped in February 2025 (although this is before the April uprating). A £2-£3 per week additional increase is only likely to increase the numbers affected by a few per cent, probably no more than 1,000 households in total.

## The social sector size criteria

The social sector size criteria (also known as the 'bedroom tax') affects working-age households who are deemed to be under-occupying their home who are in receipt of housing benefit. It takes the form of a deduction from the maximum eligible rent. Households that are deemed to be under-occupying by one bedroom lose 14 per cent of their eligible rent and those under-occupying by two or more bedrooms 25 per cent. A further flat-rate increase of £2 would only reduce the tenant's residual income by a further £0.28 or £0.50 per week respectively.