Government of JERSEY

Review of social housing rents

Evidence on housing affordability

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Contents

Summary

- *Housing affordability* refers to a household's ability to meet housing costs without causing financial pressure. When costs are too high, a household may face *housing stress* – or *rental stress* – which can limit its ability to afford other essential living costs.

- Measuring housing affordability is complex, as it depends on the interplay between household income, housing costs and other essential living costs, all of which vary significantly across different household types and circumstances.

- Three main measures are commonly used to assess housing affordability:

  - **Expenditure-to-income ratios**: These use simple benchmarks – e.g. the 30% rule, or the 30:40 indicator – but they do not fully reflect individual household needs and the effect of financial assistance such as Income Support benefits.

  - **Residual income**: This assesses the income a household has remaining after its housing costs are paid to reflect if there is enough income left over to cover non-housing essentials. This can offer a wider insight into potential financial pressure; however, it may misattribute general cost-of-living challenges to housing costs.

  - **Subjective measures**: These capture the lived experience and perceived financial pressure of households. Whilst valuable, they can be influenced by individual expectations and broader economic conditions.

- No single measure is sufficient. A combined approach using all three provides a more comprehensive understanding of housing affordability, supporting more effective policy design and delivery.

- Income Support helps to offset housing costs for eligible low-income households. As a result, affordability measures should be interpreted carefully as households may appear under financial pressure when their housing costs are largely covered by Income Support.

Introduction

This paper examines the literature on *housing affordability* and *rental stress* – key considerations when assessing whether the existing social housing rental model is meeting its intended objectives. The literature offers a range of definitions and measures on housing affordability. This section explores the most commonly used methods, including:

- the housing expenditure-to-income ratio;
- the residual income approach; and
- subjective measures of housing affordability.

Each measure has its own strengths and limitations, particularly when applied to different housing markets and policy environments.

Drawing on available data from Statistics Jersey on household incomes and housing costs across different tenures, this paper assesses the extent to which households, particularly those living in social housing, may experience financial pressure due to housing costs.

This analysis helps to evaluate the relevance and applicability of different affordability measures in Jersey, and how they interact with policy interventions such as Income Support. The findings offer insights that can inform future decisions regarding the social housing rents policy and contribute towards broader policy initiatives to improve housing affordability.

Jersey's definition of affordable housing

Policy context

Under the *Planning and Building (Jersey) Law 2002*, for example, the Minister for the Environment is able to designate land for specific types of development. Article 4(4) of the Law includes provision for:

> "*…land to be used to provide residential accommodation, whether it be accommodation for renting or accommodation for purchase, for persons who would otherwise have financial difficulties renting or acquiring residential accommodation in the general market for residential accommodation prevailing in Jersey*".

This establishes a clear expectation that housing should be made available to meet the needs of households who experience financial difficulties renting or purchasing a home in the open market.

The Minister for Housing's *Definition of Affordable Housing in Jersey* (2021) reinforces this definition. It defines affordable housing as:

> "*Residential accommodation for renting or for purchase by persons who would otherwise have financial difficulties renting or acquiring residential accommodation in the general market*".

It further specifies that such housing must be:

> "*Only available for sale or rent to eligible persons who have met the criteria for renting social housing or making an assisted purchase (whichever is applicable) following a formal application process*".

Implicit in this definition is the provision of housing at below-market rates, including affordable purchase schemes and social housing, for households who are eligible for assistance.

This is reflected in the Bridging Island Plan's designated Affordable Housing sites, where the Development Briefs: Affordable Housing Sites SPG (2023) sets the clear expectations around affordable homes, where affordable housing for purchase:

> *"must not be sold for more than 70% of the open market first time buyer value equivalent, meaning that a minimum of 30% of the sale value must be secured as a charge on the property that is passed on to each new purchaser".*

With this brief also setting the expectation around social rented homes that:

> "*must be delivered in accordance with the latest approved social rents policy, which requires homes to be provided for rent at a maximum cost of 80% of the equivalent open-market rental fee*".

This underscores the Minister's definition which requires that affordable housing for rent "*must adhere to the prevailing States of Jersey rent policy for social housing properties*". The social housing rents policy sets rents at up to 80% of market value for an equivalent property in the private rented sector. To further promote affordability, Income Support is available to assist eligible households with housing costs.

Implications of the definition

Jersey's definition of *affordable housing* provides a broad understanding of affordability, establishing that homes for rent or purchase should be offered at below-market levels to households who are unable to meet these costs in the open market.

This definition is embedded in both policy and legislation, and it is particularly useful for planning new developments and guiding social housing providers in determining rent levels relative to the private rented sector.

However, whilst affordable housing is defined in relation to market conditions, it does not clearly convey what housing affordability means for individual households in practice.

Notably, it makes no reference to: the proportion of a household's income that might reasonably be spent on housing; the income required to cover other essential living costs; or the overall financial impact on a household of meeting housing and other non-housing costs.

This creates ambiguity as to whether homes described as *affordable* are genuinely so for a household once its full housing costs and income are considered. As a result, whilst the definition is useful for purposes such as policy and planning, it does not meaningfully reflect people's experiences of housing affordability.

Measuring housing affordability

Defining housing affordability

Jersey's definition of *affordable housing* recognises the need to provide homes that are affordable for Islanders based on their financial circumstances, supported by some form of government assistance to help with the cost of buying or renting a home.

However, whereas *affordable housing* represents government policy interventions, *housing affordability* refers more directly to the financial relationship between a household and its housing costs. It encompasses factors such as income levels relative to rent or mortgage payments, and the ability to meet other essential living costs aside from housing.

The definition of *housing affordability* is inherently complex and often subjective, with no universally agreed-upon standard[1]. Broadly, it can be understood as a household's ability to secure suitable housing without compromising its ability to meet other essential living costs[2].

As such, housing may be considered *affordable* when a household can buy or rent a home suitable for its needs without experiencing undue financial hardship. Similarly, when housing costs leave insufficient income for non-housing costs such as food, heating or other

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[1] Young, G., Wilcox, St., Leishman, C., and McCloy, S. (2017). *A Review of the Affordability of Social Housing Rents in Northern Ireland*. Northern Ireland Housing Executive. Available at: https://www.nihe.gov.uk/getattachment/780ae1e0-e478-4a39-86d6-4f45b79bad55/NI-Affordability-Report-2017.pdf.

[2] OECD (2021). *Building for a Better Tomorrow: Policies to Make Housing More Affordable*. OECD Publishing, Paris. Available at: https://www.oecd.org/content/dam/oecd/en/publications/reports/2021/01/building-for-a-better-tomorrow-policies-to-make-housing-more-affordable_51f68a86/5d9127d4-en.pdf

essential needs, this situation may be considered *unaffordable*. In these circumstances, the household may experience *housing stress* – or *rental stress* in the case of tenants.

A closer examination of *housing stress* considers whether a household is spending a disproportionately high amount of its income on housing costs relative to other non-housing costs. However, the proportion of income spent on housing is less important than the actual income remaining after housing costs, and whether that remainder is sufficient to meet other essential living costs.

This approach shifts the focus towards financial sufficiency, assessing whether housing costs, alongside other living costs, contribute towards a household experiencing financial pressure.

Perceptions of housing affordability are also important. Subjective factors such as satisfaction with housing can shape how financial pressure is experienced, even when objective indicators suggest otherwise.

Affordability challenges can also vary in duration. They may be:

- short-term such as upfront costs at the beginning of a tenancy (e.g., a deposit or purchasing white goods);
- long-term, where ongoing financial pressure forces households to regularly go without other essential items to meet housing costs; or
- intermittent, arising from temporary changes in income or expenses.

Prolonged affordability challenges increase the risk of a household exhausting its savings and assets, increasing its risk of experiencing financial pressure.

Importantly, *housing affordability* is relative to each household's circumstances, needs and expectations. High or low housing costs alone do not necessarily determine affordability or place a household in *housing* or *rental stress.* For example, a high-income household may be able to afford high housing costs without causing financial pressure. Conversely, a low-income household facing similar costs may struggle to meet its basic needs.

In these circumstances, government support such as Income Support plays a critical role in improving affordability by helping households meet both housing and non-housing costs[3].

Housing affordability measures

As there is no universally agreed definition of *housing affordability*, it is difficult to measure consistently across households. Generally, assessing affordability involves determining how much of a household's income can reasonably be spent on housing costs whilst still allowing it to meet other essential living costs.

Despite this lack of consensus, several widely accepted measures help to assess *housing affordability* and identify *rental stress*. Three of these approaches are included in the OECD's *Building for a better tomorrow: Policies to make housing more affordable*[4] :

[3] Whitehead, C., Monk, S., Clarke, A., Holmans, A., and Markkanen, S. (2008). *Measuring Housing Affordability: A Review of Data Sources*. Cambridge Centre for Housing and Planning Research. Available at: https://www.bipsolutions.com/docstore/pdf/23343.pdf

[4] OECD (2021). *Building for a Better Tomorrow: Policies to Make Housing More Affordable*. OECD Publishing, Paris. Available at: https://www.oecd.org/content/dam/oecd/en/publications/reports/2021/01/building-for-a-better-tomorrow-policies-to-make-housing-more-affordable_51f68a86/5d9127d4-en.pdf

Housing expenditure-to-income ratios

- Provide a broad, population-level perspective, which is useful for identifying households at risk of rental stress and informing rent-setting practices.

- This ratio, or proportion, is often set at 30%, where housing is considered unaffordable if a household spends more than 30% of its gross income on housing costs.

- The 30:40 indicator refines this by focusing on low-income households; housing is deemed unaffordable if those in the bottom 40% of the income distribution spend more than 30% of their income on housing.

- However, these thresholds are often set at arbitrary levels, and whilst relevant statistics can often be equivalised, they do not comprehensively account for differences in household composition and needs or fully reflect the effects of financial assistance.

Residual income approach

- Focuses on the income remaining after housing costs to assess whether a household can meet other essential living costs.

- It offers a more nuanced view of affordability, reflecting the balance between income, rent and broader cost-of-living pressures.

- However, it can require detailed data on household spending, which may not be available or consistent.

- It may also misattribute general cost-of-living pressures as housing affordability issues, especially in high-cost environments.

Subjective measures of housing affordability

- Based on self-reported perceptions of affordability and housing satisfaction, gathered through surveys asking if a household feels that its housing costs cause financial pressure.

- These measures help to contextualise quantitative measures by capturing lived experiences and revealing pressures not evident in quantitative data alone.

- However, they are influenced by individual expectations, lifestyle and personal circumstances, which can vary widely.

- They require robust survey design and careful interpretation to ensure meaningful and reliable insights.

Figure 1 – Measures of housing affordability

The strengths and limitations of these measures is set out in **Figure 8**.

Measure	Strengths	Limitations
1. Housing expenditure-to-income ratios	• Simple "rule of thumb" for assessing housing affordability.	• Lack of household context: whilst equivalisation process can, to an extent, account for differences in

Measure	Strengths	Limitations
	• Easy to apply and present using available data. • Clear and accessible for different audiences. • Enables comparisons across tenures over time. • The 30:40 indicator is a refinement of the 30% expenditure-to-income ratio[5], designed to better identify low-income households at risk of housing affordability difficulties. • By excluding high-income households, the 30:40 indicator provides a more accurate picture about those who may be most vulnerable and adversely affected by housing costs[6].	household composition, this does not provide a definitive assessment of whether there is genuine *stress* or fully reflect the process by which Income Support benefits assist low-income households. • The 30% benchmark is an arbitrary threshold that does not reflect actual household budgeting realities. It ignores residual income – the amount left after housing costs – which is needed to cover other essential living costs, or, whether or not those living costs are also relatively high or low.
2. Residual income approach	• Recognises the interaction between household income, housing costs and other essential non-housing costs. • Better highlights the affordability challenges facing low-income households after meeting housing costs, with a view to reflect if there is sufficient income remaining to meet non-housing costs. • Can view non-housing residual income of household groups or tenures comparatively by assessing remaining income across income distribution.	• Can be difficult to define a clear threshold for what constitutes “sufficient” residual income. • Can misattribute a household’s general cost-of-living challenges as a cost-of-housing challenge. An increase in heating or food costs, for example, may be unrelated to rent but would require a higher residual income to meet these increased costs. • Determining what constitutes essential non-housing expenditure is inherently subjective. Different households have different needs, and deciding on a standard “basket of goods” (e.g.

[5] AHURI. (2019) *Understanding the 30:40 indicator of housing affordability stress*. [online] Australian Housing and Urban Research Institute. Understanding the 30:40 indicator of housing affordability stress | AHURI.

[6] Bramley G. (2012). *Affordability, Poverty and Housing Need: Triangulating Measures and Standards*. Journal of Housing and the Built Environment, 27, pp.133-151. Available at: https://doi.org/10.1007/s10901-011-9255-4.

Measure	Strengths	Limitations
		food, transport, childcare) can be complex and may not reflect actual spending patterns[7].
3. Subjective measures	• Offers households a platform to provide feedback relating to housing affordability, helping to explain why some households feel their housing is *(un)affordable* despite objective indicators. • Offers insights into satisfaction, stress, and coping strategies, which are not captured by income-based approaches. • Useful for understanding contextual factors such as expectations, or personal budgeting priorities that may affect housing affordability.	• People's perceptions and expectations of what constitutes *affordable* vary over time and depend on factors such as economic conditions, the level of social protection polices, and other social considerations that might not relate to objective housing affordability.

Figure 2 – Measures of housing affordability

These well-established measures of housing affordability – housing expenditure-to-income, the residual income approach, and subjective measures – offer valuable insights into *housing affordability* and the types of households who are most likely to experience financial pressure from housing costs.

Each measure has strengths and limitations that are important to consider when applying to Jersey. Together, this combined approach can: help monitor affordability at population-level across different tenures and income groups; identify households at greater risk of financial pressure; and capture lived experiences behind the data. However, it is important to be mindful of the limitations of each measure, and what they do and do not represent when assessing affordability.

Housing affordability in Jersey

Using data from Statistics Jersey, the review has examined the relevance of expenditure-to-income ratios, the residual income approach and subjective measures in the context of Jersey. It has also explored how these measures can enhance understanding of housing affordability across different housing tenures, with a particular focus on social housing.

Reading the data: measures, definitions and methodology

[7] Scottish Government (2019). *Rent affordability in the affordable housing sector: literature review*. Edinburgh: Scottish Government, Available at: https://www.gov.scot/publications/rent-affordability-affordable-housing-sector-literature-review/.

To support an accurate and meaningful interpretation of the statistics presented in this paper, this section explains how key data points are defined and formatted.

- **Percentages, proportions and ratios** are used throughout, often reflecting the methodology of specific measures such as the housing expenditure-to-income ratio. These formats provide a level of standardisation and enable more meaningful comparisons across different housing tenures and income groups.

- **Absolute pound (£) values**, used in some of the residual income measures, offer a more practical understanding of financial impacts by showing exactly how much money households have before and after housing costs.

Gross and **net income** are applied in different contexts to align with measures such as the housing expenditure-to-income ratio. Gross income is generally used in the first instance, and net income reflects the income a household has remaining to spend on housing and other items after usual payments have been made.

- **Gross income** is the sum of all earned and unearned income, pensions, regular gifts, maintenance payments and benefits.

- **Net income** is gross income minus regular payments such as income tax, social security contributions, pension contributions and regular transfers (such as maintenance payments) to other households.

- **Before housing costs** is net income.

- **After housing costs** is net income minus mortgage interest payments, gross rent, service charges and buildings insurance.

Where statistics show **equivalised households**, income and expenses have been adjusted for household size and composition, allowing fairer comparisons between household types. **Non-equivalised households** shows unadjusted household incomes and resources.

Generally, the use of **equivalised data** is better suited to proportions, percentages and ratios for comparative analysis, and **non-equivalised data** is more appropriate for absolute values to illustrate the real world financial impact. Unless otherwise stated, households in this section are equivalised.

Quintiles divide the population into five equal groups (20% each) ranked by household income. The first quintile represents the lowest 20% of household incomes, the second quintile represents the next 20% of household incomes and so on, up to the fifth, or top, quintile, which represents the highest 20% of household incomes.

Median income represents the middle point in the income distribution, which helps to remove outliers of particularly high- or low-income households that could otherwise skew averages.

No single measure or data format can fully capture the complexity of housing affordability and rental stress. Using multiple approaches provides a more comprehensive and accurate understanding of the data.

Understanding housing affordability through income distribution

Statistics Jersey's *Jersey Household Income Distribution* shows the proportion of households living in different tenures across net income quintiles. These quintiles divide the population into five equal groups based on net income, with Quintile 1 representing the lowest incomes and Quintile 5 the highest. The income quintiles relate to net income[8].

Figures 3 and 4 illustrate the income distribution of households across different tenures – owner-occupied housing (outright, without a mortgage, or with mortgage), qualified rental, non-qualified rental and social housing – before and after housing costs, respectively.

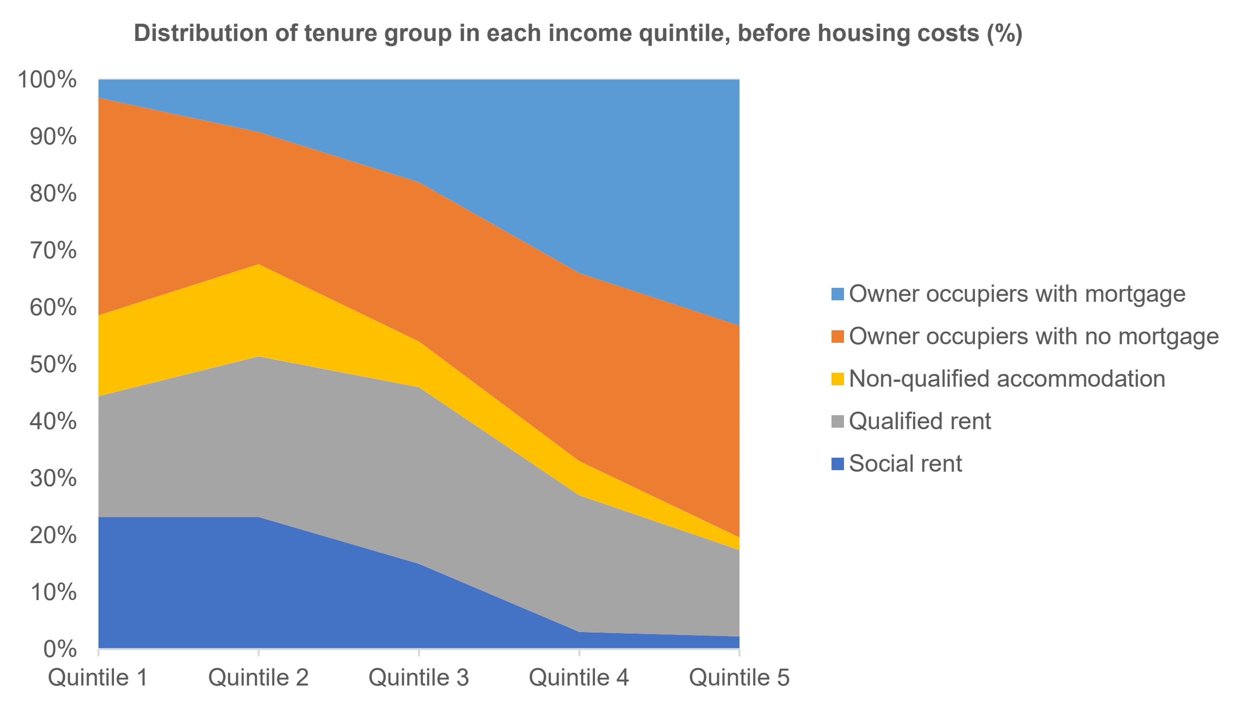

Figure 3 – Distribution of tenure groups in each income quintile, before housing costs

[8] **Net income** is the sum of all gross-earned and unearned income, including pensions, gifts, maintenance payments, and household and individual benefits minus regular expected payments such as income tax, parish rates, social security contributions, pension contributions, and regular transfers.

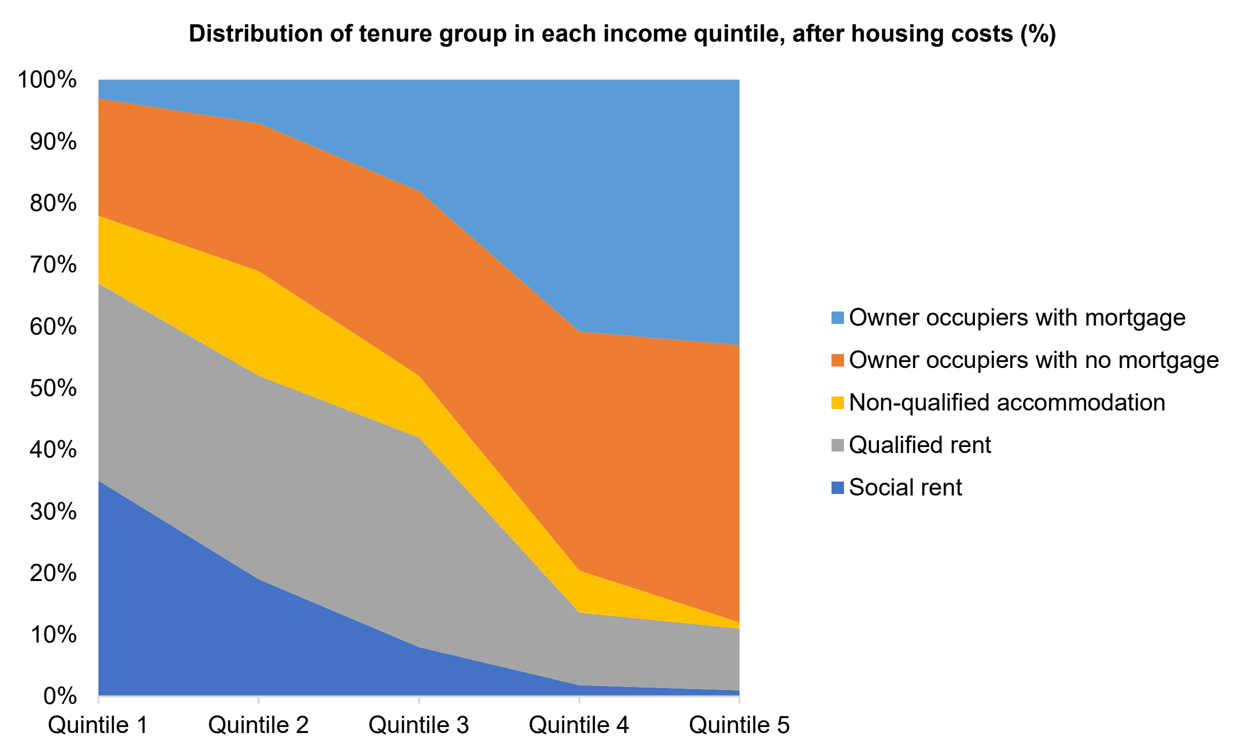

Figure 4 – Distribution of tenure group in each income quintile, after housing costs

Whilst each tenure is represented across all income quintiles, these figures reveal several key patterns:

- Middle-income households (around Quintile 3) are spread across owner-occupied tenures, and qualified and non-qualified rental tenures with little change in distribution before and after housing costs.
- The majority of lower-income households (Quintile 1 and 2) are living in rental tenures.
- Higher-income households (quintiles 4 and 5) are more likely to own their homes with a mortgage. Outright homeowners (without a mortgage) are present across all quintiles.

This distribution becomes more pronounced after accounting for housing costs. For example, before housing costs, rental tenures account for almost 60% of households in Quintile 1, and almost 70% in Quintile 2. After housing costs, the figures rise to nearly 80% in Quintile 1 and over 70% in Quintile 2.

These findings suggest that households in rental tenures, especially those living in social housing, tend to have lower incomes and are more affected by housing costs than owner-occupiers.

Understanding the policy and methodological context

It is important to interpret these statistics within a broader policy and methodological context, as this has implications for how housing affordability measures are understood and applied.

The housing costs for owner-occupiers with a mortgage, for example, reflect only interest payments, not capital repayments. This exclusion is based on the statistical treatment of capital repayments as a household asset accumulation with potential realisation in the future, rather than expenditure. The housing costs of these households can, therefore, underrepresent their actual financial commitments, as a substantial share of income may be directed towards mortgage repayments.

Moreover, net income includes Income Support payments, which assist low-income households with housing and other essential living costs. Income Support policies are considered further in the separate Income Support system paper. Briefly, for eligible households, Income Support payments work differently depending on tenure:

- for private renters, Income Support is capped according to the appropriate size of a property based on the needs of the household, and
- for social housing tenants, Income Support typically covers up to the full rent of a property.

For eligible social housing tenants, higher rents result in higher Income Support payments, increasing household income. This can make it appear that a relatively large share of household income is spent on housing costs, even though rent is fully recognised by Income Support, thus potentially overstating financial pressure. It also suggests that social housing and Income Support policies are fulfilling their intended purpose by providing below-market, discounted rents for low-income households.

In contrast, private renters, who are spread across multiple income quintiles, may experience greater financial pressure. Many earn too much to qualify for either social housing or Income Support yet are unable to set aside enough savings for a deposit or afford the mortgage payments required for home ownership. Consequently, rent payments may absorb a disproportionate share of household income, with limited access to financial assistance.

These issues demonstrate that whilst statistical measures are useful indicators of housing affordability, they are not definitive. Each measure needs to be interpreted alongside broader policies and eligibility criteria that affect household income and expenditure, and how housing and non-housing costs interact in practice.

Housing expenditure-to-income ratios

Building on the income distribution analysis, *expenditure-to-income ratios* offer a further insight into housing affordability in Jersey. By examining the proportion of income spent on housing costs across different housing tenures and income groups, the measures can help to identify households who are likely to be more vulnerable to financial pressure as a result of housing costs.

The *Jersey Household Income Distribution* applies housing expenditure-to-income ratios to assess affordability across different tenures. **Figure 5** presents the proportion of the equivalised gross household income spent on housing by tenure for the periods 2009–2010, 2014–2015 and 2021–2022.

As these reporting periods reflect different contexts, ranging from the recovery phase post the 2008 global financial crisis to the immediate period following the COVID pandemic, analysis should be undertaken with consideration of the broader economic and social factors, changes in spending patterns as well as policy interventions over time, that can be reflected in the data from one reporting period to the next.

Overall, however, these show that:

- Households living in social housing spent the highest proportion of their income on housing, over 35% of income during the periods 2014-2015 and 2021-2022.

- Households living in qualified and non-qualified private rental accommodation have seen their proportions spent on housing increase over time, with those in qualified rent spending just over 30% of their income on housing during the period 2021-2022.

- Homeowners with mortgages[9] have seen a decline in the share of income spent on housing over time[10].

- Owner-occupiers without mortgages continue to spend a consistently low proportion of their income on housing costs.

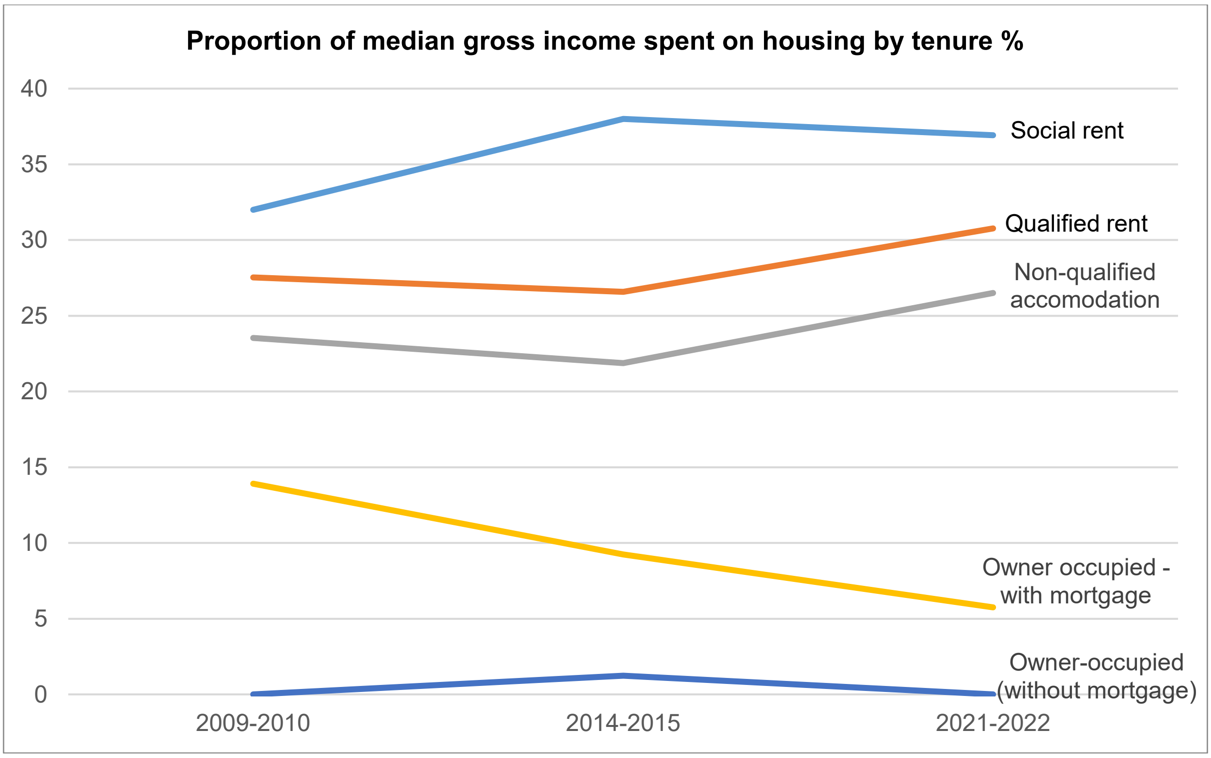

Figure 5 – Proportion of gross income spent on housing by tenure (%)

Using the *30% rent-to-income* benchmark, social housing tenants exceeded the threshold by more than 5 percentage points in 2014-2015 and 2021-2022, indicating that these households may be experiencing rental stress. For those living in qualified private rental accommodation, rent levels in 2021-2022 were just above the 30% threshold, and for those living in non-qualified rented accommodation experienced an increase but remained below the threshold.

Whilst the 30% benchmark is a widely used measure, it can be misleading if interpreted in isolation, as it does not account for differences in household income levels, nor the actual amount of income remaining after housing costs.

[9] *Owner-occupied with mortgage* **does not include** capital repayments on their property. Statistically, this is considered to be repaying an asset rather than meeting housing costs, and the housing costs associated with this category reflect the **interest repayments on the mortgage**.

[10] Since 2021-2022 there has been an increase in the Bank of England Base rate with the assumption that over time this will feed into higher costs of servicing a mortgage for the owner-occupied with mortgage group. For further information see Statistics Jersey House, *Price Index: Q4 2024,* Figure 20 https://www.gov.je/SiteCollectionDocuments/Government%20and%20administration/House%20Price%20Index%20Q4%202024.pdf

For example, two households may both spend 30% of their income on rent, but the household with a higher income will have more money left to meet other essential living costs. In contrast, a low-income household may experience considerable financial pressure despite spending the same proportion of its income on rent.

Accordingly, the *30:40 indicator* provides a more targeted measure to assess housing affordability amongst lower-income households. **Table 1** shows the percentage of households in each rental tenure – social rented, private rental and non-qualified rental – in the lowest 40% of the income distribution who spend more than 30% of gross income on rent. The *30:40 indicator* regards these households as being in *rental stress*.

Year	Social Rental	Private Rental	Non-qualified Rental
2009-2010	60%	43%	61%
2014-2015	79%	82%	70%
2021-2022	71%	82%	44%

Table 1 – Percentage of lower income households who spend more than 30% of their gross income on housing costs[11]

The *30:40 indicator* suggests that a substantial proportion of lower-income households in Jersey, particularly those living in private rental accommodation, may be experiencing *rental stress*, with key findings under the application of this measure indicating that:

- Households living in social housing who experience *rental stress* increased from 60% in 2009-2010 to 79% in 2014–2015, then slightly declining to 71% in 2021–2022.

- Households living in private rental accommodation show high levels of *rental stress*, increasing from 43% to 82% between 2009-2010 and 2014-2015, and remaining at 82% in 2021-2022.

- Households living in non-qualified rental accommodation saw a drop in *rental stress* from 61% in 2009-2010 to 44% in 2021-2022, after peaking at 70% in 2014-2015.

A key consideration when interpreting expenditure-to-income ratios and the 30:40 indicator is that both measures are based on *gross income*. Gross income includes all earned and unearned income, pensions, regular gifts, maintenance payments and, crucially, benefits, such as those provided through Income Support.

For households receiving Income Support, a portion of these benefits is specifically intended to help meet rental costs:

- for social housing tenants, Income Support recognises the full rent;
- for private renters, Income Support covers up to a capped amount.

The purpose of this assistance through Income Support is to help with housing affordability for low-income households and alleviate any financial pressure they may experience.

Whilst a household may appear to spend a high proportion of its gross income on rent, this does not necessarily indicate *rental stress* if the rent is fully or partially recognised by Income

[11] **Table 1** data is sourced from *Statistics Jersey*. (n.d.) *Housing affordability*. Available at: https://stats.je/statistic/housing-affordability/ (Accessed: 20 January 2026)

Support, and the assistance provided is proportional to the rent charged, especially in social housing where the entire rent is recognised[12].

However, expenditure-to-income ratios and the 30:40 indicator do not distinguish between income sources. They group all income, including Income Support payment, under gross income without accounting, for example, how much benefit is provided to cover housing costs.

As a result, expenditure-to-income ratios and the 30:40 indicator may show that a household is spending a high proportion of its gross income on rent, but they do not distinguish whether that rent is fully or partially covered by Income Support. By grouping all income sources, including Income Support payments, under gross income, these measures may overstate the level of financial pressure experienced by low-income households. As a result, the extent to which Income Support helps alleviate the impacts of rental stress is not fully reflected in these measures.

Accordingly, when considered in this context, the *expenditure-to-income ratios* and the *30:40 indicator* measures are useful for providing a high-level view of how housing costs relate to household incomes, helping to identify potential structural affordability issues in Jersey's housing market. However, they have limitations when examined more closely, particularly in relation to the composition of gross income and the policy impacts of Income Support.

At a more detailed level, housing affordability is more accurately assessed by accounting for the actual level of income, any financial assistance that a household receives towards its rent, and the income that it has remaining to meet other essential living costs.

The residual income approach

Given the limitations of *expenditure-to-income ratio* measures, the *residual income approach* can provide a more informed measure of housing affordability by focusing on the income remaining after housing costs, rather than the proportion of income spent by a household.

This approach offers a more detailed understanding of housing affordability by placing housing costs within the context of overall cost-of-living pressures. A more direct view of household financial situations can be seen through the use of **non-equivalised net income** to present data in **absolute values** rather than percentages or ratios. This helps to illustrate the actual income available to meet other essential living costs after housing costs are paid.

Net income refers to the amount of income a household retains after deductions such as income tax, social security contributions, pension payments, and other regular financial transfers. By accounting for these necessary deductions, net income provides a more accurate basis for evaluating whether a household can afford its housing costs and still meet other essential living costs.

Figures 6 and 7 are based on data from the *Jersey Household Income Distribution*[13]. They illustrate both the non-equivalised median net income spent on housing across different tenures, and the non-equivalised median net income remaining after housing costs by tenure. Together, they illustrate how housing costs affect residual income in different

[12] Income Support policies, and in particular how the housing component and the disregard elements of a household's Income Support eligibility and benefit package affects *housing affordability* and *rental stress* are explored in detail in the *Income Support system* thematic background paper.

[13] These figures have been adjusted for RPI increases over time across the reporting period to provide a real-terms comparison of income and spending between each reporting period. RPI data is available at: https://opendata.gov.je/dataset/rpi-rpi-x-rpi-y-rpi-pensioners-and-rpi-low-income-percentage-changes/resource/0501a918-9e04-4e82-b2f5-87568109660b.

tenures, and how this then effects the ability of households to meet other essential living costs.

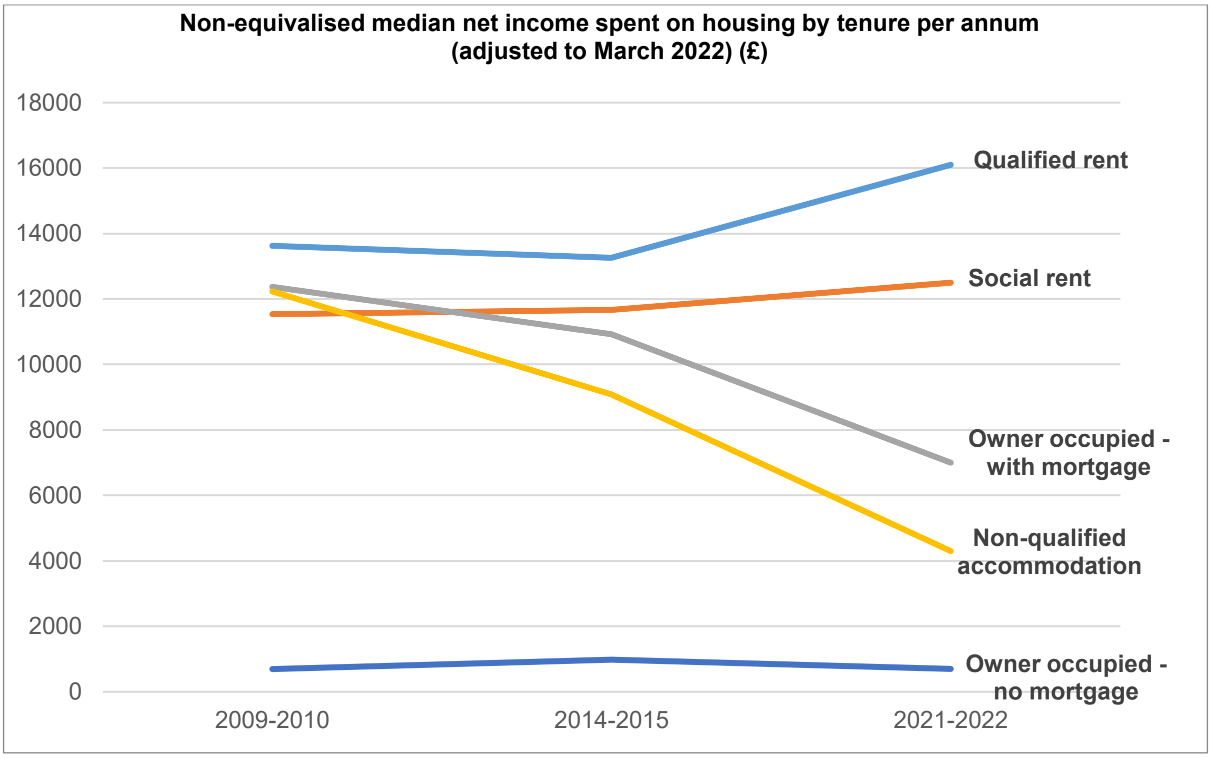

Figure 6 – Non-equivalised median net income spent on housing by tenure (£)

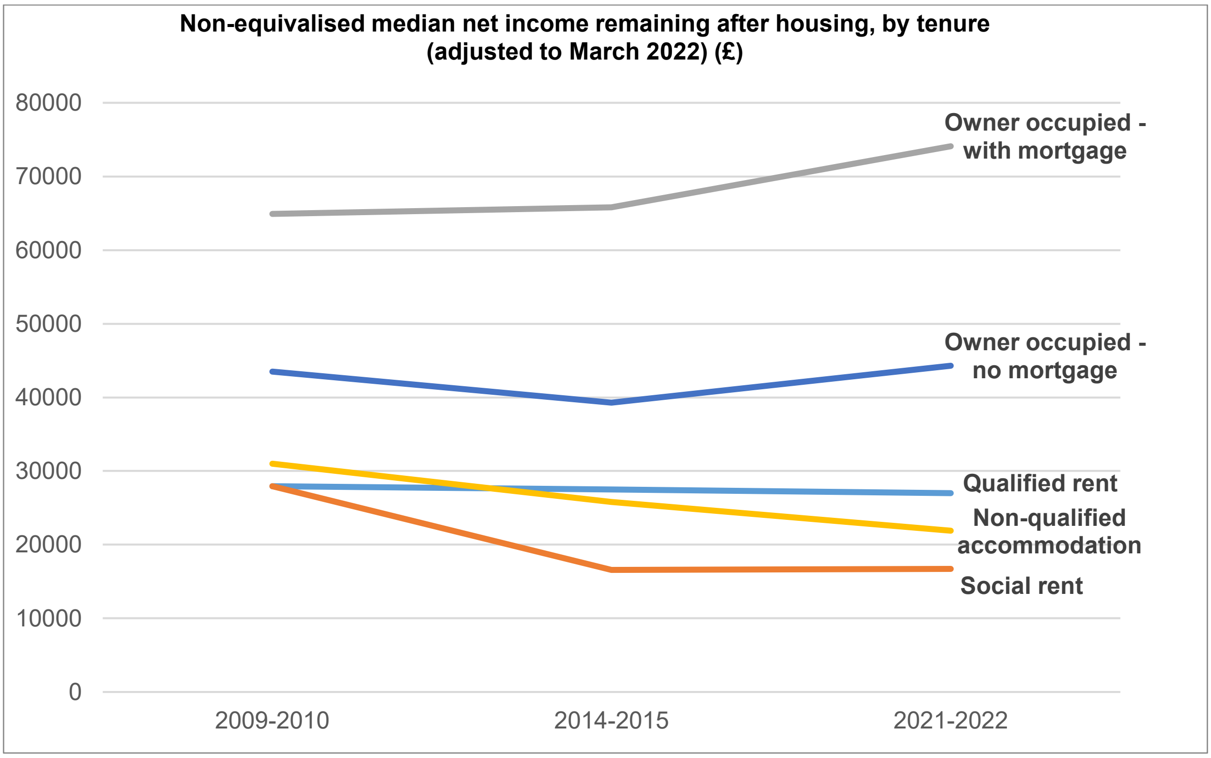

Figure 7 – Non-equivalised median net income remaining after housing by tenure (£)

Whilst bearing in mind the different contexts of these reporting periods, a number of key observations can be drawn from Figures 6 and 7:

- **Qualified rental and social housing**: Households living in these tenures have experienced rising housing costs between 2009 and 2022, principally in the latter half of the period. Despite increases in household income, residual income has remained flat for private renters, and for social housing tenants this declined from 2009-2010 before stabilising from 2014-2015 onwards. This suggests that income gains have largely been absorbed by rising rents, with little noticeable increase in the income available to meet other essential living costs.

- **Non-qualified accommodation**: Although households living in non-qualified accommodation have seen a reduction in the proportion of income they spend on housing costs, their residual income has also declined. This suggests that, despite a reduction in housing costs, non-qualified households have not seen an improvement in their financial position.

- **Owner-occupiers with a mortgage**: These households have seen a decline in housing costs over time, particularly since 2014, due in the main to low interest rates. As a result, their residual income has increased. However, it is important to note that capital repayments on a mortgage are typically made from this remaining income, which may limit the income available to meet other essential living costs.

- **Owner-occupied without a mortgage**: Owner-occupiers without a mortgage have consistently maintained a low and stable proportion of income spent on housing over the course of this reporting period, from 2009-2010 up to 2021-2022. Over the same period, they have experienced a steady increase in their income remaining after housing costs. This suggests that they have benefited from a real-terms improvement in residual income, providing them with greater capacity to meet other essential living costs.

Overall, households living in rented accommodation tend to have lower residual incomes compared to owner-occupiers. This lower residual income after housing costs suggests that these households are more likely to experience financial pressure in meeting other essential living costs, whilst owner-occupiers without a mortgage – largely made-up of pensioners with lower incomes – are less likely to feel financial pressure as a result of housing costs.

Whilst focusing on the amount of money that a household has left after housing costs can provide an indication of financial flexibility, it does not account for the actual cost of other essential needs. These costs can vary significantly depending on household composition, circumstances and need.

A household may appear to have sufficient residual income if benchmarked against a standard set of non-housing costs, but it may experience financial pressure if it is committed to other high unavoidable costs such as transport, utilities or childcare. In such cases, a household's remaining income may not be enough to meet these essential living costs, even if it seems adequate by general affordability benchmarks.

This highlights a limitation within the residual income approach, which often relies on assumptions as to what constitutes *essential* spending and what any '*basket of goods*' should consist of when determining the minimum budget an individual or household needs to enjoy an acceptable minimum standard of living.

Minimum Income Standards

The Government of Jersey's Economics Unit is currently undertaking extensive analysis to determine a Minimum Income Standard.

Minimum Income Standards will define the minimum budget, sometimes referred to as a basic income, that an individual or household requires in order to attain a minimum acceptable standard of living.

Developing these Minimum Income Standards is achieved through commissioned research undertaken by skilled subject matter experts guiding Jersey-based focus groups.

A series of different household 'types' are defined, ranging across different contexts and circumstance. These include working age individuals, lone parents, couples with children, and pensioners.

The Jersey-based focus groups will discuss and agree upon a detailed set of '*basket of goods and services*' that the local community consider as being required in order to provide a minimum acceptable standard of living in Jersey for each household type.

These '*baskets of goods and services*' will then be costed to determine the minimum budget, or basic income, needed by different households to afford these agreed upon set of essentials.

These '*baskets of goods and services*' for each household type will be periodically reviewed in terms of cost and content, reflecting any circumstantial changes to ensure that they remain relevant to both the context of the household and the costs of living in Jersey.

With an expectation that this analysis will be completed over the course of 2026, Minimum Income Standards will be an extremely useful and insightful tool to help inform a range of policy developments and actions, from more accurately estimating a living wage to improved determination of tax thresholds and allowances.

More specifically in terms of defining residual income, these Minimum Income Standards are expected to be able to directly inform the amount of remaining income a range of households require in order to achieve a minimum acceptable standard of living on an ongoing basis.

This detailed work will substantively assist in determining if a household has enough residual income after paying for housing costs.

To provide an overview of a household's financial capacity to maintain an acceptable standard of living, or a social norm once housing costs are covered, it is possible to consider a residual income standard in relation to *relative low income*, which is defined internationally as 60% of the median equivalised income for a jurisdiction[14].

Whilst noting that this measure is not definitive and has a focus on exploring levels of inequality of income across society rather than affordability, this threshold can serve as a general indicator of whether a household has sufficient residual income for its housing to be considered affordable[15]. A household in *relative low income* may experience difficulties in achieving an acceptable standard of living and may struggle to meet basic living costs.

[14] Note: the term *relative low income* as used in the Statistics Jersey *Jersey Household Income Distribution Report* achieves the same criteria as the UK the poverty line threshold which is set at 60% of the median household income. This poverty line threshold, referred to in the literature, is set as the residual income standard.

[15] Scottish Government (2019). *Rent affordability in the affordable housing sector: literature review*. Edinburgh: Scottish Government, Available at: https://www.gov.scot/publications/rent-affordability-affordable-housing-sector-literature-review/.

The *Jersey Household Income Distribution* reports show that households across different tenures experience relative low income[16] both before and after housing costs providing insight into how housing costs influence financial vulnerability.

Figure 8 below shows the proportion of those in each tenure in *relative low income* before housing costs (in orange) compared to the proportion of those not in *relative low income* before housing costs (in green).

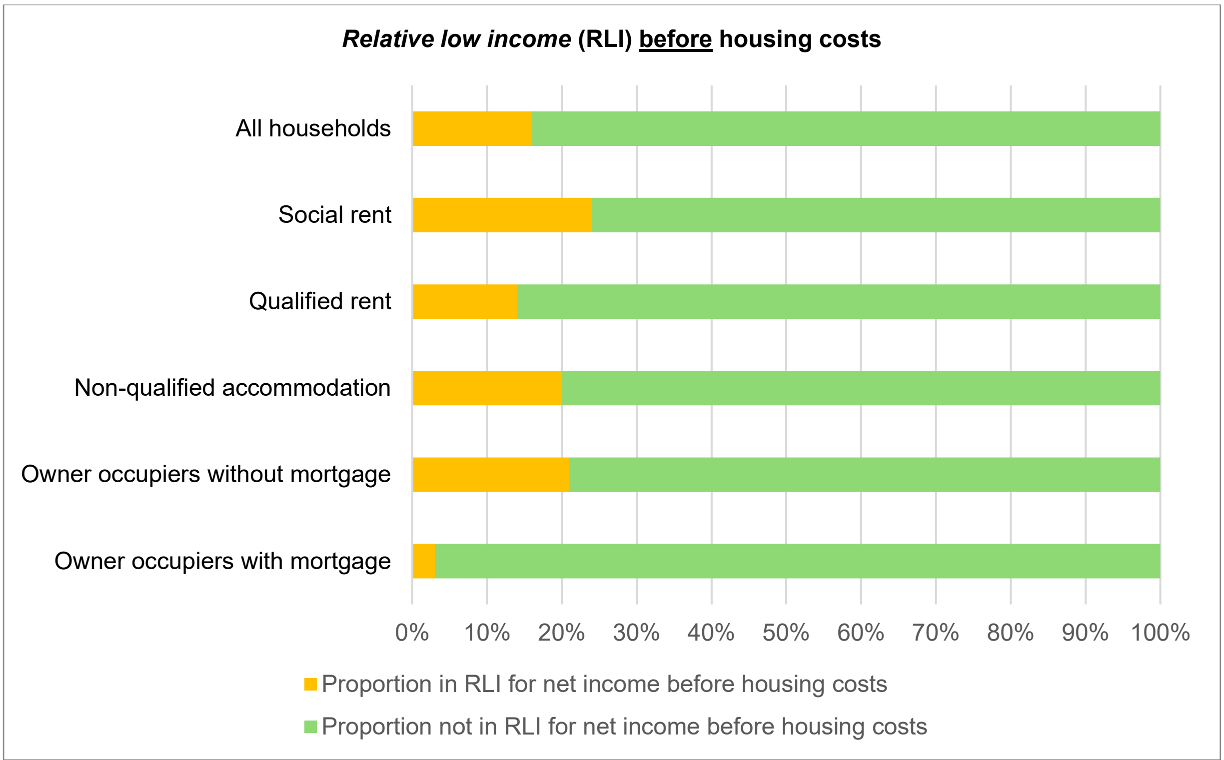

Figure 8 - *relative low income* before housing costs

A proportion of households in each tenure fall into *relative low income* before housing costs, meaning their income is 60% or less than the median equivalised income. This indicates that some households experience *relative low income* even before paying for housing, when compared to the overall median income.

Once housing costs are included, the picture of *relative low income* changes across tenures. **Figure 9** shows that the proportion of households in *relative low income* increases across rented tenures, with the most notable rise amongst social housing tenants. This demonstrates the impact of housing costs on overall financial pressure and highlights how affordability challenges are concentrated in rental sectors.

[16] Source: Statistics Jersey (2023) *Jersey Household Income Distribution Report 2021/2022*. Government of Jersey. Available at: https://www.gov.je/SiteCollectionDocuments/Government%20and%20administration/R%20Income%20Distribution%20Report%202021%2020230630%20SJ.pdf

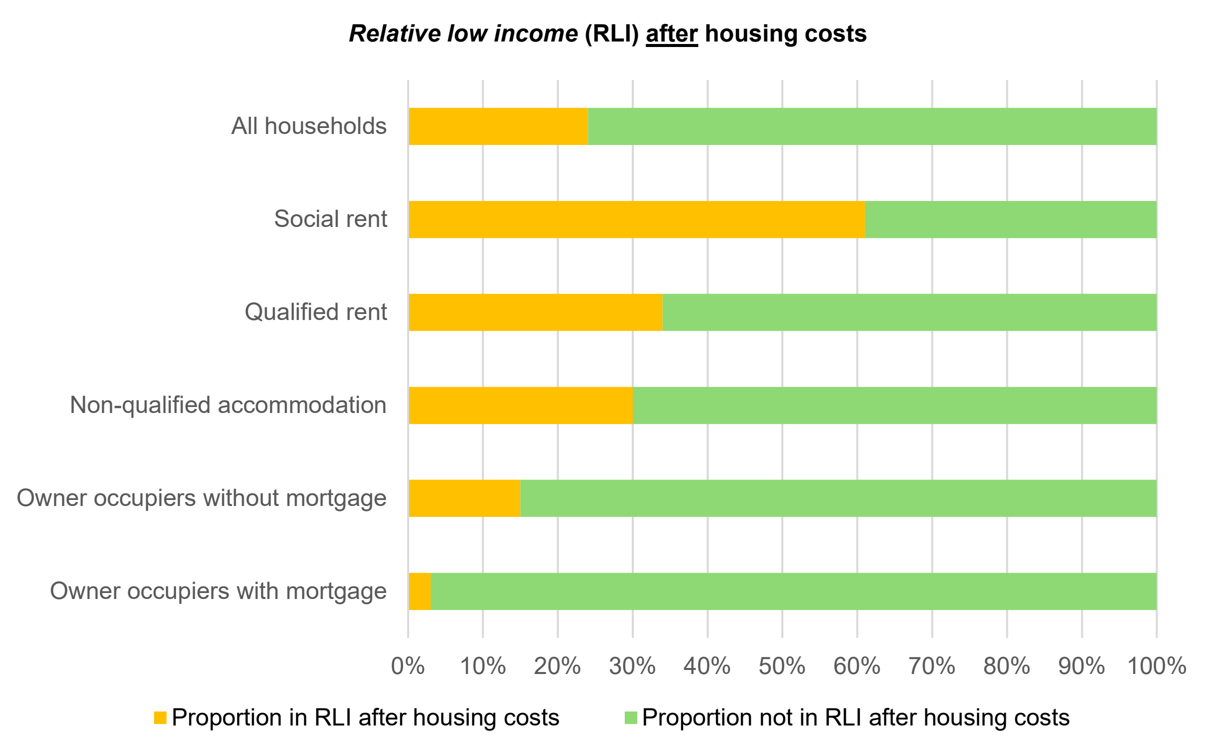

Figure 9 - *relative low income* after housing costs

This indicates that housing costs can significantly reduce a household's disposable income, so much so that, once these costs are accounted for, a greater proportion of households find themselves in relative low income.

However, it is important to consider the wider policy context. Income Support provides assistance for eligible households with a range of costs, including benefits to offset housing affordability challenges and *rental stress*. These payments are incorporated into the *relative low income* figures, just as they are in expenditure-to-income ratios and the 30:40 indicator.

Figure 8 shows that, before housing costs, the proportions of households in *relative low income* are broadly similar across tenures. This suggests that Income Support for low-income families, particularly in rented tenures such as social housing, is effective in reducing the proportion of households in *relative low income*.

Conversely, **Figure 9** illustrates that, after housing costs (and any benefits applied), the proportion of households in *relative low income* increases in rented tenures, most notably amongst social housing tenants. This suggests that whilst social housing tenants receive assistance with housing costs, they remain relatively more exposed to wider cost-of-living pressures and face challenges in achieving an acceptable standard of living compared to other tenures.

Overall, the measures used in the residual income approach provide a more detailed picture of housing affordability. Whilst they may add complexity and make the boundaries of affordability less clear, these measures still work alongside other affordability measures – such as cost-of-living and household expenditure data – to provide a more informed understanding of housing affordability.

Subjective measures of affordability

Clearly, income-based measures offer valuable insights into the financial pressure that households may experience in meeting their housing and other essential living costs. However, it is important to also consider how households perceive and experience their housing costs relative to their broader living costs and everyday circumstances. These can be assessed through *subjective measures*.

Accordingly, the *Jersey Opinions and Lifestyle Survey Report 2024*, published by Statistics Jersey, provides important context by capturing Islanders' views on housing affordability and satisfaction with their housing. Figures 10 to 12 have been drawn from this report[17].

Notably, **Figure 10** shows that over half of households living in social housing reported experiencing a *significant* rent increase in the past three-years. **Figure 11** indicates that a similar proportion of these households find it *difficult* to meet housing costs.

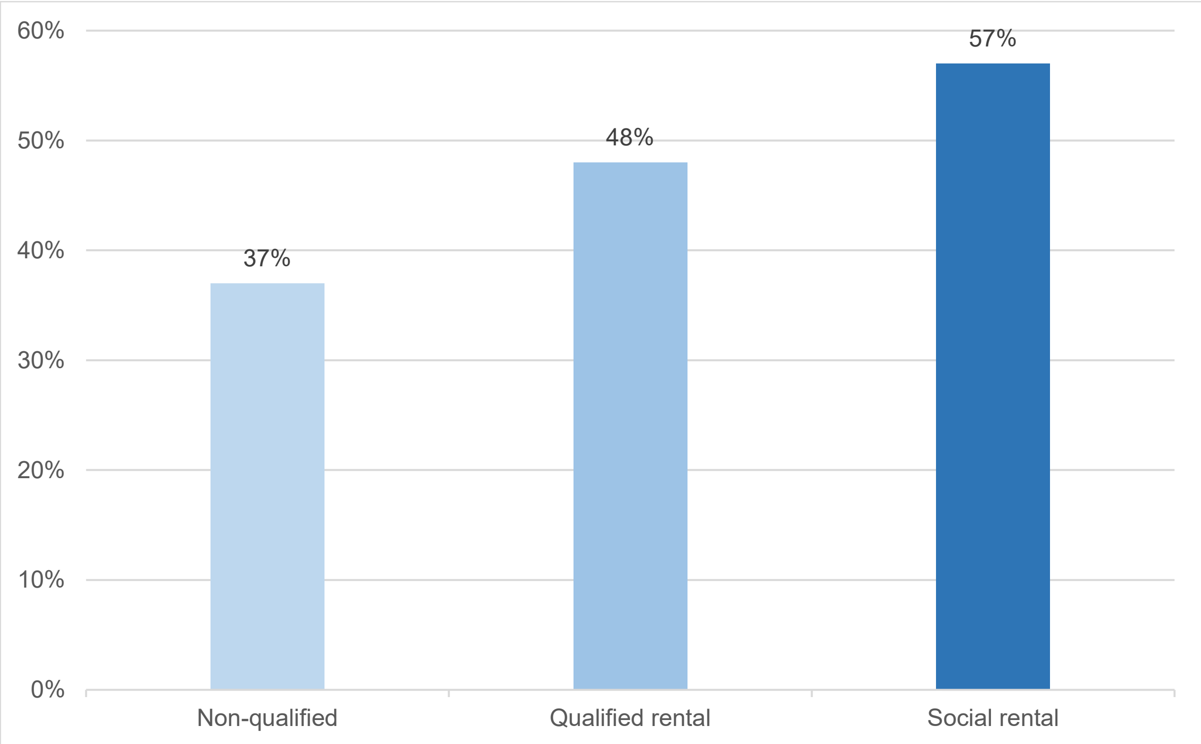

Figure 10 – Proportion of households who rent their property, who have had what they consider a significant rent increase in the last three years, by tenure

[17] Statistics Jersey (2024) *Jersey Opinions and Lifestyle Survey Report 2024*. Government of Jersey. Available at: https://www.gov.je/SiteCollectionDocuments/Government%20and%20administration/Jersey%20Opinions%20and%20Lifestyle%20Survey%20report%202024.pdf

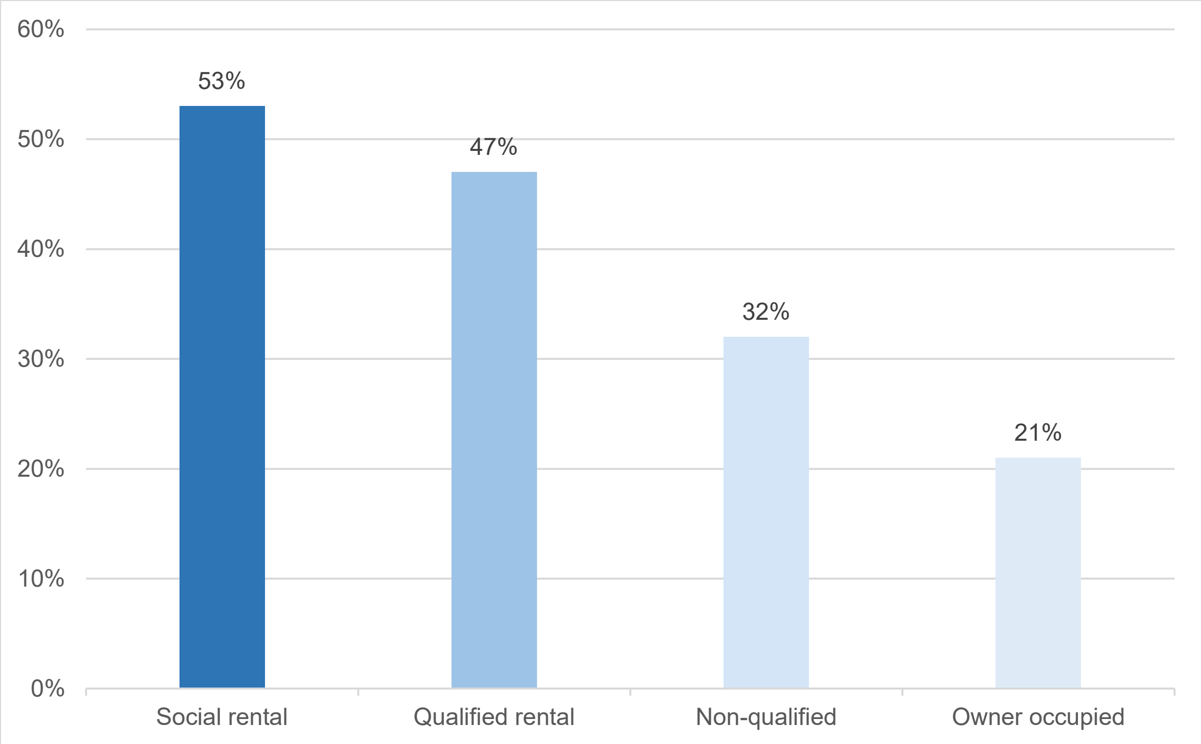

Figure 11 – Proportion of households that found it difficult to meet the cost of their housing, by tenure

Figure 12 further illustrates broader financial pressure, with 59% of households living in social housing reporting difficulty coping financially, the highest amongst all housing tenures.

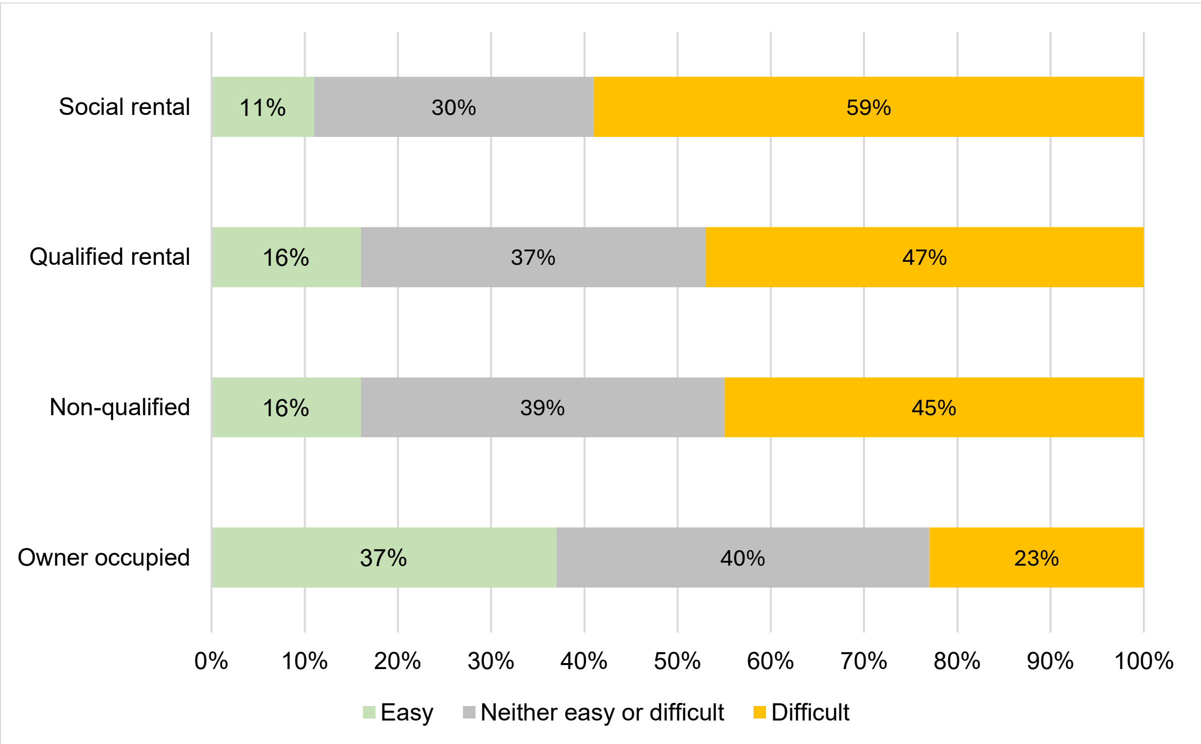

Figure 12 – Proportion of households that find it easy or difficult to cope financially, by tenure

The higher levels of reported rent increases and financial difficulties reported by social housing tenants suggest they experience a more pronounced impact from challenges related to meeting housing costs and broader financial pressures. This aligns with findings from income-based affordability measures, reinforcing the value of subjective measures in helping to understand the multifaceted nature of housing affordability and the contextual factors that may influence it.

As noted in **Figures 3 and 4** above, households living in social housing tend to have lower incomes and so can be tightly managing a household budget with little or no savings. Having less financial resilience to cope with increased costs, it is likely that these households will feel any increased cost burden more acutely.

Whilst it is important to acknowledge the lived experience of financial pressure reported by social housing tenants, it is equally important to distinguish this perception from housing affordability in a technical sense. Many social housing tenants receive Income Support, which recognises up to the full rent, with any rent increases matched by corresponding adjustments in their entitlement. As a result, their residual income – the amount available for non-housing costs – remains stable.

Survey responses may reflect broader cost-of-living concerns, uncertainty about future affordability or a general sense of financial insecurity. However, when considered in relation to residual income, it appears that many social housing tenants are not experiencing financial pressure from housing costs alone.

Conclusion

Jersey's definition of *affordable housing* provides an important framework aimed at policies supporting households unable to access housing suitable for their needs through the open market. By linking affordability with eligibility criteria, it guides the development and delivery of social housing and assisted purchase schemes.

However, the definition does not fully capture the broader concept of *housing affordability*, particularly the relationship between housing costs and a household's ability to meet other essential living costs.

A range of measures offer insights into housing affordability, each with distinct strengths and limitations:

- Expenditure-to-income ratios offer a simple benchmark, but they overlook variations in household needs and the influence of Income Support.

- The residual income approach offers a more detailed view of affordability by assessing the household income remaining after housing costs. However, it depends on assumptions about *essential* living costs, which can vary significantly between households.

- Subjective measures capture lived experiences of housing costs and perceived financial pressure, but these perceptions may be influenced by broader financial concerns, not housing costs alone.

Together, these measures indicate that lower-income households, particularly those living in private rental accommodation and social housing, are more likely to experience financial pressure. However, the extent of this financial pressure is shaped not only by housing costs but also on household incomes and wider cost-of-living challenges.

The evidence suggests that housing affordability should, therefore, be understood as an interaction between household income, housing costs and other essential living costs. This is also influenced by individual circumstances and policy interventions. Income Support, for example, significantly reduces financial pressure for many social housing tenants, but its impact is not generally reflected in standard housing affordability measures.

Therefore, to be relevant for policymaking in Jersey, housing affordability measures must reflect housing market conditions, broader living costs and the effects of policy interventions, including eligibility for social housing, the social housing rents policy and related Income Support policies.