

Housing associations and changes in rent

Foreward

by Clare Miller, Director of Regulation Policy

This is our fourth annual analysis of housing associations' performance in limiting rent increases.

We expect housing associations to limit their annual rent increase to a maximum of the Retail Price Index (RPI) + 1%. For the year to 31 March 2001, that increase was 2.1%.

Associations supply information on rent increases through the Regulatory and Statistical Return. This year for the first time we have collected information for rent increases which exclude new homes built or acquired during the year as well as rent increases for the total stock.

The analysis shows that average rent increases excluding new homes are 2.1%, exactly in line with RPI+1%.

This is a considerable achievement for housing associations given the very low level of general inflation. However, the analysis also shows that a significant number of associations had average increases in excess of the RPI+1% limit. We shall be investigating the reasons for these increases, and taking regulatory action where appropriate.

Key findings

The average change in rent for all housing associations who own or manage more than 250 self-contained units, bedspaces or shared ownership properties in the year ending 31 March 2001 was 2.3% including new additions to stock and 2.1% excluding new additions. The figure including new additions was slightly above the RPI+1% guideline limit of 2.1%, while the figure excluding new additions was exactly in line with the guideline limit.

The analysis shows that overall the results for housing associations were improving and that on average rent increases were less than last year, in both nominal and real terms.

Even so, a higher proportion of housing associations than last year failed to meet the RPI+1% guideline.

On average housing associations with the highest rent levels achieved smaller increases in rent during the past year (see table 2). However, in order to ascertain whether in the long term, housing association rents are converging a more detailed longer term study would be required.

Housing associations with the lowest changes in rent are relatively small and have high proportions of assured lettings. Those with the biggest changes are, in the main, larger and have lower proportions of assured stock and more fair rented stock.

Whether or not a housing association's stock is concentrated in a small number of areas or spread across the country has little bearing on whether its rent increases are high or low.

Large Scale Voluntary Transfer authorities have higher average rent increases (2.9% including new additions to stock and 2.8% excluding new additions) than traditionally funded housing associations (2.2%). This is almost certainly due to the impact of higher rent increases for relets rather than for existing tenants.

Black and Minority Ethnic housing associations had lower average rent increases (1.5% including new additions to stock and 1.5% excluding new additions) than the average for non BME housing associations (2.4%) although their rents are higher.



Introduction

Since 1 April 1998 the Housing Corporation performance standards have required large housing associations (those who own or manage more than 250 self-contained units, bedspaces or shared ownership properties) to limit their aggregate changes in rent (including service charges eligible for housing benefit) on all general needs self contained stock with assured and fair rent tenancies to the Retail Price Index (RPI) +1%, known as the guideline limit.

The relevant RPI figure for determining acceptable changes in rents is that for September 1999. That is the figure that housing associations were expected to use when setting their rents for 2000/01. RPI stood then at 1.1%, so RPI+1% is 2.1%.

Last year's Sector Study (No. 1, October 2000) examined changes in rents over the period 1 April 1999 to 31 March 2000. The relevant RPI+1% was 4.2% for that year. This Sector Study reports on changes in housing association rents between 1 April 2000 and 31 March 2001.

The information on housing association rent levels and changes in rents used in the analysis comes from the Regulatory and Statistical Return (RSR) for 31 March 2001. Rent and service charge levels and changes in rents are collected from housing associations at the national level in Part L of the RSR. Our analysis is based solely on this data. Rents are average weekly net rents plus service charges eligible for housing benefit, taken as at 31 March 2001.

Rent increases cover the period 1 April 2000 to 31 March 2001. This year for the first time there were two questions on rents. The first was the same as in previous years and asked for the percentage increase including new additions to stock. This is the basis for regulation. The analysis in the past has been based on this percentage figure. The second rent increase question, new this year, asked in addition for the percentage increase excluding new additions to stock. This is the starting point for further investigation when housing associations are above the guideline limit. The analysis contained in this Sector Study examines both figures for the first time.

Changes in rents relate to the average change for each housing association. Where the analysis groups housing associations together, as in tables 3 to 7, the average rent is weighted by the relevant housing associations' holdings of assured and fair rent stock. The percentage rent increases in tables 2 to 7 are calculated by averaging the average.

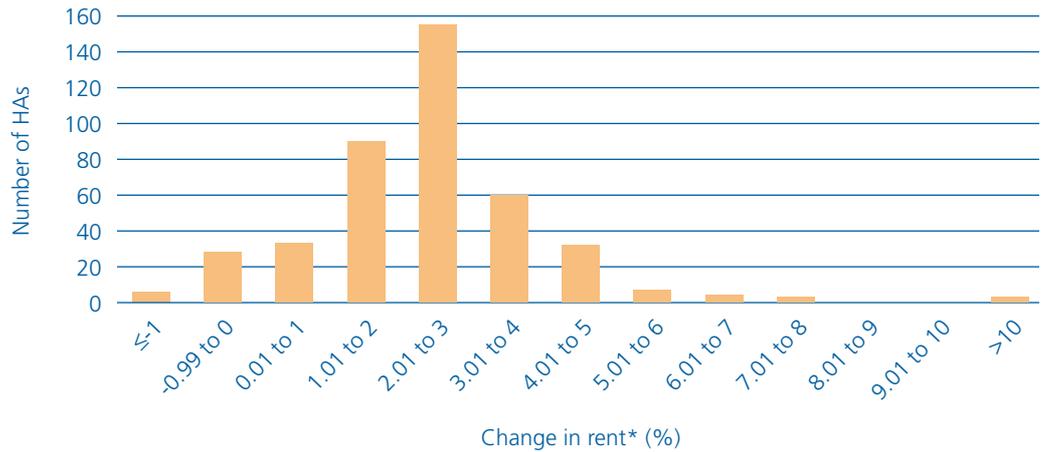
More housing associations filled in the long version of the RSR this year than last, 552 compared to 518. The analysis below is based on 421 of the 552 housing associations (392 last year). Of the 131 housing associations excluded, 56 did not fill in Part L of the RSR because they do not own any stock (parent groups or managing housing associations), 48 had no assured or fair rent stock, but concentrated on supported stock and the figures for 27 were not available at the time of going to press.

Table 1
Housing association
changes in rent*
from April 2000 to
31 March 2001

| Change in rent* (%) | Number of HAs | | Percent (%) | |
|---------------------|------------------------|------------------------|------------------------|------------------------|
| | <i>Incl. new stock</i> | <i>Excl. new stock</i> | <i>Incl. new stock</i> | <i>Excl. new stock</i> |
| ≤0 | 34 | 33 | 8 | 8 |
| 0.01–2.1 | 154 | 184 | 37 | 46 |
| 2.11–3.1 | 134 | 107 | 32 | 27 |
| 3.11–4.1 | 60 | 45 | 14 | 11 |
| 4.11–5.1 | 26 | 21 | 6 | 5 |
| >5.11 | 13 | 9 | 3 | 2 |
| Total | 421 | 399 | 100 | 100 |
| Average | 2.3% | 2.1% | | |
| Median | 2.2% | 2.1% | | |

* includes the average weekly rent and service charge eligible for housing benefit

Figure 1
Changes in rent*
including new stock
from 1 April 2000 to
31 March 2001



* includes the average weekly rent and service charge eligible for housing benefit

The data in Table 1 show that in 2000/01 the average rent increase was 2.3% and median rent increase was 2.2% including new stock. This is slightly above the 2.1% figure. The average rent increase was 0.2% above, while the median rent increase was only 0.1% above it. Both were less than last year's values (average = 3.2% and median = 3.4%). The figures for rent increases excluding new additions to stock were lower and were the same as the RPI+1% figure (2.1%).

Only 45% of housing associations in the analysis including new additions to stock had rent increases of RPI+1% or less. This is a much smaller proportion than last year (75% of housing associations last year). A further 32% of housing associations had

rent increases of between RPI+1% and RPI+2%. Only 18% of the associations achieved rent increases of RPI or below, while 8% either did not change their rents or reduced them in nominal terms.

On the other hand, 55% of associations (233) had rent increases greater than 2.1%, of which 24% had rent increases greater than RPI+2%. Last year only 25% of housing associations (97) had rent increases greater than the guideline limit of 4.2%.

The analysis of rent increases excluding new additions to stock shows a slightly different picture. More housing associations, over half 54%, had rent increases of RPI+1% or less. A further 27%, a much smaller number, had rent increases of between

Figure 2
Changes in rent*
excluding new stock
from 1 April 2000 to
31 March 2001



* includes the average weekly rent and service charge eligible for housing benefit

RPI+1% and RPI+2%. Around the same percentage, only 19% achieved rent increases of RPI or below, while 8% either did not change their rents or reduced them in nominal terms.

Conversely, 46% of associations (182) had rent increases excluding new additions to stock greater than 2.1%, of which 41% had rent increases greater than RPI+2%. Figure 1 shows the distribution of changes in rents including new additions to stock in more detail. In particular it shows that rent increases are concentrated between 2% and 3% and that most of those housing associations exceeding RPI+1% have nominal rent increases below 7%. There are only 6 housing associations with rent increases in excess of 7%. The maximum rent increase was 20.5%. At the other extreme the minimum was –13%.

Figure 2 shows the distribution of changes in rents excluding new additions to stock. Again it shows the concentration of rent increases between 2% and 3%. This time there are only 3 housing associations with rent increases in excess of 7%. The maximum rent increase was less at 11.2% while the minimum was –7.2%.

Rent levels and changes in rent

One important question about changes in rents is whether rents appear to be converging, which would tend to occur if housing associations with higher rents have lower increases than those with low rents.

Last year, the evidence suggested they were converging. This year, although the relationship between the level of average rents and the extent of changes in rents is

not strong (table 2), those housing associations with the highest average rents did have smaller rent increases. Housing associations with average rents in excess of £70 per week had average rent increases of between 2.1% and 2.0% respectively, which were equal to or below the overall average. What is clear is that those with rents close to the average also have 'average' rent increases.

Where the stock with service charges eligible for housing benefit was less than the total stock for assured and/or fair rent tenancies, the service charges were spread over the total stock figure by multiplying the average service charge by the number of dwellings with service charges and dividing by the total number of dwellings. Service charges not eligible for housing benefit are excluded from the analysis, together with all tenancies that are not on assured or fair rents, such as supported housing, assured shortholds and market rent tenancies.

Below we examine a number of characteristics including stock size, geographical diversity, and proportion of fair rented stock held. We also look at transfer authorities and the position of black and minority ethnic housing associations, which are thought to have difficulty in limiting rent increases, given their financial vulnerability to losses of rental income.

Housing association size and changes in rents

There appears to be a relationship between the size of a housing association and rent increases. However, it is not as straightforward as one would expect. The

Table 2
Relationship between average assured and fair rent levels and changes in rent*

| Average rent* (£/week) | Number of HAs | Rent* increase (%) | |
|------------------------|---------------|--------------------|-----------------|
| | | Incl. new stock | Excl. new stock |
| <40 | 7 | 1.9 | 2.2 |
| 40–49 | 65 | 2.9 | 2.4 |
| 50–59 | 156 | 2.3 | 2.2 |
| 60–69 | 121 | 2.3 | 2.0 |
| 70–79 | 52 | 2.1 | 2.1 |
| ≥80 | 20 | 2.1 | 2.0 |

* includes the average weekly rent and service charge eligible for housing benefit

Table 3**Average rent levels and changes in rent by size of housing association**

| | No. of HAs | Assured | | | | | Fair | Assured & fair | | Rent inc. | |
|-----------------------------|------------|---------|--------|--------|--------|--------|--------|----------------|--------|--------------|---------------|
| | | Bedsit | 1 bed | 2 bed | 3 bed | 4+bed | All | All | All | <i>i.n.s</i> | <i>e.n.s.</i> |
| Small (<1,000 units) | 167 | £56.02 | £60.67 | £62.95 | £69.47 | £83.43 | £64.27 | £55.70 | £62.80 | 2.3% | 2.0% |
| Medium (1,000–4,999 units) | 185 | £52.87 | £54.93 | £57.26 | £62.16 | £73.45 | £58.29 | £53.48 | £57.55 | 2.4% | 2.3% |
| Large (5,000–9,999 units) | 51 | £49.54 | £53.00 | £55.93 | £60.29 | £73.13 | £56.63 | £56.04 | £56.55 | 2.1% | 2.1% |
| Very large (>10,000+ units) | 18 | £53.35 | £54.44 | £56.57 | £62.66 | £72.40 | £57.54 | £54.27 | £56.90 | 2.5% | 2.3% |
| All | 421 | £52.52 | £54.58 | £56.94 | £61.93 | £74.24 | £57.90 | £54.49 | £57.36 | 2.3% | 2.1% |

* includes the average weekly rent and service charge eligible for housing benefit.

Housing association size is calculated on assured and fair rent stock only

smallest associations (those with between 250 and 1,000 units) had an average rent increase of 2.3% including new additions, the same as the overall average, but this was not the smallest increase in rents. In fact, the large associations had smaller average changes in rents at 2.1% and this was also below the average.

Medium and very large associations had rent increases, on average, of 2.4% and 2.5% respectively including new stock. The picture was similar for rent increases excluding new additions to stock.

The smallest housing associations had higher rent levels than associations with more than 1,000 units. This ties in with the observation that those housing associations with the highest average rents had the lowest average rent increases of all. There appears to be a relationship between small housing associations, which have both high average rent levels and low rent increases.

Geographical diversity and changes in rent

There is no clear relationship between the geographical diversity of a housing association, in terms of the number of local authority districts in which it operates, and changes in rents (table 4).

The average rent increases were similar for all the housing association groups. The average rent increases for the housing association group with the least geographical diversity was the same as that for the most diverse when new additions to stock were included and almost the same when new additions were excluded. The lowest average rent increase was found in one of the least diverse groups. Rent increases were the lowest where housing associations were operating in 20 to 50 districts. The evidence last year also showed there to be no clear relationship between rent increases and geographical diversity.

Table 4**Average rent* levels and changes in rent by housing associations' geographical diversity**

| Number of districts in which HA operates | No. of HAs | Assured rent | Fair rent | Assured & fair rent | Rent increase | |
|--|------------|--------------|-----------|---------------------|------------------------|------------------------|
| | | | | | <i>incl. new stock</i> | <i>excl. new stock</i> |
| <5 | 209 | £53.92 | £50.16 | £53.59 | 2.4% | 2.3% |
| 5–19 | 155 | £59.44 | £54.79 | £58.53 | 2.3% | 2.1% |
| 20–49 | 40 | £60.87 | £55.70 | £59.80 | 2.1% | 1.9% |
| 50–75 | 6 | £66.44 | £63.39 | £65.93 | 2.3% | 2.2% |
| >75 | 11 | £59.91 | £54.97 | £58.94 | 2.4% | 2.4% |

* includes the average weekly rent and service charge eligible for housing benefit

Assured versus fair rent tenancies and changes in rent

Changes in rent appear to be related to the ratio of assured to fair rent tenancies in the housing association's stock (table 5). The housing associations with the highest proportion of assured tenancies (>89%) and the lowest proportion of fair rent tenancies (<11%) had the second lowest average rent increase (2.0% including new additions to stock and 1.8% excluding new additions to stock).

The highest average rent increases (4.2% including new additions to stock and 2.9% excluding new additions to stock) belong to the group of housing associations with the lowest proportion of assured tenancies (<50%) and the highest proportion of fair rent tenancies (>50%). This highlights the problem for housing associations in managing their rent increases where there are high proportions of fair rent tenancies which are being replaced with assured tenancies as tenants leave. An increase in the number of transfers from fair to assured may significantly affect the overall average rent rise, particularly where the rent differential between fair and assured is large.

Large scale voluntary transfers and changes in rent

91 LSVT (Large Scale Voluntary Transfer) housing associations were included in the analysis this year compared to 70 last year.

LSVTs have lower average rent levels than non LSVT housing associations, but have slightly higher rent increases (2.9% and 2.8%) than both non LSVT housing associations (table 6) and the overall average (table 1). This is almost certainly due to housing associations increasing rents on units being let to tenants at higher rents, in line with business planning assumptions at the time of transfer. The rise is however much less than the LSVT average rent increase last year, which was 4.4%.

Black and Minority Ethnic housing associations and changes in rent

Black and Minority Ethnic (BME) housing association average rent levels are significantly higher than other housing associations, with the exception of fair rents, reflecting their higher proportions of post 1988 development and their dependence on private finance. In 2000/01 however, BME housing associations on average had lower rent increases than non BME housing associations, at 1.5% compared to 2.4% (table 7). BME housing association rent increases were much lower than RPI+1%.

Table 5

| Average rent* levels and changes in rent* by proportion of assured and fair rent stock amongst non-LSVT housing associations | Proportion of assured | Proportion of fair | No. of HAs | Assured rent | Fair rent | Assured & fair rent | Rent increase | |
|--|-----------------------|--------------------|------------|--------------|-----------|---------------------|-----------------|-----------------|
| | | | | | | | Incl. new stock | Excl. new stock |
| <50% | >50% | 11 | £61.75 | £55.42 | £58.13 | 4.2% | 2.9% | |
| 50–59% | 50–41% | 19 | £66.37 | £59.96 | £63.43 | 2.5% | 2.5% | |
| 60–69% | 40–31% | 30 | £58.20 | £54.09 | £56.81 | 2.0% | 1.4% | |
| 70–79% | 30–21% | 71 | £61.46 | £55.23 | £59.97 | 2.3% | 2.1% | |
| 80–89% | 20–11% | 99 | £59.98 | £54.84 | £59.16 | 2.1% | 2.1% | |
| >89% | <11% | 100 | £61.77 | £53.63 | £61.47 | 2.0% | 1.8% | |
| | | 330 | | | | | | |

* includes the average weekly rent and service charge eligible for housing benefit

| Average rent* levels and changes in rent* by LSVTs and non-LSVTs | HA type (number) | Assured rent | Fair rent | Assured & fair rent | Rent increase | |
|--|------------------|--------------|-----------|---------------------|------------------------|------------------------|
| | | | | | <i>incl. new stock</i> | <i>excl. new stock</i> |
| | LSVTs (91) | £53.82 | £48.08 | £53.48 | 2.9% | 2.8% |
| | Non-LSVTs (330) | £60.69 | £55.49 | £59.57 | 2.2% | 2.0% |

* includes the average weekly rent and service charge eligible for housing benefit

| Average rent* levels and changes in rent* by BME housing associations and non-BME housing associations | HA type (number) | Assured rent | Fair rent | Assured & fair rent | Rent increase | |
|--|-------------------|--------------|-----------|---------------------|------------------------|------------------------|
| | | | | | <i>incl. new stock</i> | <i>excl. new stock</i> |
| | BME HAs (32) | £73.22 | £69.97 | £72.81 | 1.5% | 1.5% |
| | Non-BME HAs (389) | £57.72 | £54.48 | £57.20 | 2.4% | 2.2% |

* includes the average weekly rent and service charge eligible for housing benefit

Conclusions

Changes in rent amongst housing associations are, on average, lower than last year, both because of lower inflation and because real rents have been held down.

Around a half of housing associations (45% including new stock and 54% excluding new stock) are apparently meeting the Corporation's guideline limit this year, although the relevant RPI was 2.1% lower than last year.

However, a significant number of housing associations (233 or 55% including new additions to stock and 182 or 46% excluding new additions to stock) have average rent increases in excess of RPI+1%. These held 34% of the assured and fair rent stock. Reasons why a housing association's average rent increase exceeds 2.1% include:

- transfers from fair rent to assured tenancies;
- investment in new development or existing units, which require higher rents to pay for them,
- existing financial obligations, including the need to service outstanding loan debt;
- the low level of general inflation and association costs rising at a faster rate than RPI.

The analysis in this Sector Study confirms the findings from last year that the lowest rent increases are associated, on average, with housing associations that are small, and have larger proportions of assured tenancies and high rent levels. The BME housing associations are a classic sub group demonstrating these attributes. On the other hand, those housing associations with high rent increases are typically large with both low proportions of assured tenancies and low average rents, many of which are LSVTs.

Overall, the figures suggest that housing associations are working hard to reduce the overall rates of increase.

Sector Study 6

This Sector Study was written by Jane Kinsey and Daniel Banks, Dataspring, Cambridge Housing and Planning Research, University of Cambridge. Cambridge Dataspring maintain a local housing markets database and data analysis service on behalf of the Housing Corporation.

Further information on the Housing Corporation's Sector Studies series can be obtained from Siobhan McHugh, Sector Analyst, Regulation Division, on 020 7393 2024 or e-mail siobhan.mchugh@housingcorp.gsx.gov.uk