

# Comparison of registered social landlord rents with owner occupier costs, 1998/99 to 2006/07

A Dataspring Briefing Paper on  
behalf of the Tenant Services Authority

# **Comparison of registered social landlord rents with owner occupier costs, 1998/99 to 2006/07**

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Tenant Services Authority

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<sup>1</sup> This report is based on Udagawa (2008) *Detailed Studies of the Comparison of Registered Social Landlord Rents with Owner Occupier Costs, 1998/99 to 2006/07* which can be accessed as a source document through the Dataspring's website.

## Summary

### Introduction

This paper examines, at different spatial levels, owner occupation (OO) costs of lower quartile (LQ) priced properties compared to the rent levels charged by registered social landlords (RSL) over the period of 1998/99 to 2006/07. It also examines changes to OO costs and RSL rents in four metropolitan areas, London, Birmingham, Manchester and Newcastle.

### Methodology

OO costs consist of the loan repayment cost; the mortgage payment protection insurance and building insurance premium, and the imputed loss of interest on the deposit for properties in the LQ price band. Because LQ house price data, which come from the Land Registry, are not available by property size, OO costs are for all dwelling sizes combined. RSL rents are weekly average net rents (i.e., exclude service charges) of assured and secure tenancies combined general needs, self-contained properties only. The rent data come from the Housing Corporation's Regulatory and Statistical Return and are of the rent levels as at March 31 each year.

### Key findings

#### *OO costs across England*

- The OO cost for England was £201.06 per week in 2006/07, a rise of 123.0% from 1998/99, or an annual average growth rate of 10.5%. In real terms, the change was 83.2%, or 7.9% annually.
- The rate of increase in OO costs was particular high in 2004/05, rising by 31.0% (27.1% in real terms) over the previous year.
- In 2006/07, London had the highest OO cost (£305.44 per week), and the North East had the lowest (£138.89), a difference of £166.55.
- The highest growth region of OO costs was the South West with 139.1%, or 11.5% annually (or in real terms, 96.4% or 8.8%, respectively). The West Midlands had the lowest growth of 118.3% or 10.3% per annum (in real terms, 79.4% or 7.6%, respectively).
- In the first half of the nine-year period, regions in the South of England experienced the fastest growth. In the second half, this reversed with the fastest growing regions in the North.
- In 2006/07, the median of OO costs across all local authority (LA) areas was £222.16 per week. It grew by 135.5% or 11.3% per annum (in real terms, 93.5% or 8.6%, respectively).
- Ranges of OO costs widened for all years from £242.12 per week in 1998/99 to £496.48 in 2006/07.
- Almost all LA areas in London (90.6%) and nearly half of LA areas in the South East (49.3%) were in the upper quartile of OO costs. In contrast, the great majority of LA areas in the North East (87.0%) were in the lower quartile group.
- Over the past nine years, more than half of LA areas in the South West (54.5%) had growth rates in the upper quartile. In contrast, the South East (55.2%) had more than half of its LA areas with growth rates in the lower quartile.

- In 2006/07, the average OO costs were £224.25 per week for urban LA areas and £226.65 for rural LA areas. The average urban OO cost rose by 122.5% from 1998/99 (in real terms, 82.8%) while the rural equivalents increased by 125.4% (in real terms, 85.2%). In the first half of the nine-year period, the urban average OO costs outperformed rural equivalents, but from 2003/04, OO costs for rural LA areas were higher than those for urban LA areas.

#### ***Differentials between OO costs and RSL rents***

- In 2006/07, the differential between OO costs and RSL rents for all property sizes was £134.20 per week, close to the differential for properties with one to three bedrooms at £134.83. The differential increased consistently throughout the period except for slight declines in 1999/00 and 2001/02.
- In 2006/07, London had the widest differential of £223.29 per week. The narrowest differential was seen in the North East of £82.91.
- The differential between 1998/99 and 2006/07 grew most in the North East at 335.2%, or an annual average of 20.2%. The lowest growth rate was in London at 203.2%, or annually 14.9%.
- The majority of all LA areas had differentials in the range from 175% to 300%. The median of differentials was larger for rural LA areas (£158.98 per week) than that for urban LA areas (£144.36). The distribution of urban differentials was wider than that for rural areas.

#### ***OO costs and their comparisons with RSL rents for the four metropolitan areas***

- Between 1998/99 and 2006/07, London's OO costs were always the highest. OO costs for the other three cities, Birmingham, Manchester and Newcastle, were below national averages but increased throughout the period, except for a slight dip in 1999/00. OO costs for Manchester declined each of the three years to 2001/02.
- In 2006/07, differentials between OO costs and RSL rents for London (271.8%) and Newcastle (226.1%) exceeded the national level, whereas those of Manchester (172.2%) and Birmingham (167.4%) were below.

## **Conclusion**

OO costs increased rapidly from 1998/99 to 2006/07 causing differentials between OO costs and RSL rents to grow. By 2006/07, OO costs were more than double RSL rents in all regions. There was a north-south divide in differentials between OO costs and RSL rents. Differentials for London, the South East, the South West and the East grew over the period and were always above the national averages. Those in the North East, the North West, and Yorkshire & the Humber narrowed and were always below the national averages. Differentials across urban LA areas have also grown in recent years. This increasing gap may reduce the incentive for RSL tenants to choose owner occupation over social renting. However, there were some LA areas in the north of England, such as Newcastle, where differentials have narrowed to such an extent that access to owner-occupation market is now more affordable for social renters.

## 1. Introduction

The costs of owner occupation at the lower end of the housing market provide useful information for registered social landlords (RSLs) about their tenants' or prospective tenants' capacity to either own housing assets or stay in the social rented sector. This paper aims to examine the relationship between owner occupation (OO) costs of properties with lower quartile (LQ) house prices and RSL rents. The analysis of the changes in differences between OO costs and RSL rents between 1998/99 and 2006/07 will give an indication of the extent of in-and-out flows of RSL tenants, which are directly related to the provision of social rental properties.

The paper will first describe the recent developments of OO costs at lower priced property markets and then compare OO costs with RSL rents in order to examine the relationship in term of housing expenditures between the two tenure types at different spatial levels. It then concentrates on the changes of OO costs and RSL rents in four metropolitan areas, London, Birmingham, Manchester and Newcastle.

## 2. Owner occupation (OO) costs across England

OO costs used in this paper are weekly outgoings of owning properties at the lower end of the housing market (i.e. LQ house prices).<sup>2</sup> They consist of the following three components:

- i. Cost of loan repayment;
- ii. Insurance (mortgage payment protection insurance and building insurance premium); and
- iii. Imputed cost (loss of interest on the deposit)<sup>3</sup>

LQ house price data, which come from the Land Registry, are not available by property size;<sup>4</sup> OO costs presented here are therefore for all dwelling sizes combined. The details of how OO costs are calculated can be found in the *Dataspring, Guide to Local Rent 2007 Data Part II: Social Sector Landlords*.<sup>5</sup>

### 2.1 At the national level

Table 2.1 shows OO weekly costs for England in nominal and real terms, in which real values are calculated by the deflators based on the Retail Price Index (September 1998).<sup>6</sup>

<sup>2</sup> Properties of LQ house prices exclude those sold under Right to Buy.

<sup>3</sup> The average size of the deposit used in the calculation of the imputed cost is 10% (derived from the average percentage advance of 90%). If the money used as the deposit for house purchase had been lodged in a savings account instead, then it would have accrued interest. The loss of interest is thus included as a cost in the calculation. The rate of interest used (4.17%) is the unweighted four-quarter average of the building society's gross savings rate. It is assumed that interest is paid net of the basic rate of income tax of 22%.

<sup>4</sup> Detailed analyses of differential between OO costs and RSL rents by property type, i.e. flat, semi-detached house, terraced house can be found in the Annex 4 of Udagawa (2008) *Detailed Studies of the Comparison of Registered Social Landlord Rents with Owner Occupier Costs, 1998/99 to 2006/07* which can be accessed as a source document through the Dataspring's website.

<sup>5</sup> It can be accessed from <http://www.dataspring.org.uk/outputs/detail.asp?OutputID=153>. Because some variables related to insurance have been revised backwards, they might be different from those used in this paper.

<sup>6</sup> The deflators (for all items) in September each year were as below.

1998/99	1999/00	2000/01	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07
1.00	1.01	1.04	1.06	1.08	1.11	1.14	1.18	1.22

The OO cost in 2006/07 was £201.06 per week, a rise of 123.0% when it compared with £90.16 in 1998/99, or an annual average increase of 10.5%. In real terms, the increase was 83.2%, or an annual rate of 7.9% for the whole period. The rate of increase was particular high in 2004/05 when the OO cost soared by 31.0% (or 27.1% in real terms) from the pervious year. The main reasons for the sharp increase of OO costs were due to house price inflation and rises in mortgage rates. During the period of 2002/03 to 2004/05, England experienced overheated property markets and the Bank of England had to increase interest rates in several occasions in order to cool down the market. In contrast, there were marginal declines of OO costs in 1999/00 and 2001/02 which were caused partly by the loosened monetary policy by the central bank. Although the two years witnessed rises in property values, the lowered interest rates moderated the impact of higher house prices.

Table 2.1 OO weekly costs for England, 1998/99 – 2006/07

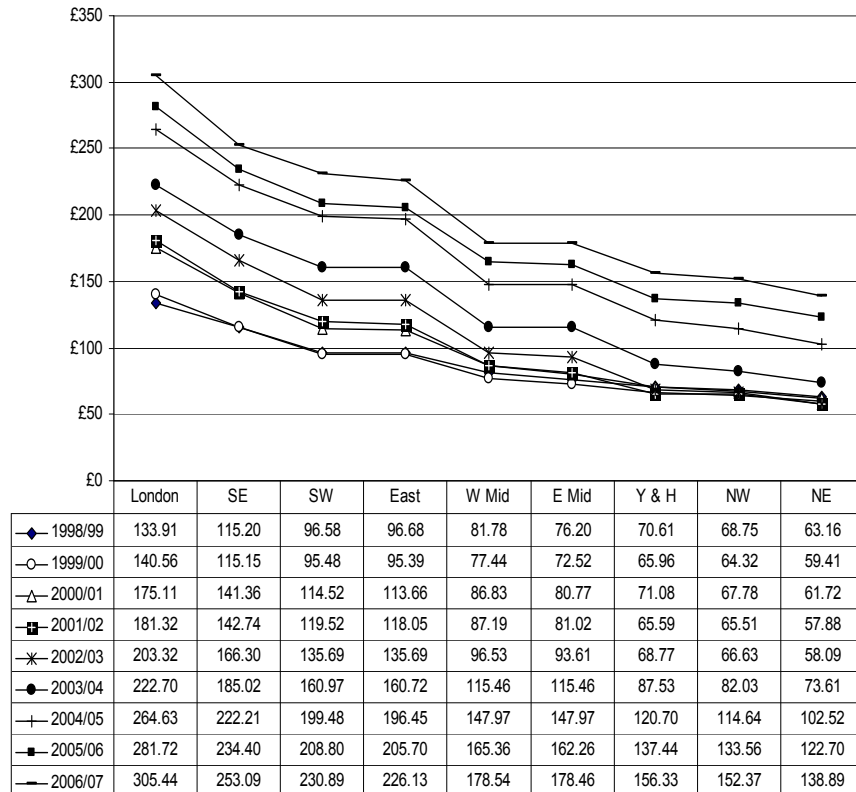
	Nominal		Real	
	OO cost	Change (%)	OO cost	Change (%)
1998/99	£90.16		£90.16	
1999/00	£87.28	-3.2	£86.33	-4.2
2000/01	£98.86	13.3	£94.69	9.7
2001/02	£96.45	-2.4	£90.82	-4.1
2002/03	£109.70	13.7	£101.57	11.8
2003/04	£127.99	16.7	£115.31	13.5
2004/05	£167.67	31.0	£146.56	27.1
2005/06	£183.20	9.3	£155.91	6.4
2006/07	£201.06	9.7	£165.21	6.0
<b>Change (%)</b>				
1998/99 – 2006/07		123.0		83.2
Average annual		10.5		7.9

Source: Dataspring.

## 2.2 At the regional level

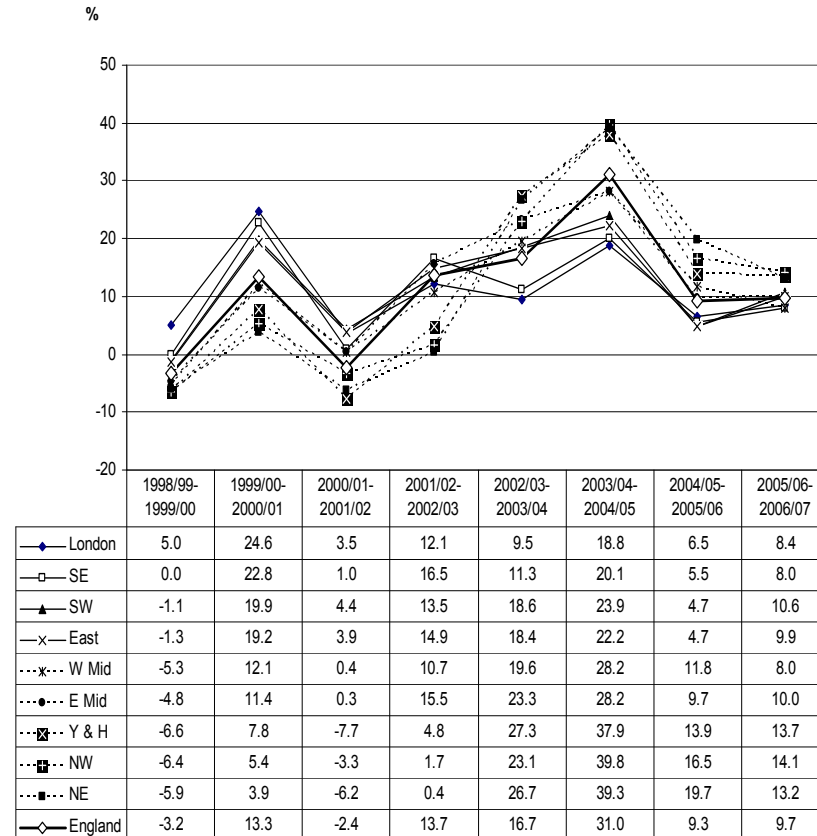
Figure 2.1 shows clearly that London and the North East were always the regions having the highest and the lowest OO cost respectively. In 2006/07, the OO cost for London was £305.44 per week while that for the North East was £138.89. The difference of OO costs between these two regions grew from £70.75 in 1998/99 to £166.55 in 2006/07. However, the highest growth of OO costs in this period was the South West (139.1% or 11.5% for the annual average which was in real terms, 96.4% or 8.8% respectively). The lowest growth was found in the West Midlands which experienced 118.3% or 10.3% per annum (in real terms, 79.4% or 7.6% respectively). In general, as shown in Figure 2.2, in the first half of the nine-year period, southern regions were the fastest growing regions. For example, London had the highest growth rates between 1999/00 and 2000/01, but in the second half of that period, the fastest growing regions shifted to the North. Starting from 2002/03, the North West and the North East had the highest growth rates which were significantly higher than national averages.

Figure 2.1 OO costs by region, 1998/99 – 2006/07



Source: Dataspring.

Figure 2.2 Annual change of OO costs by region, 1998/99 – 2006/07



Source: Dataspring.

### 2.3 At the local authority level<sup>7</sup>

#### *Ranges of OO weekly costs*

In 2006/07, the median of OO costs was £222.16 per week, compared to £94.34 in 1998/99, which implied a growth rate of 135.5% or 11.3% per annum (in real terms, 93.5% or 8.6% respectively). Table 2.2 shows that the range of OO costs across all LA areas widened for all years between 1998/99 and 2006/07, except for 1999/00 and 2001/02. In 1998/99, the lowest OO cost was £40.73 while the highest was £282.85, representing a range of £242.12. The standard deviation was £35.32. By 2006/07, the range had increased to £496.48 with the highest being £575.09 and the lowest £78.61. The latest standard deviation was also increased to £67.70. The increased dispersion of OO costs in the latter part of 1998/99 to 2006/07 is illustrated in Figure 2.3. The diagram clearly shows that there was an extreme outlier at the top end of OO costs in 2006/07 for the first time since 2001/02, and indeed starting from 2000/01, lengths of boxes which represented ranges of OO costs, expanded too.

Table 2.2 Ranges of OO weekly costs across all LA areas, 1998/99 – 2006/07

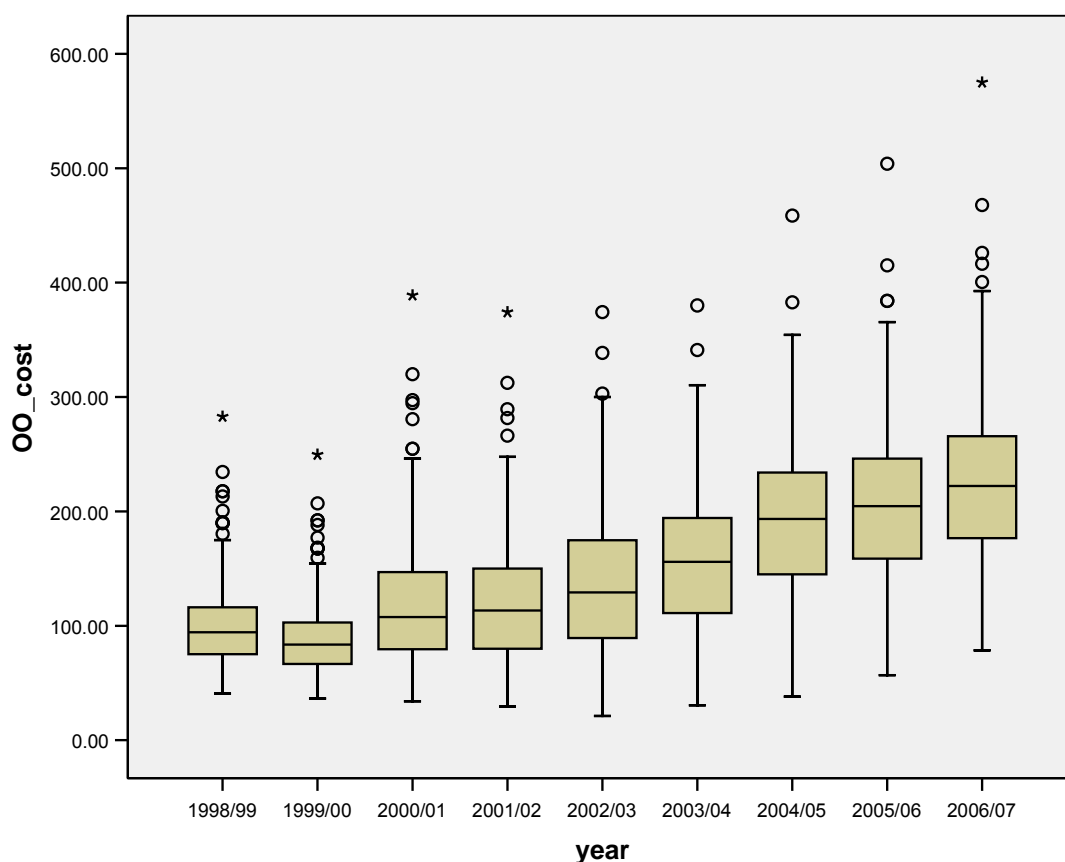
	<b>Median</b>	<b>Std. Deviation</b>	<b>Minimum</b>	<b>Maximum</b>	<b>Max. – Min.</b>
1998/99	94.34	35.32	40.73	282.85	242.12
1999/00	83.59	31.10	36.37	249.59	213.22
2000/01	107.60	52.28	34.03	388.91	354.88
2001/02	113.42	52.98	29.33	374.19	344.86
2002/03	129.24	57.89	21.07	374.19	353.12
2003/04	155.85	58.62	30.50	380.08	349.58
2004/05	193.42	62.89	38.14	458.55	420.41
2005/06	204.58	63.17	56.76	503.97	447.21
2006/07	222.16	67.70	78.61	575.09	496.48
<b>Nominal change (%)</b>					
1998/99 – 2006/07	135.5	91.7	93.0	103.3	105.1
Estimated annual	11.3	8.5	8.6	9.3	9.4
<b>Real change (%)</b>					
1998/99 – 2006/07	93.5	57.5	58.6	67.1	68.5
Estimated annual	8.6	5.8	5.9	6.6	6.7

Source: Dataspring.

<sup>7</sup> Due to very few cases for the cost calculation and/or some geographical or socio-economic peculiarity, the City of London and the Isles of Scilly are excluded from the analyses in this section. The local authorities are based on the boundaries as of April 1998.



Figure 2.3 The distribution of OO weekly costs of all LA areas in England, 1998/99 – 2006/07

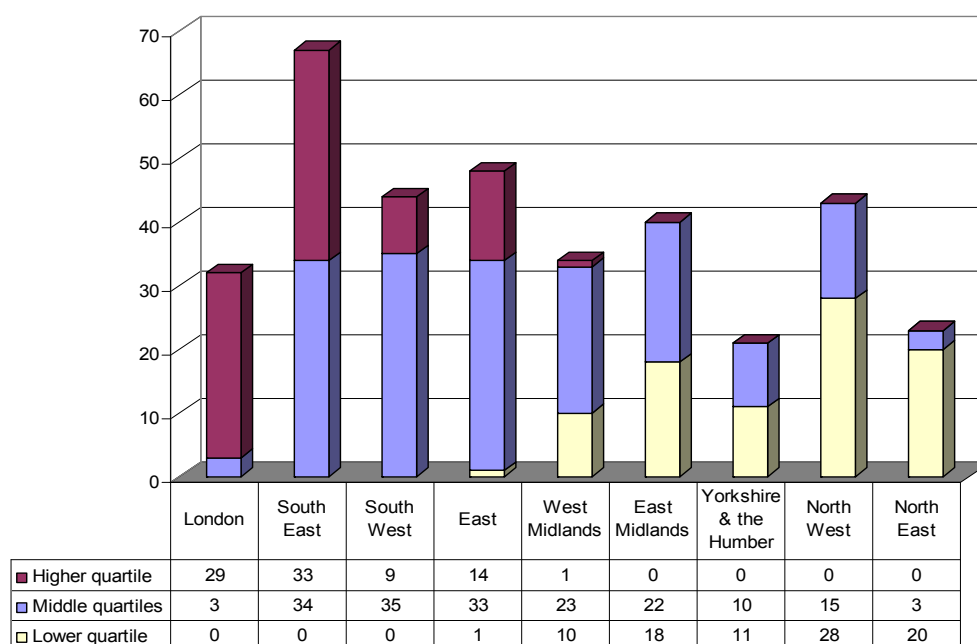


Source: Dataspring.

### ***LA areas with higher and lower OO weekly costs***

Figure 2.4 shows the number of LA areas in each of the quartile of OO costs in 2006/07. Almost all LA areas (90.6%) in London and nearly half of LA areas (49.3%) in the South East were in the higher quartile group. The East also had a larger proportion of LA areas (29.2%) in the same group. In contrast, the great majority of LA areas in the North East (87.0%), the North West (65.1%), Yorkshire and the Humber (52.4%), the East Midlands (45.0%) and the West Midlands (29.4%) were in the lower quartile group.

Figure 2.4 The number of LAs in each of the quartile of OO weekly costs by region, 2006/07



Note: The higher quartile represents OO costs of > £265.78, the middle quartiles between £265.78 and £176.36, and the lower quartile of < £176.36.

Source: Dataspring.

Table 2.3 Ten LA areas with the highest and ten LA areas with the lowest OO weekly costs, 1998/99 and 2006/07

1998/99			2006/07		
LA	Region	OO cost (£)	LA	Region	OO cost (£)
<i>Highest weekly OO cost</i>					
Kensington and Chelsea	London	282.85	Kensington and Chelsea	London	575.09
Westminster	London	234.44	Westminster	London	467.82
Hammersmith and Fulham	London	217.69	Hammersmith and Fulham	London	425.99
Richmond upon Thames	London	217.59	Camden	London	416.45
Camden	London	213.03	Richmond upon Thames	London	400.53
South Bucks	SE	200.47	Wandsworth	London	392.68
Chiltern	SE	190.46	South Bucks	SE	392.60
Islington	London	189.76	Elmbridge	SE	384.75
Windsor and Maidenhead	SE	189.76	Chiltern	SE	376.81
Elmbridge	SE	189.76	Islington	London	375.23
<i>Lowest weekly OO cost</i>					
Pendle	NW	40.73	Burnley	NW	78.61
Easington	NE	44.45	Pendle	NW	96.06
Hyndburn	NW	44.55	Kingston upon Hull	Y & H	105.58
Burnley	NW	45.48	Hyndburn	NW	105.58
Barrow-in-Furness	NW	47.34	Barrow-in-Furness	NW	106.37
Blackburn with Darwen	NW	50.13	Hartlepool	NE	107.16
Kingston upon Hull	Y & H	50.13	Stoke-on-Trent	W Mid	110.33
Stoke-on-Trent	W Mid	50.13	Sedgefield	NE	110.33
Wansbeck	NE	50.13	Easington	NE	111.86
Derwentside	NE	52.93	Blackburn with Darwen	NW	113.51

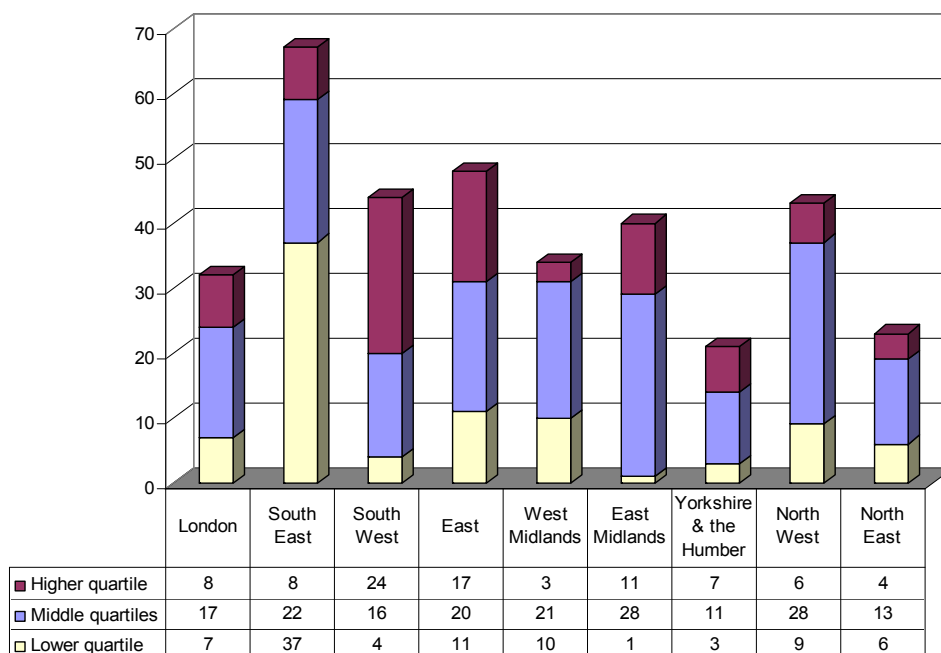
Source: Dataspring.

Table 2.3 lists the ten LA areas with the highest and the lowest OO costs in 1998/99 and 2006/07. Kensington and Chelsea, Westminster, and Hammersmith and Fulham were the top-three LA areas having the highest OO costs in both years. Nine of the ten LA areas appeared in both lists of LA areas with the highest OO costs and they were all located in either London or the South East. Alternatively, Pendle was the lowest OO cost LA area in 1998/99 and followed by Easington and Hyndburn. Eight out of ten LA areas in 1998/99 remained there in 2006/07. Pender was the second lowest OO cost LA area after Burnley. A further five were located in the North West with three in the North East.

**LA areas with large and small increases in OO weekly costs**

The average growth rate of OO weekly costs for all LA areas between 1998/99 and 2006/07 was 127.3%, and the majority of LA areas had growth rates around the average. However, Figure 2.5 shows that more than half of LA areas in the South West (54.5%) belonged to the higher growth quartile. The East (35.4%), Yorkshire and the Humber (33.3%) and the East Midlands (27.5%) also had larger number of LA areas with higher growth rates. In contrast, the South East had the largest number of LAs (55.2%) with lower growth rates. This was followed by the West Midlands and the North East which had over a quarter of LAs in the lower growth quartile.

Figure 2.5 The number of LA areas in each of the quartile of growth rates of OO weekly costs between 1998/99 and 2006/07 by region



Note: The higher quartile represents the growth rate of > 139.4%, the middle quartiles between 113.0% and 139.4%, and the lower quartile of < 113.0%.

Source: Dataspring.

Table 2.4 lists the ten LA areas with the largest and the smallest increases in OO weekly costs between 1998/99 to 2006/07. Manchester had the largest increase of 200.6% (or in real terms, 147.0%). The second largest growth rate was found in Penwith (198.8%, or in real terms 145.5%), followed by Newham (191.3%, or in real terms 139.4%). Five of ten LAs having the largest increase were located in the

South West while two were in the South East. Table 2.4 also shows that Burnley had the smallest growth rate of 72.8% (or in real terms, 42.0%). The second smallest increase was found in Surrey Heath (79.2% or in real terms, 47.3%), followed by Richmond upon Thames (84.1% or 51.3% respectively). Of the ten LA smallest growth areas, six of them were located in the South East and two in the North West.

Table 2.4 Ten LA areas with the largest and ten LA areas with the smallest increases in OO weekly costs, 1998/99 and 2006/07

LA	Region	OO costs (£)		1998/99 – 2006/07
		1998/99	2006/07	
<i>Largest increase in OO weekly costs</i>				
Manchester	NW	53.86	161.89	200.6%
Penwith	SW	83.64	249.92	198.8%
Newham	London	96.67	281.64	191.3%
Kerrier	SW	78.66	226.13	187.5%
Restormel	SW	83.62	235.56	181.7%
Brighton and Hove	SE	94.81	265.78	180.3%
Norwich	E	72.47	199.95	175.9%
Weymouth and Portland	SW	88.30	241.99	174.1%
Hastings	SE	65.03	177.75	173.3%
Carrick	SW	98.54	268.95	172.9%
<i>Smallest increase in OO weekly costs</i>				
Burnley	NW	45.48	78.61	72.8%
Surrey Heath	SE	174.87	313.37	79.2%
Richmond upon Thames	London	217.59	400.53	84.1%
Bracknell Forest	SE	148.80	276.87	86.1%
West Lancashire	NW	93.88	176.16	87.6%
Hart	SE	165.56	313.37	89.3%
Windsor and Maidenhead	SE	189.76	360.95	90.2%
Wokingham	SE	174.77	333.19	90.6%
Mole Valley	SE	180.45	349.85	93.9%
Stratford-on-Avon	W Mid	137.63	267.57	94.4%

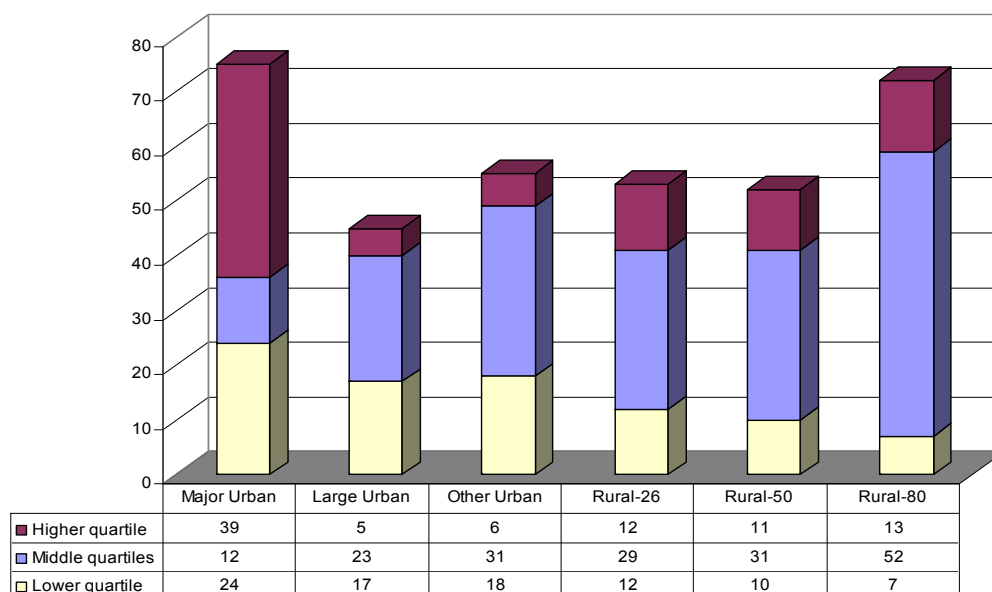
Source: Dataspring.

### **OO weekly costs of urban and rural LA areas<sup>8</sup>**

In 2006/07, over half of LA areas in the 'Major Urban', the most urban category, had OO weekly costs in the higher quartile (Fig. 2.6). In contrast, there were relatively large proportions of LA areas in the 'Large urban' (37.8%) and 'Other urban' (32.7%) in the lower quartiles. Rural LA areas were more likely to be in the middle quartiles with 77.2% of LA areas located in the most rural category, 'Rural-80'.

<sup>8</sup> Definitions of 'urban' and 'rural' LA areas are based on the Defra (2006) 'Rural Definition and Local Authority Classification', (<http://www.defra.gov.uk/rural/ruralstats/rural-definition.htm#defn>).

Figure 2.6 The number of LAs in each of the quartile of OO weekly costs by urban and rural LA classification, 2006/07



Note: The higher quartile represents OO costs of > £265.78, the middle quartiles between £265.78 and £176.36, and the lower quartile of < £176.36.

Source: Dataspring.

Between 1998/99 and 2006/07, average OO weekly costs for both urban and rural LA areas increased continuously throughout 1998/99 to 2006/07 except in 1999/00 (Table 2.5). By 2006/07, OO costs were £224.25 per week for urban LA areas and £226.65 for rural LA areas. The urban average OO costs rose by £123.46 (122.5%, or in real terms 82.8%) while the rural equivalent increased by £126.08 (125.4%, or in real terms 85.2%). In the first half of the study period, the urban average OO costs were higher than those for rural costs, but OO costs for rural LA areas outperformed those for urban LA areas from 2003/04.

Table 2.5 OO weekly costs by urban and rural LA areas, 1998/99 – 2006/07

	Urban		Rural		Urban – rural	
	£	Change (%)	£	Change (%)	£	Change (%-point)
1998/99	100.79		100.57		0.22	
1999/00	89.26	-11.4	89.06	-11.4	0.20	0.0
2000/01	120.12	34.6	116.55	30.9	3.57	3.7
2001/02	121.04	0.8	117.75	1.0	3.29	-0.3
2002/03	134.10	10.8	132.14	12.2	1.96	-1.4
2003/04	152.53	13.7	154.74	17.1	-2.21	-3.4
2004/05	189.01	23.9	194.73	25.8	-5.72	-1.9
2005/06	204.11	8.0	207.37	6.5	-3.26	1.5
2006/07	224.25	9.9	226.65	9.3	-2.40	0.6
<b>Nominal change (%)</b>						
1998/99 – 2006/07		122.5		125.4		-2.9
Estimated annual		10.5		10.7		-0.2
<b>Real change (%)</b>						
1998/99 – 2006/07		82.8		85.2		-2.4
Estimated annual		7.8		8.0		-0.2

Source: Dataspring.

Table 2.6 OO weekly costs by the six urban and rural LA classifications, 1998-99 – 2006/07

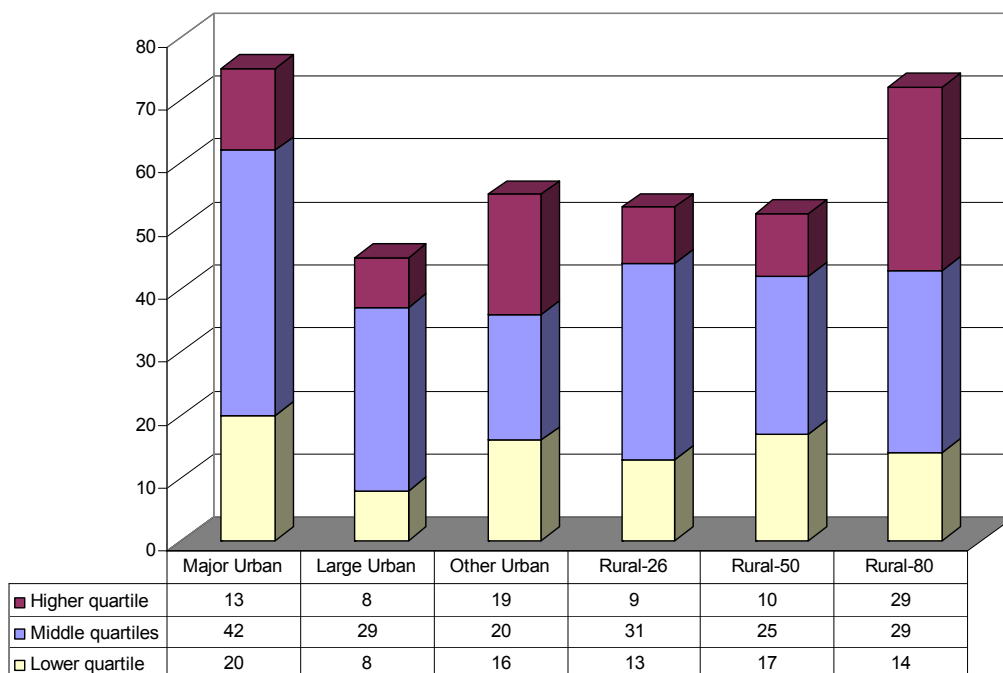
	OO weekly cost (£)					
	Major urban	Large urban	Other urban	Rural-26	Rural-50	Rural-80
1998/99	116.57	90.24	87.91	101.87	102.14	98.47
1999/00	102.04	79.10	77.07	89.23	89.46	86.27
2000/01	138.39	98.43	96.84	114.32	113.73	108.14
2001/02	136.70	97.70	96.29	113.32	112.71	107.75
2002/03	147.40	107.81	105.87	124.21	123.90	119.87
2003/04	159.06	122.56	120.03	140.55	140.24	137.95
2004/05	188.68	149.67	145.95	169.29	169.59	171.36
2005/06	198.89	156.93	153.12	175.63	175.66	177.72
2006/07	210.86	166.38	162.62	185.52	185.57	187.25
<b>Nominal change (%)</b>						
1998/99 – 2006/07	80.9	84.4	85.0	82.1	81.7	90.2
Estimated annual	7.7	7.9	8.0	7.8	7.7	8.4
<b>Real change (%)</b>						
1998/99 – 2006/07	48.6	51.5	52.0	49.6	49.3	56.3
Estimated annual	5.1	5.3	5.4	5.2	5.1	5.7

Source: Dataspring.

Table 2.6 shows that OO weekly costs for LA areas located in 'Major Urban', the most urban category, were always the highest while those for 'Other Urban' were the lowest. LA areas in the 'Major Urban' category experienced the lowest increases of 80.9% between 1998/99 and 2006/07 or an average 7.7% per annum (in real terms 48.6% or 5.1% respectively). In contrast, LA areas in the most rural sub-category, the 'Rural-80', had the largest growth of 90.2% over the period, or 8.4% per annum (in real terms, 56.3% or 5.7% respectively). Such contrasting growth rates imply that the extent of urbanisation did not have strong influences on either OO costs or their rates of increase.

Breaking growth rates of OO costs between 1998/99 and 2006/07 into three main quartiles, Figure 2.7 shows that nearly a third of LA areas in the 'Other Urban' category, the least urban LA areas among those classified as urban, were in the higher as well as lower quartiles, 34.5% and 29.1% respectively. A large proportion of LA areas were also found in the 'Rural-80', the most rural category (40.3%), in the higher quartile.

Figure 2.7 The number of LA areas in each of the quartile of growth rates of OO weekly costs between 1998/99 and 2006/07 by urban and rural LA classification



Note: The higher quartile represents the growth rate of > 139.4%, the middle quartiles between 113.0% and 139.4%, and the lower quartile of < 113.0%.

Source: Dataspring.

### 3. Differentials between OO costs and RSL rents

RSL rents used for the comparison with OO costs are weekly average net rents of self-contained properties, consequently rents of bedsits and bedspaces are excluded. Net rents are average rents charged before any service charges are applied, and, for general needs, assured and secure tenancies combined which thus include general needs housing plus the Estate Renewal Challenge Fund stock, but exclude all supported housing and housing for older people.<sup>9</sup> The rent data come from the Housing Corporation's Regulatory and Statistical Return and are of the rent levels as at March 31 each year.<sup>10</sup>

The differential between OO costs and RSL rents is expressed in two ways:

$$\text{Differential (£)} = \text{OO cost} - \text{RSL rent}; \text{ and}$$

$$\text{Differential (\%)} = (\text{OO cost} - \text{RSL rent}) / \text{RSL rent} * 100$$

<sup>9</sup> From 2005, the definition of 'general needs' housing as reported in the RSR was changed. Prior to this, general needs housing included some dwellings classified as sheltered housing for older people. In 2005, the sheltered housing classification was replaced by the 'housing for older people'. Dwellings that met certain design criteria were transferred from general needs into this new category. For further information, see The Housing Corporation circular 03/04, *The Housing Corporation's definitions of Housing Association supported housing and housing for older people* (<http://www.housingcorp.gov.uk/server/show/conWebDoc.3057>).

<sup>10</sup> The data of RSL net rents were collected from all RSLs that completed the long version of the RSR and made a valid return. Before 2006/07, those RSLs that own or manage more than 250 dwellings and/or bedspaces, including shared ownership dwellings, completed the long version of the RSR, but from 2006/07, the threshold was raised to 1,000 dwellings.

### 3.1 At the national level

Figure 3.1 presents OO weekly costs, RSL weekly rents and their differentials in percentage terms from 1998/99 to 2006/07 for all self-contained units in England. The differential increased throughout the period except slight declines in 1999/00 and 2001/02. While RSL rents increased steady, OO costs inflated more dramatically. By 2006/07, the differential between the OO cost and the RSL rent reached 200.7%

Figure 3.1 OO weekly costs, RSL weekly rents and their differential for all self-contained units in England, 1998/99 – 2006/07

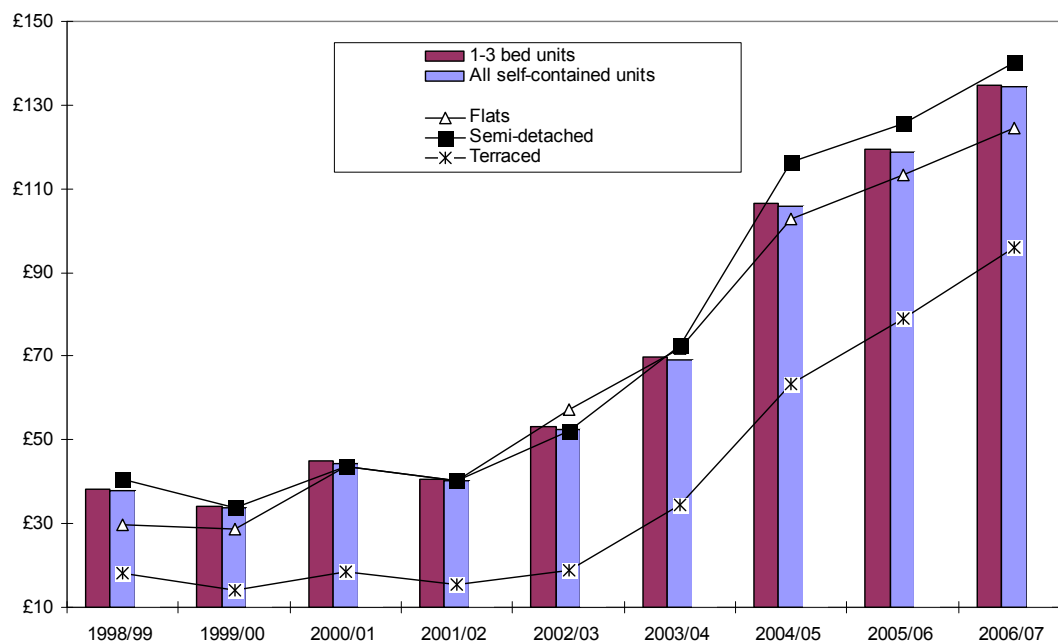


Source: Dataspring.

Figure 3.2 compares differentials of OO costs and RSL rents by property sizes and property types. First, for property sizes, differentials for properties with one to three bedrooms were very close to those for all self-contained units throughout the period of 1998/99 – 2006/07. In 2006/07, the differential between OO costs and RSL rents for all property sizes was £134.20 per week while for the one to three bed properties, £134.83. In terms of property types, differentials for terraced dwellings were always the lowest. Differentials for flats were close to those for semi-detached in the first six years of the study period. But after 2003/04, differentials for flats were smaller than those for semi-detached.

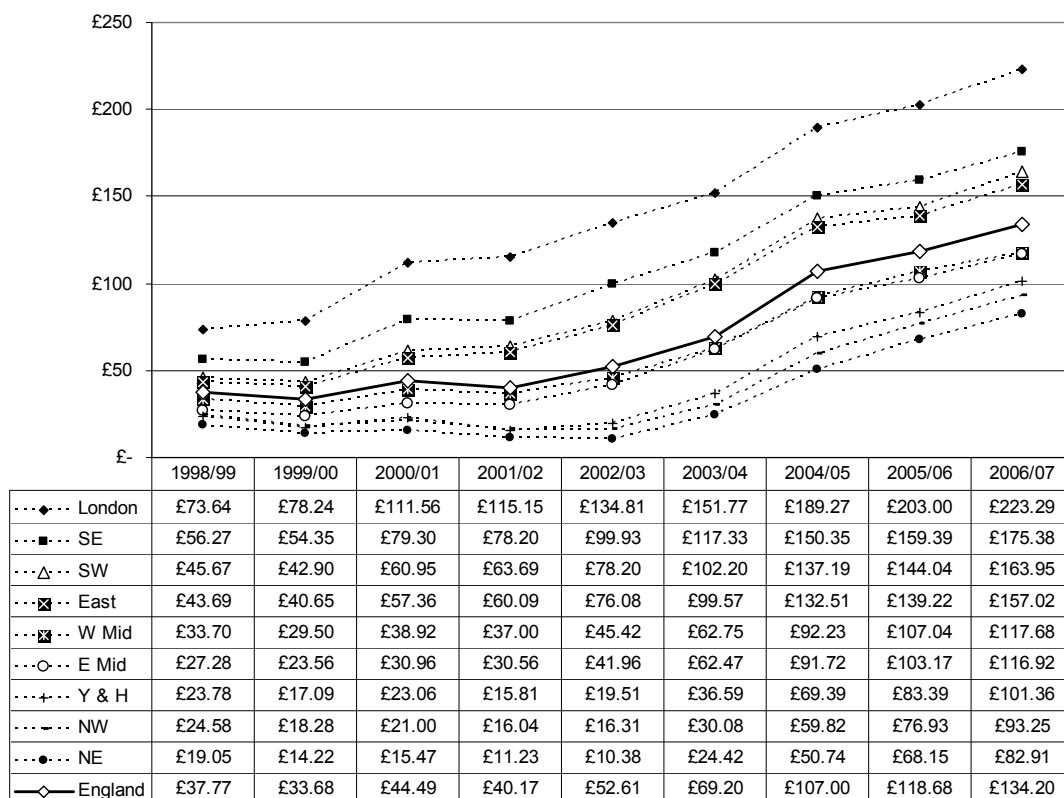


Figure 3.2 A comparison of differentials between OO costs and RSL rents by property sizes and property types, 1998/99 – 2006/07



Source: Dataspring.

Figure 3.3 Differentials between OO weekly costs and RSL weekly rents for all self-contained units by region, 1998/99 – 2006/07



Source: Dataspring.

### 3.2 At the regional level

Figure 3.3 shows clearly the north-south divide in the regional differences of OO costs and RSL rents. Differentials for London, the South East, the South West and the East were always above the national averages. As was expected, London had the widest differential of £223.29 in 2006/07. This was followed by those of the South East (£175.38) and the South West (£157.02). The narrowest differential was seen in the North East, followed by those of the North West, and Yorkshire and the Humber.

However, in terms of changes of differentials between OO costs and RSL rents over the nine-year period, the North East had the highest growth rate of 335.2%, an annual average of 20.2%, which in real terms, 257.6% or 17.3% respectively. This was followed by the East Midlands, 328.6%, 20.0% annually (in real terms, 252.2% or 17.0%), and Yorkshire and the Humber, 326.2% or 19.9% (in real terms, 205.2% or 17.0%). As the highest-cost region, London had the lowest growth rate of 203.2% between 1998/99 and 2006/07, 14.9% per annum (in real terms, 149.2% or 12.1% respectively). London also was the only region which never experienced decline in differentials whilst differentials fell in other regions in 1999/00 and/or 2002/03. The second lowest growth region was the South East, its differential increased by 211.7% or 15.3% annually (in real terms, 156.1% or 12.5% respectively). This was followed by that in the West Midlands of 249.2% or 16.9% per annum (in real terms, 186.9% or 14.1% respectively).

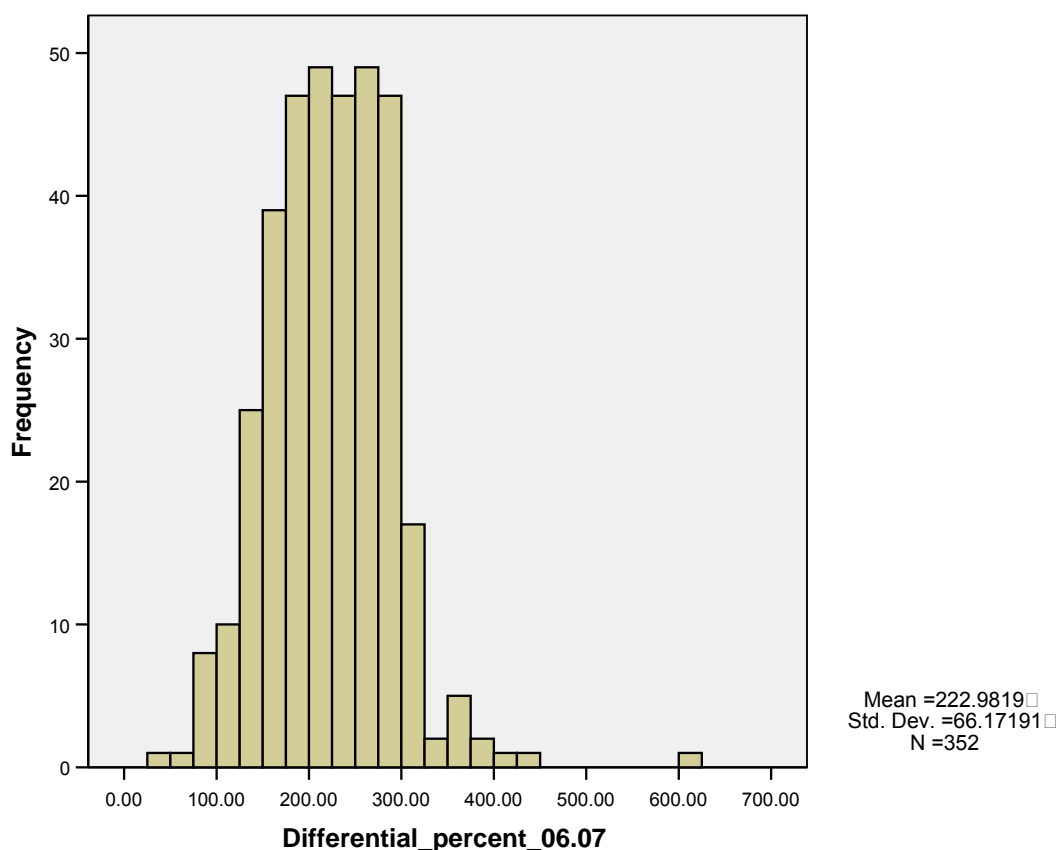
Differentials for properties with one to three bedrooms were close but slightly larger than those for all self-contained units for each region. In 2006/07, the gap between these two differentials was the greatest in London at £1.37 per week. By property types, flats and terraced properties showed negative differentials in 2001/02 for the North East and the North West. Yorkshire and the Humber also had a negative differential between OO costs and RSL rents but only for terraced properties in 2001/02.<sup>11</sup>

### 3.3 At the local authority level

Figure 3.4 shows the distribution of differentials between OO costs and RSL rents in percentage terms for all LA areas across England in 2006/07. The great majority of LA areas had differentials in a range from 175% to 300%. The distribution of differentials was slightly skewed to the top end due to extremely large differentials from LA areas in London.

<sup>11</sup> For details for differentials between OO costs and RSL rents by property sizes and property types for each region, please refer to Udagawa (2008) *Detailed Studies of the Comparison of Registered Social Landlord Rents with Owner Occupier Costs, 1998/99 to 2006/07*, Annex 4.

Figure 3.4 Distribution of the differentials between OO costs and RSL rents (%) across all LA areas, 2006/07



Note: Differentials of the City of London and Isles of Scilly were excluded from the analysis.  
Source: Dataspring.

Table 3.1 Ranges of differentials between OO costs and RSL rents for all LA areas for all self-contained units and 1-3 bed units, 1998/99 – 2006/07

	Median (£)		Std. deviation (£)		Maximum (£)		Minimum (£)		Max. – Min. (£)	
	All units	1-3 bed units	All units	1-3 bed units	All units	1-3 bed units	All units	1-3 bed units	All units	1-3 bed units
1998/99	41.11	41.33	31.48	31.55	228.07	229.02	-7.83	-7.24	235.90	236.26
1999/00	28.38	28.68	27.13	27.21	193.16	194.13	-13.77	-13.17	206.93	207.30
2000/01	54.00	54.13	47.60	47.70	331.02	332.01	-13.09	-12.52	344.11	344.53
2001/02	55.65	55.98	47.90	48.02	313.95	314.97	-23.53	-23.16	337.48	338.13
2002/03	71.89	72.22	52.16	52.28	310.92	311.94	-29.26	-28.74	340.18	340.68
2003/04	94.86	95.28	52.59	52.70	313.24	314.37	-21.47	-21.02	334.71	335.39
2004/05	129.06	129.50	56.37	56.45	386.71	387.76	-22.95	-22.42	409.66	410.18
2005/06	138.34	138.54	56.18	56.29	427.91	428.99	-1.52	-1.03	429.43	430.02
2006/07	154.39	154.56	60.19	60.31	494.47	495.44	18.64	19.14	475.83	476.30
<b>Change (%):</b>										
1998/99 – 2006/07	275.6	274.0	91.2	91.2	116.8	116.3	n.a	n.a	101.7	101.6
Estimated annual	18.0	17.9	8.4	8.4	10.2	10.1	n.a	n.a	9.2	9.2

Source: Dataspring.

Table 3.1 is a comparison table illustrating changes of differentials between OO weekly costs and RSL weekly rents for all self-contained units and those small sized properties (i.e. one to three bed units), which are most likely bought by social tenants if they purchase properties in the open market. First, for all self-contained units, the median differential in 2006/07 was £154.39 per week, compared to £41.11 in 1998/99. The median grew by 275.6% over the nine-year period which was an average annual growth rate of 18.0%. Ranges in differentials also widened over years. The standard deviation was £60.19 in 2006/07, compared to £31.48 in 1998/99. The range was £475.83 in 2006/07, increasing from £235.90 at the beginning of the nine-year period. Variations of differentials for properties with one to three bedrooms followed the same trend of those for all self-contained units, although medians and standard deviations for small sized properties were slightly higher than those for all property sizes combined.

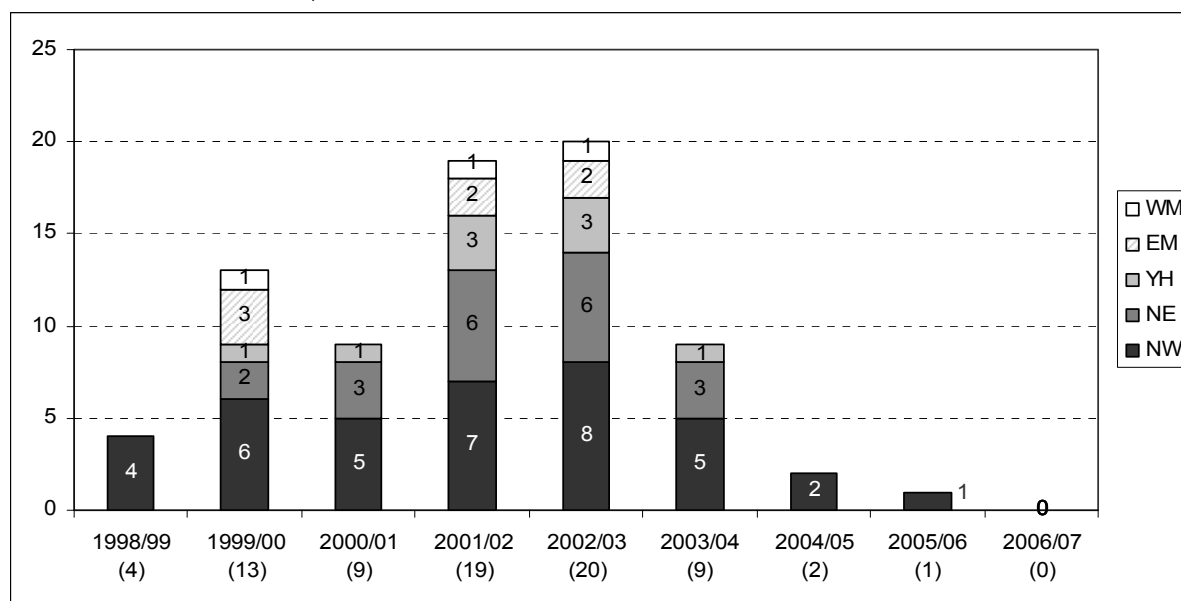
Table 3.2 lists the 20 LA areas with the largest and the smallest differentials between OO costs and RSL rents in 1998/99 and 2006/07. Kensington and Chelsea, Westminster, and Hammersmith and Fulham were the top three LA areas with the largest differential in both years. In 2006/07, Kensington and Chelsea had a differential of nearly £500 per week, while differentials of the other nine LA areas were close to or over £300. In practical terms, such large differentials mean that it is impossible for RSL tenants enter the owner occupied markets in these neighbourhoods. Pendle, Hyndburn, Burnley and Barrow-in-Furness had the smallest and negative differentials in 1998/99, indicating that being owner occupiers in these areas might be more affordable than being RSL tenants. But by 2006/07, there were no LA areas with negative differentials. Burnley was the LA area with the narrowest differential of £18.64. This was followed by Barrow-in-Furness with £42.18 and Pendle with £42.24. Eight of the ten LA areas with the smallest differential in 1998/99 remained in the list in 2006/07. Five of these LA areas were in the North West; three were in the North East; and one each in Yorkshire and the Humber and the West Midland.

Table 3.2 Ten LA areas with the largest differential and ten LA areas with the smallest differential between OO costs and RSL rents in 1998/99 and 2006/07

1998/99			2006/07		
LA area	Region	Differential (£)	LA area	Region	Differential (£)
<i>Largest differential between OO costs and RSL rents</i>					
Kensington & Chelsea	London	228.07	Kensington & Chelsea	London	494.47
Westminster	London	174.67	Westminster	London	381.62
Hammersmith & Fulham	London	161.05	Hammersmith & Fulham	London	344.10
Richmond upon Thames	London	154.93	Camden	London	328.33
Camden	London	149.21	Richmond upon Thames	London	319.11
South Bucks	SE	144.01	South Bucks	SE	313.06
Chiltern	SE	134.97	Wandsworth	London	305.89
Islington	London	131.80	Elmbridge	SE	301.43
Windsor and Maidenhead	SE	125.29	Chiltern	SE	296.60
Elmbridge	SE	124.65	Islington	London	294.50
<i>Smallest differential between OO costs and RSL rents</i>					
Pendle	NW	-7.83	Burnley	NW	18.64
Hyndburn	NW	-3.04	Barrow-in-Furness	NW	42.18
Burnley	NW	-1.86	Pendle	NW	42.24
Barrow-in-Furness	NW	-0.46	Kingston upon Hull	Y & H	46.97
Easington	NE	0.09	Hyndburn	NW	49.90
Blackburn with Darwen	NW	1.99	Stoke-on-Trent	W Mid	51.48
Stoke-on-Trent	W Mid	2.66	Hartlepool	NE	51.69
Corby	E Mid	3.23	Blackburn with Darwen	NW	52.38
Mansfield	E Mid	3.55	Sedgefield	NE	53.14
Kingston upon Hull	Y & H	4.65	Easington	NE	56.50

Source: Dataspring.

Figure 3.5 The number of LA areas with the negative differential between OO cost and RSL rent, 1998/99 – 2006/07



Note: The total number of LA areas with the negative differential is in parentheses.

Source: Dataspring.

Figure 3.5 shows the changes in the number of LA areas with the negative differential between OO cost and RSL rent from 1998/99 to 2006/07. Initially, there were less than five LA areas having the negative differential, but this rose to 19 and 20 in 1999/00 and 2001/02 respectively, when OO costs declined (see Table 2.1). After then, OO costs rose considerably, and by 2006/07 there was no LA area having negative differential.

Table 3.3 lists the 20 LA areas with the largest and the smallest growth of differentials between OO costs and RSL rents in percentage terms from 1998/99 to 2006/07. Weymouth and Portland had the uppermost growth of 236.5 percentage points by 2006/07, up from 50.6% in 1998/99. This was followed by Carrick (231.5 points from 87.2% to 318.7%) and the Derbyshire Dales (231.2 points from 88.0% to 319.2%). Five of ten LA areas with the largest growth were in the South West; two in the South East; and one each in the East Midlands and in the North East. Seven of these were rural LA areas. In contrast, Burnley was the LA area with the lowest growth of 35.0 percentage points from -3.9% in 1998/99 to 31.1% in 2006/07. West Lancashire was the second lowest (58.8 points from 100.4% to 159.2%) and Barrow-in-Furness was the third (66.7 points from -1.0% to 65.7%). Five LA areas were located in the North West; two in the North East; and one each in the South East and Yorkshire and the Humber. Unlike those with the highest growth, six of LA areas having the smallest growth were urban LAs.

Table 3.3 Ten LA areas with the largest increase and ten LA area with the smallest increase in differential between 1998/99 and 2006/07

LA area	Region	Differential (%-point)	Differential (%)	
			1998/99	2006/07
<i>Largest increase in differential</i>				
Weymouth and Portland	SW	236.5	50.6	287.1
Carrick	SW	231.5	87.2	318.7
Derbyshire Dales	E Mid	231.2	88.0	319.2
North Norfolk	E	221.3	54.8	276.1
Restormel	SW	215.7	54.1	269.9
South Gloucestershire	SW	211.7	69.1	280.8
North Cornwall	SW	210.2	75.7	285.9
Maidstone	SE	207.6	71.6	279.2
Tynedale	NE	205.3	83.4	288.7
Brighton and Hove	SE	204.6	59.0	263.6
<i>Smallest increase in differential</i>				
Burnley	NW	35.0	-3.9	31.1
West Lancashire	NW	58.8	100.4	159.2
Barrow-in-Furness	NW	66.7	-1.0	65.7
Sedgefield	NE	67.1	25.8	92.9
Ellesmere Port and Neston	NW	68.8	102.2	171.0
Kingston upon Hull	Y & H	69.9	10.2	80.1
Surrey Heath	SE	70.1	229.6	299.6
Allerdale	NW	74.7	66.3	141.0
Hartlepool	NE	75.7	17.5	93.2

Source: Dataspring.

### 3.4 Between urban and rural LA areas

Table 3.4 shows changes in ranges of differentials for urban and rural LA areas from 1998/99 to 2006/07. The medians of differentials for urban and rural LA areas rose by 292.7% for the whole period (or an average of 18.6% per annum) and 269.1% (or 17.7% annually), respectively. Both medians increased throughout the nine-year period, although the urban median decreased in 1999/00 and 2001/02 while the rural equivalent dropped only in 1999/00. The distribution of differentials was broader in the urban rather than in rural areas. In 2006/07, standard deviations were £71.61 for urban areas and £46.25 for rural areas, while ranges were £475.83 and £259.92 respectively. Variations of differentials expanded more in urban areas than in rural areas over nine years. For example, standard deviations for urban areas grew by 94.9% while the growth rate of rural areas was 83.0%.

Table 3.4 Ranges of differentials between OO costs and RSL rents for urban and rural LA areas, 1998/99 – 2006/07

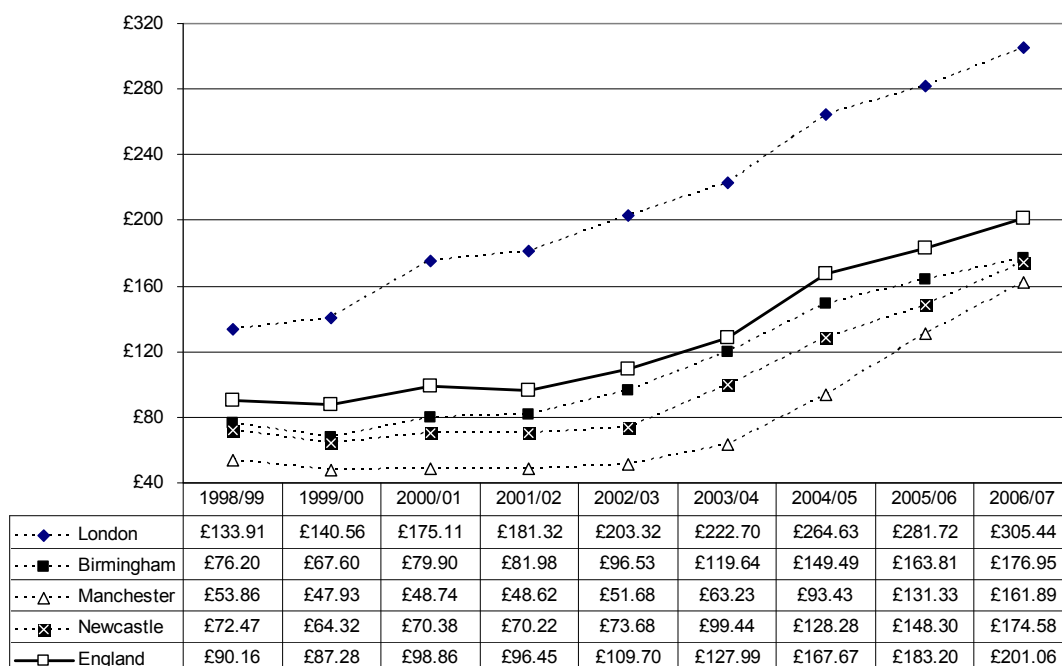
	Median (£)		St. deviation (£)		Maximum (£)		Minimum (£)		Max. – min. (£)	
	Urban	Rural	Urban	Rural	Urban	Rural	Urban	Rural	Urban	Rural
1998/99	36.76	43.07	36.75	25.28	228.07	144.01	-7.83	0.09	235.90	143.92
1999/00	25.43	31.10	31.72	21.71	193.16	116.90	-13.77	-6.34	206.93	123.24
2000/01	49.51	55.88	57.15	35.89	331.02	182.18	-13.09	-0.05	344.11	182.23
2001/02	49.28	58.68	56.88	37.12	313.95	171.84	-23.53	-6.98	337.48	178.82
2002/03	66.32	73.75	61.56	40.98	310.92	192.06	-29.26	-10.27	340.18	202.33
2003/04	91.17	98.65	60.94	42.78	313.24	213.77	-21.47	-5.27	334.71	219.04
2004/05	120.17	134.61	66.13	44.45	386.71	257.86	-22.95	19.89	409.66	237.97
2005/06	128.32	143.37	66.65	43.38	427.91	277.14	-1.52	39.59	429.43	237.55
2006/07	144.36	158.98	71.61	46.25	494.47	313.06	18.64	53.14	475.83	259.92
<b>Change (%):</b>										
1998/99 – 2006/07	292.7	269.1	94.9	83.0	116.8	117.4	<i>n.a</i>	<i>n.a</i>	101.7	80.6
Estimated annual	18.6	17.7	8.7	7.8	10.2	10.2	<i>n.a</i>	<i>n.a</i>	9.2	7.7

Source: Dataspring.

## 4. OO costs and their comparisons with RSL rents for the four metropolitan areas

This section focuses on urban LA areas in four metropolitan areas: London, Birmingham, Manchester and Newcastle from 1998/99 to 2006/07. As shown in Figure 4.1, OO costs for London increased considerably throughout the nine-year period and were the highest among the four cities and also far above national averages. OO costs for the other three cities were slightly below national levels. Although OO costs for these cities increased more or less consistently for the period, there was a slight dip in 1999/00. OO costs for Manchester had a consecutive three-year decline ending in 2001/02.

Figure 4.1 OO weekly costs of the four metropolitan areas for all self-contained units, 1998/99 – 2006/07



Source: Dataspring.

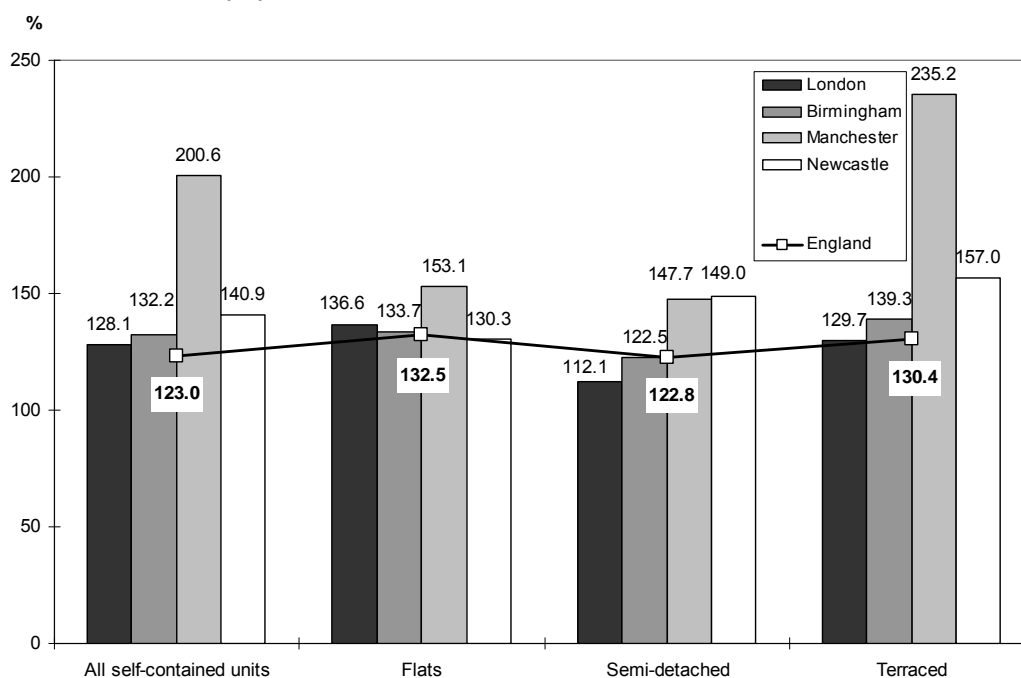
The analysis of OO costs by property type<sup>12</sup> (i.e. flat, semi-detached and terraced dwelling) find that the overall trends of OO costs for each property type are in line with that for all properties. Regardless of property types, OO costs in London were always the highest and above national averages. The other three cities had OO costs fairly close to the national average for semi-detached properties but not the other property type. For terraced properties, only Birmingham and Newcastle had OO costs close to the national average while Manchester was significantly below the national average.

Figure 4.2 shows changes in OO weekly costs by property type between 1998/99 and 2006/07. Growth rates of OO costs for all self-contained properties of the four cities were above the national average of 123.0%. Manchester had the highest growth rate of 200.6%, which was much greater than that of the second highest in Newcastle (140.9%). Growth rates of Birmingham and London were 132.2% and 128.1% respectively. One possible explanation for Manchester's outstanding performance was that the city's initial OO cost was fairly modest while London was already a high cost region. For flats, Manchester, London and Birmingham had growth rates higher than the national average, whereas the growth rate of OO cost for Newcastle was marginally below the average. For semi-detached properties, growth rates of Newcastle and Manchester were above the national average. For terraced properties, London held its growth rate close to the national level, and growth rates of the other three cities were above the average. Manchester, in particular, showed a significant growth rate of 235.2%.

<sup>12</sup> For details for OO costs by property type for the four metropolitan areas, please refer to Udagawa (2008) *Detailed Studies of the Comparison of Registered Social Landlord Rents with Owner Occupier Costs, 1998/99 to 2006/07*, Section 5.

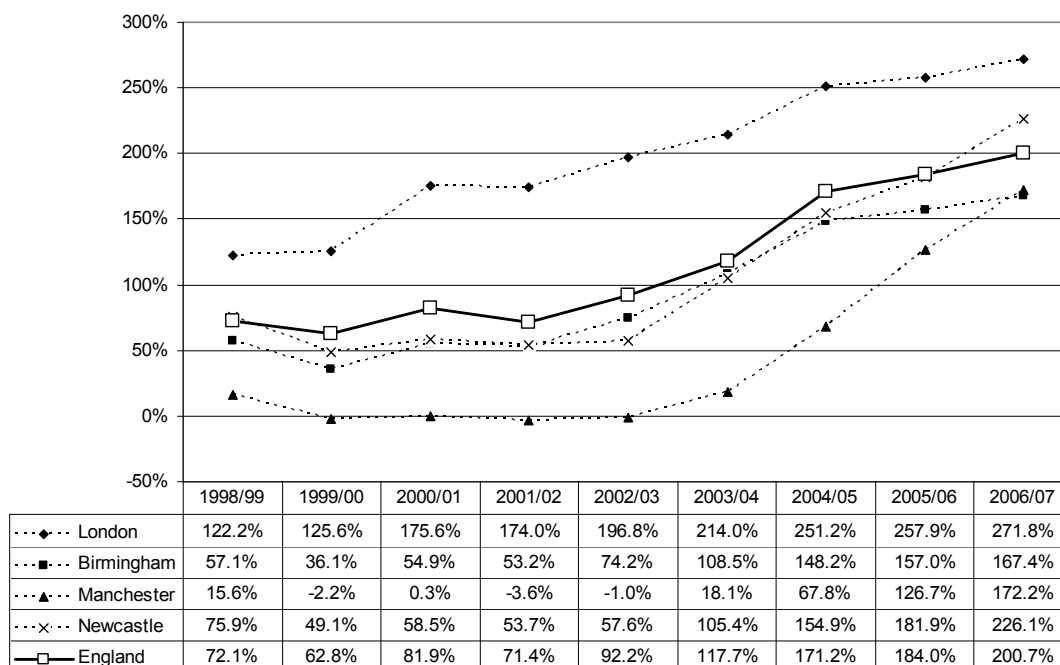


Figure 4.2 Changes in OO weekly costs for the four metropolitan areas (%) by property type between 1998/99 and 2006/07



Source: Dataspring.

Figure 4.3 Differentials between OO and RSL rents(%) for all self-contained units in the four metropolitan cities, 1998/99 – 2006/07



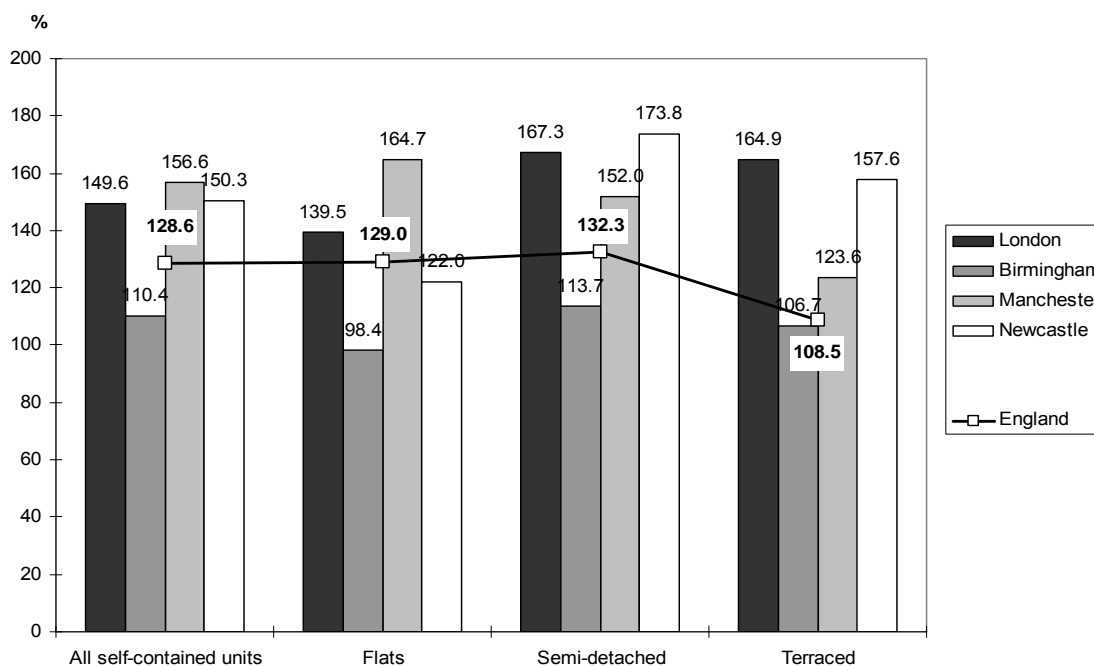
Source: Dataspring.

Figure 4.3 compares differentials of OO costs and RSL rents in percentage terms with those of national averages from 1998/99 to 2006/07. In 2006/07, the differentials of Manchester (172.2%) and Birmingham (167.4%) were below the

national average of 200.7% whereas London (271.8%) and Newcastle (226.1%) were above the average. As expected, London's differentials were always greater than national averages. However, Newcastle outperformed the national average in 2006/07.

Figure 4.4 shows changes in differentials between 1998/99 and 2006/07 by property type. First, changes in differentials for Manchester were above the national growth rates for all self-contained properties as well as for each property type. London's differential changes outperformed the national averages except those for semi-detached dwellings. Newcastle had changes exceeded the national averages for both terraced properties and the all properties category. Finally, Birmingham was the only city which the growth rate for all properties underperformed the national average, particularly, the change of differentials for flats was significantly below the national figure.

Figure 4.4 Changes in differentials between OO costs and RSL rents (%-point) by property type for the four metropolitan areas between 1998/99 and 2006/07



Source: Dataspring.

## 5. Conclusions

In England, user costs of owner occupation at the lower end of property market increased rapidly from 1998/99 – 2006/07. This was particularly apparent in the second half of the period when house prices soared after the tightening monetary policies were introduced to cool down an over-heated property markets. The high increase in OO costs implies that differentials between OO costs and RSL rents expanded for the nine-year period, and that by 2006/07, OO costs were more than double RSL rents in all regions.

Analysis at the regional level reveals clearly the north-south divide in differences of OO costs and RSL rents. Differentials between OO costs and RSL rents for London,

the South East, the South West and the East expanded over this period and were always greater than the national average. Those in the North East, the North West, and Yorkshire and the Humber narrowed and were below the average. In the context of local housing markets, differentials across LA areas have also expanded in recent years, particularly for urban LA areas. The widening gap might reduce the incentive for RSL tenants to choose owner occupation over social renting. However, there were some LA areas in the north of England, such as Newcastle, where their differentials narrowed to such an extent that the access to owner occupation market is more affordable for social renters.

Finally, analysis of changes in differentials by property size finds that differentials for properties with one to three bedrooms followed a trend similar to that for all self-contained units. However, similar analysis by property type reveals a less coherent picture for different types of properties. Differentials for flats were close to those for semi-detached dwellings throughout the period of 1998/99 to 2002/03, after then, they were smaller than those for semi-detached. For changes of differentials, Birmingham, London and Manchester had greater growth in differentials for flats, while Newcastle and Manchester had larger changes of differentials for semi-detached properties. For terraced houses, Manchester outperformed London and had the biggest growth rate of differentials.