

Registered social landlords and changes in rent

Forward

by Clare Miller, Director of Regulation

This is our third annual analysis of registered social landlords' performance in limiting rent increases.

It is also the first in a new series of *Sector Studies* which we are launching. Our aim is that Sector Studies should be short briefing papers for registered social landlords (RSLs) and regulatory staff which analyse performance across the sector or within subsectors. They will be based on the data we collect from RSLs. We hope that RSLs will find these Sector Studies a useful tool to inform their strategic planning.

We have started with the analysis of rent increase because it is such a key element of our regulatory regime. The data, which comes from the Regulatory and Statistical Return (RSR), has been analysed by Cambridge Dataspring and covers all RSLs owning or managing 250 units/bedspaces or shared ownership properties. The figures are provided as at 31 March 2000.

This data is used as the starting point for determining which RSLs will be investigated for apparently failing to meet the requirement of the Housing Corporation's Performance Standards. The data is first analysed to identify all RSLs where there has been a rent increase in excess of RPI+1%. If that increase is due to new properties coming into management for the first time, no further regulatory action will be taken. If however, the rent increase occurs for any other reason, investigations will be carried out to establish the reasons for the increase. If the increases are found to be a breach of Performance Standards then regulatory action will follow. The results of such action are published annually.

Key findings

The average change in rent for all large RSLs in the year ending 31 March 2000 was 3.2%. This was well within the RPI+1% guideline limit of 4.2%.

The average rent increase was less than last year, both in nominal and real terms.

On average RSLs with the highest rent levels achieved the lowest increases in rent. This implies that in the long term, RSL rents are converging.

RSLs with the lowest changes in rent are typically small and have high proportions of assured stock. Those with the largest changes in rent are, in the main, larger and have lower proportions of assured stock.

Whether or not an RSL'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 had much higher average rent increases (4.4%) than traditional funded RSLs (2.9%).

Black and Minority Ethnic RSLs had much lower average rent increases (2.1%) than the average for 'mainstream' RSLs (3.3%).

Introduction

From 1 April 1998 the Housing Corporation performance standards require large RSLs (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%.

The relevant RPI figure for determining acceptable changes in rents is that for September 1998. That is the figure that RSLs were expected to use when setting their rents for 1999/2000. RPI stood then at 3.2%, so RPI+1% is 4.2%.

Last year's Fact File (No. 11, October 1999) examined changes in rents over the period 1 April 1998 to 31 March 1999. The relevant RPI+1% was 4.7% for that year. This Sector Study reports on changes in rents of RSLs between 1 April 1999 and 31 March 2000.

The information on RSL rent levels and changes in rents used in the analysis comes from the Regulatory and Statistical Return (RSR) for 31 March 2000. Rent and service charge levels and changes in rents are collected from RSLs 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 2000. Rent increases (which come from a separate question) cover the period 1 April

1999 to 31 March 2000. 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.

Changes in rents relate to the average change for each RSL. Where the analysis groups RSLs together, as in tables 3 to 7, the average rent is weighted by the relevant RSLs' holdings of assured and fair rent stock.

More RSLs filled in the long version of the RSR this year than last, 518 compared to 492. The analysis below is based on 392 of the 518 RSLs (399 last year). Of the 126 RSLs excluded, 51 did not fill in Part L of the RSR because they do not own any stock (parent groups or managing RSLs), 41 had no assured or fair rent stock, but concentrated on supported stock and the figures for 34 were still being checked.

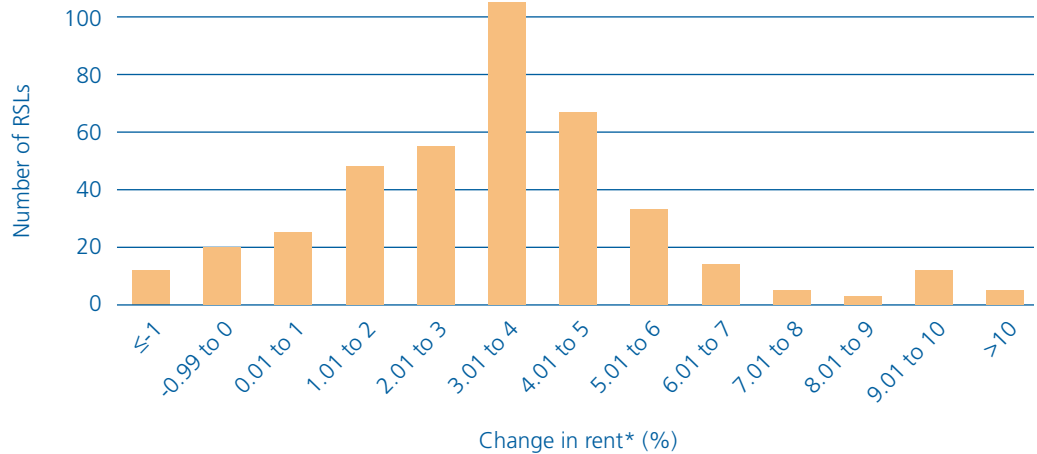
The data in table 1 show that in 1999/2000 the average rent increase was 3.2% and median rent increase was 3.4%. This is well within 4.2%. Indeed, the average rent increase was in fact equal to the relevant RPI figure (3.2%), while the median rent increase was only 0.2% above it. Both were

Table 1
RSL changes in rent*
from April 1999 to 31
March 2000

Change in rent* (%)	Number of RSLs	Percent (%)
≤0	32	8
0.1–3.2	145	37
3.21–4.2	118	30
4.21–5.2	47	12
>5.21	50	13
Total	392	100
Average	3.2%	
Median	3.4%	

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

Figure 1
Changes in rent*
from 1 April 1999 to
31 March 2000



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

less than last year's values (average = 3.8% and median = 3.8%).

75% of RSLs in the analysis had rent increases of RPI+1% or less. This is a larger majority than last year (67% of RSLs last year). A further 12% of RSLs had rent increases of between RPI+1% and RPI+2%. 45% of the RSLs 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, 25% of RSLs (97) had rent increases greater than 4.2%, of which 13% had rent increases greater than RPI+2%. This is an improvement on last year when 33% of RSLs (132) had rent increases greater than the 4.7%.

Last year RSLs with average rent increases of 4.7% or less, held 62% of the assured

and fair rent stock. This year over two thirds of stock (67%) is held by RSLs with average rent increases of 4.2% or less.

Figure 1 shows the distribution of changes in rents in more detail. In particular it shows the concentration of rent increases of between 3% and 5% and that most of those RSLs exceeding RPI+1% have nominal rent increases below 7%. Even so, there are still 13 RSLs with rent increases in excess of 7%. The maximum rent increase was 16%. At the other extreme the minimum was -9%.

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 RSLs with higher rents have lower increases than those with low rents.

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

Average rent* (£/week)	Number of RSLs	Rent* increase (%)
<40	5	-0.8
40-49	69	3.6
50-59	148	3.4
60-69	110	3.3
70-79	47	2.3
>80	13	2.5

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

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 RSLs with the highest average rents did have smaller rent increases. RSLs with average rents in excess of £70 per week had average rent increases of between 2.3% and 2.5%, well below the overall average. However, the group of RSLs with the lowest rent increase at -0.8%, also had the lowest rents, of less than £40 per week. What is clear is that those with rents close to the average also have 'average' rent increases.

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 RSLs, which are thought to have difficulty in limiting rent increases, given their financial vulnerability to losses of rental income.

RSL size and changes in rents

There appears to be a significant relationship between the size of an RSL and rent increase with the smallest RSLs having, on average, the lowest rent increases and 'large' RSLs having the highest (table 3). The smallest RSLs (those with between 250 and 1,000 units) had an average rent increase of 2.4%, well below the overall average.

Medium and large RSLs had rent increases, on average, of 3.7% and 3.6% respectively. Both were larger than the overall average of 3.2%. The 'very largest' RSLs had smaller average changes in rents than both the medium and large groups of RSLs.

The smallest RSLs also had higher rent levels than RSLs with more than 1,000 units. This ties in with the observation that those RSLs with the highest average rents had the lowest average rent increases of all. There appears to be a correlation between small RSLs, who 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 an RSL, in terms of the number of local authority districts in which it operates, and changes in rents (table 4).

The average rent increases were almost identical for all the RSL groups. The average rent increases for the three RSL groups with the least diversity were roughly the same as those for the two most geographically diverse. The lowest average rent increase was found in one of the least diverse groups. The evidence last year also showed there to be no clear relationship between rent increases and geographical diversity.

Table 3
Average rent levels
and changes in rent
by size of RSL

	No. of RSLs	Assured					Fair	Assured&fair	Rent inc.	
		Bedsit	1 bed	2 bed	3 bed	4+ bed	All	All		
Small (<1,000 units)	159	£55.20	£59.51	£61.46	£67.90	£81.91	£62.78	£54.44	£61.19	2.4%
Medium (1,000– 4,999 units)	176	£52.64	£54.39	£56.62	£61.22	£73.09	£57.62	£52.60	£56.81	3.7%
Large (5,000– 9,999 units)	40	£51.22	£53.62	£56.98	£61.69	£74.70	£57.61	£55.59	£57.30	3.6%
Very large (>10,000+ units)	17	£52.79	£55.42	£57.65	£64.96	£74.40	£58.74	£52.25	£57.21	3.5%
All	392	£52.64	£54.78	£57.22	£62.43	£74.76	£58.18	£53.26	£57.30	3.2%

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

RSL size is calculated on assured and fair rent stock only

Table 4 Average rent* levels and changes in rent by RSLs' geographical diversity	Number of districts in which RSL operates	No. of RSLs	Assured rent	Fair rent	Assured & fair rent	Rent inc. (%)
	<5	181	£54.84	£50.43	£54.52	3.2
	5–19	152	£58.52	£52.77	£57.20	3.2
	20–49	44	£60.96	£54.33	£59.53	3.1
	50–75	4	£65.64	£61.46	£64.86	3.2
	>75	11	£58.94	£52.99	£57.64	3.2

* 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 RSL's stock (table 5). The RSLs with the highest proportion of assured tenancies (>89%) and the lowest proportion of fair rent tenancies (<11%) had the lowest average rent increase (2.2%). The highest average rent increases belong to the group of RSLs with a lower (although not the lowest) proportion of assured tenancies (60-79%) and a higher proportion of fair rent tenancies (21-40%). This highlights the problem for RSLs in managing the 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

70 Large Scale Voluntary Transfer RSLs (LSVTs) were included in the analysis this year compared to 68 last year.

LSVTs have lower average rent levels than non-LSVT RSLs, but have significantly higher rent increases (4.4%) than both non-LSVT RSLs (table 6) and the overall average (table 1). This is possibly the combined result of rent covenants ending and RSLs increasing rents or units being let to new tenants at higher rents. The rise is however less than the LSVT average rent increase last year, which was 5.5%.

Black and minority ethnic RSLs and changes in rent

Black and Minority Ethnic (BME) RSL average rent levels are significantly higher than other RSLs, reflecting their higher

Table 5 Average rent* levels and changes in rent* by proportion of assured and fair rent stock amongst non-LSVT RSLs	Proportion of assured (%)	Proportion of fair (%)	No. of RSLs	Assured rent	Fair rent	Assured & fair rent	Rent increase
	<50	>50	14	£60.82	£58.19	£59.38	3.2%
	50–59	50-41	17	£63.13	£57.76	£60.60	2.9%
	60–69	40-31	31	£57.58	£52.25	£55.66	3.4%
	70–79	30-21	84	£60.48	£53.03	£58.65	3.4%
	80–89	20-11	84	£58.99	£53.07	£58.01	3.0%
	>89	<11	92	£63.14	£54.74	£62.78	2.2%

Table 6		Assured rent	Fair rent	Assured and fair rent	Rent increase
Average rent* levels and changes in rent* by LSVTs and non-LSVTs	RSL type (number)				
	LSVTs (70)	£54.63	£49.44	£54.38	4.4%
	Non-LSVTs (322)	£60.01	£53.58	£58.50	2.9%

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

Table 7		Assured rent	Fair rent	Assured and fair rent	Rent increase
Average rent* levels and changes in rent* by BME RSLs and non-BME RSLs	RSL type (number)				
	BME RSLs (30)	£73.25	£62.14	£72.86	2.1%
	Non-BME RSLs (362)	£57.90	£53.23	£57.05	3.3%

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

proportions of post 1988 development and their dependence on private finance. In 1999/2000 however, BME RSLs on average had very much lower rent increases than non-BME RSLs, at 2.1% compared to 3.3% (table 7).

Conclusions

Changes in rent amongst RSLs (with more than 250 units) are, on average, lower than last year, as a result of lower rent increases across all types of RSL. A larger majority of RSLs (75%) are also apparently meeting the Corporation's guideline limit this year than last year, even though the relevant RPI was 0.5% lower than last year. There remains, however, a significant minority of 97 RSLs with average rent increases in excess of RPI+1%, holding 33% of the assured and fair rent stock. Reasons why an RSL's average rent increase exceeds 4.2% are:

- transfers from fair rent to assured tenancies;
- investment in new development or existing units, which require higher rents to pay for them; and,
- existing financial obligations, including the need to service outstanding loan debt.

The analysis in this Sector Study confirms the findings from last year that the lowest rent increases are associated, on average, with RSLs that are small, have high proportions of assured tenancies and high rent levels. The BME RSLs are a classic sub group demonstrating these attributes. On the other hand, those RSLs 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 RSLs are working hard to reduce the overall rates of increase. Next year, with RPI at only 1.1% RSLs will have an even greater challenge.

Sector Study 1

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