

Housing associations and movement to target rents 2003 to 2004

This Sector Study compares actual (net) rents to target rents as at 31 March 2003 and 31 March 2004 and examines the extent to which actual rents have moved towards target rents. It also describes the annual change in gross rents for the period 1 April 2003 to 31 March 2004.

Key findings

The annual change in gross rents

- Across all social general needs tenancies, the average gross rent increase over the year to 31 March 2004 was 1.9%, within the guideline limit of 2.2%.

Regional and district averages

- At the regional level there has been movement towards target rents. In 2004 the average actual rent for eight out of the ten Housing Corporation investment regions was within $\pm 5\%$ of target, compared to seven out of ten regions in 2003.
- The two regions with a difference of more than $\pm 5\%$ between average actual and target rent — London and Merseyside — both had average actual rents that were *below* the target level (by 14.7% and 7.4% respectively).
- At the district level, in 2004, 164 out of the 354 districts (46.3%) had an average actual rent that was within $\pm 5\%$ of target rent, 18 more districts than in 2003.
- Most regions had a higher proportion of districts with an average actual rent that was within $\pm 5\%$ of target rent in 2004 compared to 2003. However, there was no change in the proportion for the North West, and in the East Midlands and Merseyside the proportion fell.

- The East Midlands and the North West had relatively high proportions of districts with an average actual rent that was more than 10% *above* the target rent, whilst London and Merseyside had high proportions of districts with an average rent that was more than 10% *below* target.

Averages by local authority reported by individual housing associations

- With the exception of bedsits, there has been convergence towards target rents within every bedsize. For all property types 63.1% of average actual rents were within $\pm 10\%$ of target rents in 2004, a higher proportion than in 2003 (57.2%).
- There is a clear relationship between bedsize and the likelihood that actual rents differ from target rents by more than $\pm 10\%$. Larger sized properties were more likely to have an actual rent that was *higher* than target by more than 10%. Smaller sized properties were more likely to have an actual rent that was *lower* than target by more than 10%, especially bedsits.
- Focusing on the differences between average actual and target rents for two bedroom properties (which form the largest proportion of stock):
 - Large sized HAs had made the most progress towards target rents and very large HAs the least.
 - LSVT HAs had made better progress than non-LSVT HAs, and had a large reduction in the proportion of average actual rents that were more than 10% above target.
 - BME HAs made slightly better progress than non-BME HAs, although still had a relatively high proportion of actual rents that were more than 10% above target.

Introduction

The rent restructuring regime (*Rent influencing regime: implementing the rent restructuring framework*, Housing Corporation, October 2001) was introduced in 2002 with the aim of bringing greater coherence to rents for similar properties among different landlords. From 1 April 2002 most housing associations (HAs) have been required to calculate a target rent for each of their properties and to adjust the actual net rent to meet the target rent in real terms over a ten-year period¹. At the end of the ten-year restructuring period rents on individual properties should normally be within a band of five percent either side of the target rent.

Housing associations calculate the target rent for each property using the formula and data set out in the *Guide to Social Rent Reforms* (DTLR, December 2000). The formula bases target rents on regional earnings and relative property values (with a 70/30 split between earnings and property values) together with a weighting to determine differentials between property sizes. In addition, in order to mitigate the effect of the rent restructuring formula on a small proportion of properties in high value areas, target rents are subject to a rent cap that varies by property size. In 2003/04 the rent cap for four or more bedrooms (for all regions) was £102.70. Both target rents and rent caps are set in relation to net rents, i.e., exclusive of service charges.

The rent influencing regime still allows HAs to set rents that enable financial and functional viability, but aims to bear down on rent increases and influence rent levels by restricting the increase in individual rents by a guideline limit. From 1 April 2002 the guideline limit has been RPI (all items) +0.5 percent, although, in addition, individual property rents may change by up to a

further +/- £2 to move towards target rents. For the period 1 April 2003 to 31 March 2004 the guideline limit was 2.2% (1.7% + 0.5%).

HAs are not compelled to increase actual rents to meet target rents, providing that they can demonstrate they are able to achieve the Decent Homes standards without recourse to public subsidy and can remain financially viable. By the same token, where target rents (or rent caps) are lower than actual rents, HAs can elect to reduce actual rents to meet target in less than ten years, providing they can continue to meet their commitments.

The analysis looks first at the regional and inter-district patterns of average actual and target rents and examines whether there has been a general movement towards target rents over 2003 to 2004; and second at the comparison between actual and target rents in both 2003 and 2004, with respect to property size and type and size of housing association. Finally, it describes the annual change in gross rents over 2003 to 2004.

Methodology

Comparison of actual (net) and target rents

- Data for target rent analysis are taken from Part I of the 2003/04 Regulatory and Statistical Return (RSR) and 2002/03 RSR.²
- Data from all housing associations that reported their target rents in the long version of the RSR (Part I) and made a valid return are included.³
- Only self-contained stock is included.
- Data include sheltered but not supported housing.
- Estate Renewal Challenge Fund stock is included for those housing associations

1. The Government recognises that a very small proportion of HAs will be prevented for financial reasons from completing their restructuring within ten years. Those that are unable to do so are permitted, with agreement from the Housing Corporation, to adhere to restructuring plans that deliver as much progress as is considered possible. In addition some HAs (for example some LSVT HAs) have been permitted to defer the implementation of target rents although they should still aim to achieve target rent levels by the end of the implementation period in March 2012 if possible.

2. Data are as reported by HAs, although any extreme values have been corrected.

3. In general those HAs that own or manage more than 250 homes and/or bedspaces, including shared ownership dwellings, complete the long version of the RSR. LSVT HAs registered during the period April 1998 to 31 March 2001 were not required to report target rents in the 2002/03 RSR. LSVT HAs registered during the period April 1999 to 31 March 2001 were not required to report target rents in the 2003/04 RSR.

- that reported their target rents.
- Target rents are compared to net rents (average assured and secure weekly rents combined — service charges are excluded).
- All rent data are expressed in pounds (£s) per week.

The increase in gross rents

- Data for rent increase analysis are taken from Part H of the 2003/04 RSR and 2002/03 RSR.
- Data from all housing associations that completed the long version of the RSR (Part H) and made a valid return are included.
- Data include sheltered but not supported housing.
- Estate Renewal Challenge Fund stock is excluded.
- New additions to stock are included.
- Rent increases cover the period 1 April 2003 to 31 March 2004. Percentage change in rents is calculated on gross rents, that is, average assured and

secure weekly rents combined plus service charges eligible for Housing Benefit.

- All rent and service charge data are expressed in pounds (£s) per week.

Regional average actual rents and target rents

Table 1 describes average regional and national actual and target rents as at 31 March 2004 and 31 March 2003. The final column shows how much of a discrepancy exists between the regional (and national) average actual rent and target rent in 2004 and in 2003. The discrepancy is calculated by subtracting the average actual rent from the average target rent and is expressed as a percentage of actual rent. A negative percentage indicates that the average actual rent is higher than the average target rent. Comparison of the discrepancies for 2004 with 2003 gives a broad indication at the regional level as to whether actual rents are converging towards target rents.

Table 1

Average regional actual (net) rents and target rents (£s per week at 31 March 2004 and 31 March 2003)

HC investment region	Average actual rent for region £		Average target rent for region £		Percentage difference ^a	
	2004	2003	2004	2003	2004	2003
London	70.17		80.48		14.7%	
	67.78		78.08		15.2%	
South East	67.30		68.43		1.7%	
	66.21		66.33		0.2%	
South West	58.91		58.87		-0.1%	
	59.59		56.44		-5.3%	
East Midlands	53.38		53.35		-0.1%	
	52.58		53.66		2.1%	
East of England	60.71		63.50		4.6%	
	59.18		61.94		4.7%	
West Midlands	54.07		56.39		4.3%	
	52.86		54.56		3.2%	
Yorkshire and the Humber	51.13		51.06		-0.1%	
	49.48		49.38		-0.2%	
North East	49.31		51.27		4.0%	
	48.15		49.80		3.4%	
North West	52.29		52.31		0.0%	
	50.92		50.81		-0.2%	
Merseyside	50.92		54.71		7.4%	
	49.22		53.39		8.5%	
England	59.25		62.12		4.9%	
	57.97		60.57		4.5%	

Note: a. The difference is calculated by subtracting average actual rent from average target rent and is expressed as a percentage of actual rent.

In 2004 the average regional actual rent was within $\pm 5\%$ of the average target rent in all regions with the exception of London and Merseyside (where the average actual rents were lower than target by 14.7% and 7.4%). This is an improvement on 2003 when the discrepancies for London and Merseyside were larger (15.2% and 8.5%), which means that there has been a modest increase in average actual rents in these two regions bringing them closer to target. In addition, the average actual rent for the South West fell from £59.59 in 2003 to £58.91 in 2004, bringing it in line with the target rent. All other regions have maintained an average actual rent that is within $\pm 5\%$ of average target rent in 2004. At the regional level, then, there appears to be convergence towards target rents.

Differences in average actual rents and target rents for two bedroom properties by local authority area

Map 1 illustrates the variation in the differences between average actual and target rents across England at the local authority level as at 31 March 2004. Two bedroom properties are selected as an example because they form the largest proportion of stock.

The difference for each local authority area is calculated by subtracting its average actual rent from its average target rent and is expressed as a percentage of the average actual rent. The map groups the average percentage differences for the 354 local authority areas into five bands:

- Average actual rent is: >10% *above* the average target rent
Percentage of districts 2003: 14.7%
Percentage of districts 2004: 10.2%
- Average actual rent is: 5% to 10% *above* the average target rent
Percentage of districts 2003: 19.2%
Percentage of districts 2004: 18.4%
- Average actual rent is: within $\pm 5\%$ of the average target rent
Percentage of districts 2003: 41.2%
Percentage of districts 2004: 46.3%
- Average actual rent is: 5% to 10% *below* the average target rent

Percentage of districts 2003: 11.0%
Percentage of districts 2004: 11.0%

- Average actual rent is: > 10% *below* the average target rent
Percentage of districts 2003: 13.8%
Percentage of districts 2004: 14.1%

In 2004 there were 164 districts (46.3%) that had an average actual rent that was within $\pm 5\%$ of target rent. This is a higher proportion than the previous year's 41.2% (146 districts).

London and Merseyside both had a high proportion of districts where the average actual rent was more than 10% *below* the target rent (48.5% and 22.2%, respectively). However, for both regions the proportion of districts within this category of variation has fallen since 2003 (from 57.6% and 33.3%, respectively).

The East Midlands and the North West both had a high proportion of districts where the average actual rent was more than 10% *above* the target rent (27.5% and 20.6%, respectively). For the North West the proportion has not changed since 2003, but it increased (from 22.5%) for the East Midlands. In all other regions the proportion of districts in this category either remained the same or decreased. Overall, 10.2% (36 out of 354) of all districts fell within this extreme category of variation, a lower percentage than the 14.7% (52 out of 354) for the previous year.

With the exception of the East Midlands and Merseyside, the proportion of districts within each region that had an average actual rent within $\pm 5\%$ of target rent either remained the same (North East) or increased since 2003. There is not a clear north-south pattern in proportion of districts with actual rents that were more than 10% above or below target rents.

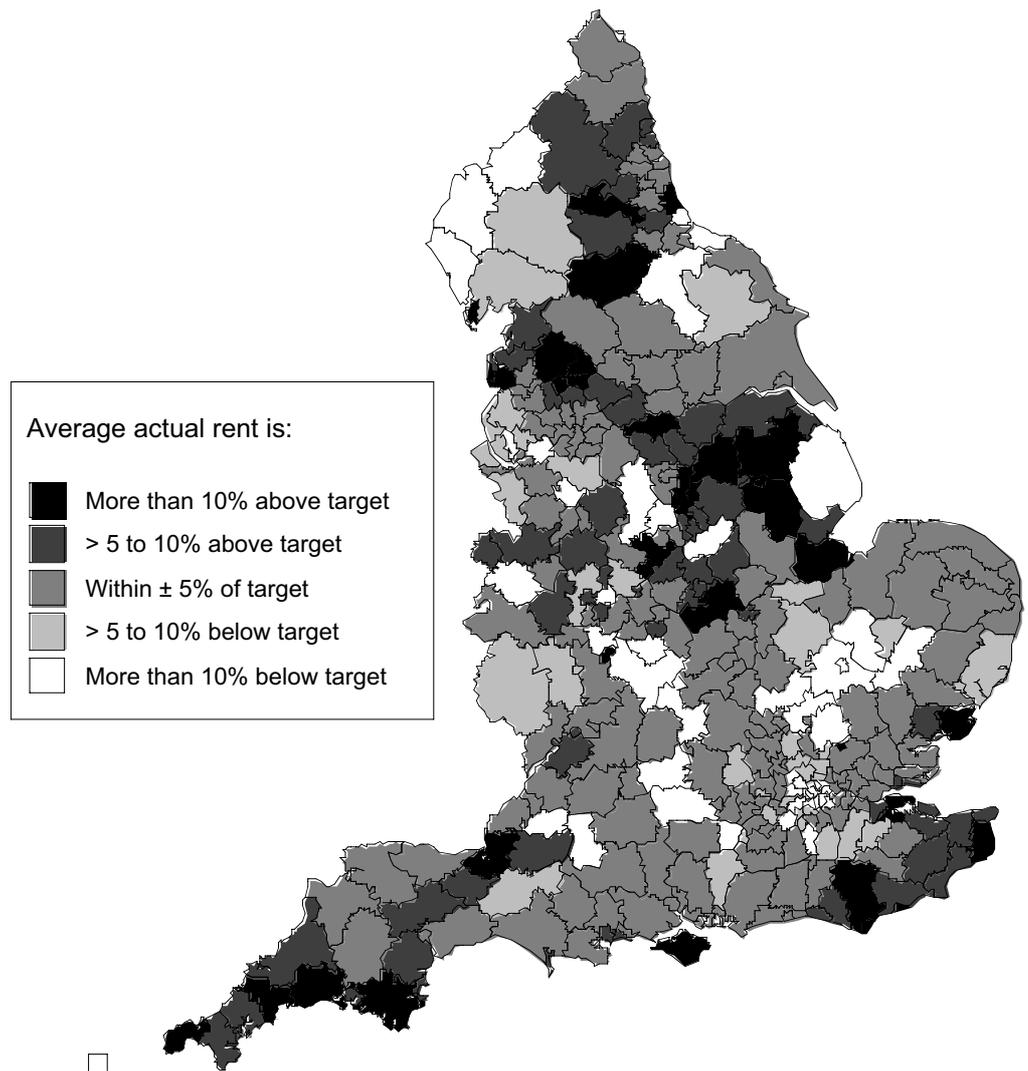
Differences in average actual rents and target rents by property size and type and size of housing association

This section examines the differences between average actual and target rents in 2004 in comparison with 2003 by:

- Bedsize

Map 1

Difference in average actual rents and average target rents for two bedroom properties by local authority area 31 March 2004



- Size of HA (for two bedroom properties)⁴
- LSVT HAs and non-LSVT HAs (for two bedroom properties)
- BME and non-BME HAs (for two bedroom properties)

HAs report average target and actual rents by bedsize for each local authority area in which they own stock in Part I of the RSR. The unit of analysis used in Tables 2 to 5 is the percentage difference between the reported average actual and target rent. Thus an HA that owns two bedroom properties in six different local authority areas contributes six cases to the data presented in the tables. The percentage

differences for each case are grouped into one of three categories:

1. Average actual rent is more than 10% above the average target rent
2. Average actual rent is within $\pm 10\%$ of the average target rent
3. Average actual rent is more than 10% below the average target rent

Columns two to four of Tables 2 to 5 show the percentage of cases falling within each of the three categories of actual to target rent discrepancy. The final column gives the number of cases⁵ included in the analysis. Cases that fall within the middle category have an average actual rent that is already

4. Two bedroom properties are selected as an example because they form the largest proportion of stock.
5. It should be noted that each case represents an average that is based on varying quantities of stock. Depending on the degree of rental variation an HA has within each property size and district, the average may or may not be an accurate reflection of all their rents.

close to, or on target. Cases falling within the other two categories have an actual rent that requires more adjustment in order to converge with the target rent.

Difference between average actual and target rents by bedsize at 31 March 2004 and 31 March 2003

Table 2 gives a breakdown of the three categories of actual to target rent discrepancy by bedsize and shows a strong relationship between bedsize and the degree of discrepancy.

Looking first at the category where actual rent was more than 10% *below* target rent (column 4) — the proportion of cases decreases with bedsize (from 44.6% for bedsits to 15.8% for four-plus bedrooms in 2004). Bedsits have a particularly high proportion of cases in this category.

The reverse pattern holds for the category where actual rent was more than 10% *above* target rent (column 2), the proportion of cases increases with bedsize (from 8.8% for bedsits to 29.3% for four-plus bedrooms in 2004). This indicates that larger sized properties were more likely to have had an actual rent that was higher than target. Moreover, it is also the case

that the target rents of larger sized properties were more likely to be higher than their rent cap. For example, 10% of the average target rents reported for four-plus bedroom properties were higher than the rent cap of £102.70, compared to 1.5% for one bedroom properties, which had a rent cap of £87.30. Thus the imposition of the rent cap increases the amount by which actual rents will need to reduce in the case of some larger sized properties.

A comparison of the data for 2004 with 2003 shows that, with the exception of bedsits, there has been a movement towards target rents within every bedsize. The proportion of cases that had an actual rent that was *within* ± 10% of the average target rent (column 3) increased.

Difference between average actual and target rents by size of housing association at 31 March 2004 and 31 March 2003

Table 3 gives a breakdown of the three categories of actual to target rent discrepancy by size of HA. In 2004 two-thirds of the average actual rents reported by small and medium sized HAs were within ± 10% of target rent. The corresponding

Table 2
Difference^a between average actual and target rents (percentage of cases^b within each bedsize category) at 31 March 2004 and 31 March 2003

Bedsize	Actual rent more than 10% above target rent	Actual rent within ± 10% of target rent	Actual rent more than 10% below target rent	Total number of cases
Bedsits				
2004	8.8%	46.7%	44.6%	1,414
2003	8.4%	53.7%	37.8%	1,444
One bedroom				
2004	13.3%	59.8%	26.9%	3,975
2003	16.7%	54.9%	28.3%	3,909
Two bedrooms				
2004	16.4%	62.7%	21.0%	4,260
2003	20.9%	57.3%	21.8%	4,168
Three bedrooms				
2004	23.7%	61.5%	14.8%	3,724
2003	28.8%	55.2%	16.0%	3,633
Four-plus bedrooms				
2004	29.3%	54.9%	15.8%	2,120
2003	34.7%	48.2%	17.1%	2,033
All properties				
2004	15.8%	63.1%	21.1%	5,117
2003	20.3%	57.2%	22.5%	5,053

Notes a. The difference is calculated by subtracting average actual rent from average target rent and is expressed as a percentage of actual rent.

b. Each case represents the difference between the average target rent and average actual rent reported by each HA for each of the local authority areas within which it owns stock.

Table 3

Difference^a between average actual and target rents for two bedroom properties (percentage of cases^b within size^c of HA category) at 31 March 2004 and 31 March 2003

HA size	Actual rent more than 10% above target rent	Actual rent within ± 10% of target rent	Actual rent more than 10% below target rent	Total number of cases
Small (< 1,000 units)				
2004	14.5%	66.6%	18.9%	488
2003	16.9%	59.6%	23.6%	450
Medium (1,000–4,999 units)				
2004	11.0%	66.5%	22.5%	1,467
2003	15.3%	61.2%	23.5%	1,471
Large (5,000–9,999 units)				
2004	17.9%	71.6%	10.5%	799
2003	24.0%	58.2%	17.8%	830
Very large (>10,000+ units)				
2004	21.3%	52.9%	25.8%	1,506
2003	26.3%	51.9%	21.8%	1,417
All Sizes				
2004	16.4%	62.7%	21.0%	4,260
2003	20.9%	57.3%	21.8%	4,168

Notes: a. The difference is calculated by subtracting average actual rent from average target rent and is expressed as a percentage of actual rent.

b. Each case represents the difference between the average target rent and average actual rent reported by each HA for each of the local authority areas within which it owns stock.

c. HA size is calculated on ownership of stock (units and bedspaces, including staff units).

Source: RSR Parts A and B.

proportions were 71.6% for large HAs and 52.9% for very large HAs.

The data indicate that the large HAs made the most movement towards target rents over 2003–04. Within this group the proportion of average actual rents that were within ± 10% of target rents increased from 58.2% to 71.6%. There was modest improvement from the small and medium sized HAs and little change from the very large HAs. In 2004 all four sizes of HA reported a lower proportion of average actual rents that were in excess of target rents by more than 10% than in 2003.

Difference between average actual and target rents for two bedroom properties by LSVT and non- LSVT housing associations at 31 March 2004 and 31 March 2003

In 2004 three-quarters (74.6%) of the average district actual rents (for two bedroom properties) reported by LSVT HAs were within ± 10% of target rents (see Table 4). This proportion was higher than that of non-LSVTs (61.2%).

A comparison of the data for 2004 with 2003 shows that the movement towards

Table 4

Difference^a between average actual and target rents for two bedroom properties (percentage of cases^b within LSVT^c and non-LSVT categories) at 31 March 2004 and 31 March 2003

Type of HA	Actual rent more than 10% above target rent	Actual rent within ± 10% of target rent	Actual rent more than 10% below target rent	Total number of cases
LSVT				
2004	11.3%	74.6%	14.1%	476
2003	23.0%	59.1%	17.9%	430
Non-LSVT				
2004	17.0%	61.2%	21.9%	3784
2003	20.7%	57.1%	22.3%	3738
All types				
2004	16.4%	62.7%	21.0%	4260
2003	20.9%	57.3%	21.8%	4168

Notes: a. The difference is calculated by subtracting average actual rent from average target rent and expressed as a percentage of actual rent.

b. Each case represents the difference between the average target rent and average actual rent reported by each HA for each of the local authority areas within which it owns stock.

c. LSVT HAs registered during the period April 1998 to 31 March 2001 were not required to report target rents in the 2002/03 RSR. LSVT HAs registered during the period April 1999 to 31 March 2001 were not required to report target rents in the 2003/04 RSR.

target rents was also more rapid for LSVT HAs (an increase from 59.1% to 74.6% of cases where the actual rent was within $\pm 10\%$ of target) than for non-LSVT HAs (an increase from 57.1% to 61.2%). Much of this movement is attributable to a decrease in the proportion of average actual rents that were more than 10% above target rent (i.e., there has been a relative reduction in average actual rents for LSVT HAs).

Difference between average actual and target rents for two bedroom properties by BME and non- BME housing associations at 31 March 2004 and 31 March 2003

BME HAs and non-BME HAs reported similar proportions of average actual rents that were within $\pm 10\%$ of target rents (60.6% and 62.7% respectively). However, BME HAs were more likely to report average actual rents that were more than 10% above target rents (24%) than non-BME HAs (16%).⁶

A comparison of the data for 2004 with 2003 shows that the movement towards target rents was slightly more rapid for BME HAs (increase from 52.6% to 60.6% of cases within $\pm 10\%$ of target) than for non-BME HAs (increase from 57.5% to 62.7%).

Changes in rents

Individual HAs were required to keep rent increases within a limit of RPI+0.5% (1.7+0.5=2.2%). In addition, HAs were allowed to change individual rents by up to an extra $\pm£2.00$ per week if the actual rent differed from the target rent.

Across all social general needs tenancies, the average level of gross rent increased from £60.06 to £61.21, thus the average increase in gross rents over the year to 31 March 2004 was 1.9% (see Table 6).

6. Some BME HAs have average actual rents considerably in excess of average target rents as they have developed properties during a period of relatively low grant rates, thus being reliant on high levels of private finance often at interest rates higher than average for the sector. The location of many properties that BME HAs have developed has the consequence of relatively low target rents. In September 2004 the HC awarded grants of £15 million to assist ten BME HAs in meeting the requirement on rent restructuring.

Table 5
Difference^a between average actual and target rents for two bedroom properties (percentage of cases^b within BME and BME categories) at 31 March 2004 and 31 March 2003

Type of HA	Actual rent more than 10% above target rent	Actual rent within $\pm 10\%$ of target rent	Actual rent more than 10% below target rent	Total number of cases
BME				
2004	24.0%	60.6%	15.4%	175
2003	29.1%	52.6%	18.3%	175
Non-BME				
2004	16.0%	62.7%	21.2%	4,085
2003	20.6%	57.5%	22.0%	3,993
All types				
2004	16.4%	62.7%	21.0%	4,260
2003	20.9%	57.3%	21.8%	4,168

Notes: a. The difference is calculated by subtracting average actual rent from average target rent and expressed as a percentage of actual rent.

b. Each case represents the difference between the average target rent and average actual rent reported by each HA for each of the local authority areas within which it owns stock.

Table 6
Average assured and secure gross^a rent

No. of HAs	2003		No. of HAs	2004		Increase 2003/04
	Social general needs stock (total units)	Average gross rent		Social general needs stock (total units)	Average gross rent	
489	1,487,553	£60.06	497	1,540,036	£61.21	1.9%

Notes: a. Average gross rent increase includes service charges eligible for Housing Benefit.

Conclusion

The differences between average actual and target rents for 2004 and 2003 at the regional and district level suggest that actual rents are converging to target in much of England.

London and Merseyside stand out as having relatively high proportions of districts where actual rents remain considerably below target, whereas the East Midlands and the North West continue to have relatively high proportions of districts where actual rents are more than 10% above target.

Larger sized properties are more likely to have actual rents that are considerably above target and the application of the rent cap will serve to magnify this difference. A very large proportion of the actual rents reported for bedsits were more than 10% below target.

Large sized HAs have made the most progress towards target rents and very large HAs the least. LSVT HAs have made better progress than non-LSVT HAs, and had a large fall in the proportion of average actual rents that were more than 10% above target. BME HAs made slightly better progress than non-BMEs, although still had a relatively high proportion of actual rents that were more than 10% above target.

The data suggest that average actual rents, whether below or above target, have moved towards their target level. At the national level the overall increase in gross rents, at 1.9%, indicates that many HAs have made adjustments to net rents without breaching the guideline limit of 2.2%.

Further information

This Sector study was written by Wendy Solomou and Ian Elliot of Dataspring, Cambridge Centre for Housing and Planning Research, Department of Land Economy, University of Cambridge.

The Sector Study can be obtained from the following websites:

www.housingcorp.gov.uk

www.rsrsurvey.co.uk

www.dataspring.org.uk

Further information on the Sector Study series can be obtained from Siobhan McHugh, Sector Analyst, Regulation Division, on 020-7393 2024 or email siobhan.mchugh@housingcorp.gsx.gov.uk

