

Dataspring Report: Housing Associations and the Movement towards Target Rents 2005 to 2006

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This paper compares actual (net) rents to target rents as at 31 March 2005 and 31 March 2006 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 2005 to 31 March 2006.

Key findings

- In 2006 the average actual rent (excluding service charges) for England was £64.51 and the average target rent was £67.21. At the national level the gap between the actual rent and target rent has widened slightly from £2.32 in 2005 (target 3.7% higher than actual rent) to £2.70 in 2006 (target 4.2 % higher than actual rent).
- Three out of five regions across England (London, South East and South West) saw convergence towards target rents between 2005 and 2006. The move away from convergence is concentrated in the North of the country.
- In 2006, in all regions, with the exception of London, the difference between the regional average actual rent and the target rent was no more than 5%. In London the average target rent (£86.36) was 10.6% above the average actual rent (£78.07). However, this is a smaller percentage difference than in the previous year (11.5%).
- In 2006, London a significant proportion (12.6%) of the average target rents reported by individual HAs were above the rent cap which limits the target rent on individual properties. Other regions were less affected by the rent cap - in the South East 2.5% of reported average target rents were higher than the rent cap and in all other regions the proportion was 0.5% or less.
- At the local authority area level, the number of local authorities where the HA average actual rent for two bedroom properties was within $\pm 5\%$ of target rent rose to 199 out of 354 local authorities (56.2%) in 2006 from 185 (52.3%) in 2005. This improvement can be observed across all the regions.
- The number of local authorities where the HA average actual rent was more than 10% **below** target fell from 37 (10.5 %) in 2005 to 33 (9.3%) in 2006. In 2006 majority of such local authorities were either in Central (12 local authorities) or in London (11).
- The number of local authorities where the HA average actual rent was more than 10% **above** target fell from 27 (7.6%) in 2005 to 22 (6.2%) in 2006. Out of the 22 local authorities, 10 were in Central.

Averages by local authority reported by individual housing associations

- A higher proportion of average actual rents reported by individual housing associations were within $\pm 10\%$ of target rents in 2006 (73.0%) than in 2005 (70.1%). This improvement can be observed across all bedsizes.
- There is a noticeable 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%.
- Focusing on the differences between average actual and target rents for two bedroom properties (which form the largest proportion of stock):
 - In 2006 a higher proportion of average actual rents for two bedroom properties were within $\pm 10\%$ of target (72.9%) than in 2005 (69.9%).
 - Very large HAs (10,000 or more units) reported the lowest proportion of average actual rents within $\pm 10\%$ of target (67.0% in 2006), despite improving by 3.2 percentage points as compared to the previous year. Medium-sized HAs (1,000-4,999 units) and large-sized HAs (5,000-9,999 units) equally reported the highest proportion of average actual rents within $\pm 10\%$ of target (76.9% in 2006 for each).
 - In 2006 a higher proportion of LSVT HAs reported average actual rents that were within $\pm 10\%$ of target (76.0%) than non-LSVTs (72.5%). Non-LSVT HAs were more likely to report average actual rents that were more than 10% **above** target rent (15.9%) than LSVT HAs (9.4%).
 - In 2006 a higher proportion of non-BME HAs reported average actual rents that were within $\pm 10\%$ of target (73.3%) than BME HAs (65.5%). BME HAs were more likely to report average actual rents that were more than 10% **below** target rent (18.6%) than non-BME HAs (11.7%).

The annual change in gross rents

- Across all social general needs tenancies, the average gross rent increase over the year to 31 March 2006 was 4.4%. The guideline limit for 2005/06 was 3.6%, although in addition, net rents for individual properties were permitted to rise by an additional £2 if necessary, in order to progress towards target rent.

Introduction

In April 2002 the Government introduced the rent-restructuring regime (*Quality and choice: A decent home for all*, DETR, 2000) with the aim of bringing greater coherence to rents in the social housing sector. From 1 April 2002 most housing associations (HAs) have been required to calculate a target rent for each of their social housing properties and to adjust the actual net rent to meet the target rent in real terms over a ten-year period.¹ 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 is based on a 70/30 split between relative county earnings and the relative value of each individual property, together with a bedsize weighting to help create differentials between property sizes. In order to mitigate the effect of the formula on a small proportion of properties in high value areas, all target rents are subject to a rent cap that varies by property size. In 2005/06 the rent cap was £94.34 for bedsits and one bedroom properties, £99.87 for two bedroom, £105.43 for three bedroom and £110.97 for four bedrooms.² Both target rents and rent caps are set in relation to net rents, i.e., exclusive of service charges.

To avoid excessive year-on-year increases in rents whilst allowing gradual convergence between actual rents and target rents, the Government sets a guideline limit for rent increases in any one year of RPI (all items) +0.5 percent, although, in addition, individual property rents may change by up to a further plus or minus £2 per week to move towards target rents. For the period 1 April 2005 to 31 March 2006 the guideline limit was 3.6% (3.1% + 0.5%).³

HAs are not compelled to increase actual rents to meet target rents (or rent caps), providing that they are able to fulfil their commitments to tenants, lenders and other stakeholders, as well as meeting future repairing obligations on their stock. By the same token, where target rents are lower than actual rents, HAs can reduce actual rents to meet target in less than ten years, providing they can continue to meet their commitments.

The analysis looks first at regional and local authority patterns of average actual and target rents and examines whether there has been a general movement towards target rents over 2005 to 2006; and second at the comparison between actual and target rents in both 2005 and 2006, with respect to property size and type and size of housing association. Finally, it describes the annual change in gross rents over 2005 to 2006.

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 See Housing Corporation; *Circular: Rents, Rent Differentials and Service Charges for housing associations*; November 2005.

³ Ditto.

Methodology

Movement to target rent analysis (Tables 1 to 5 and Map 1)

- Data for target rent analysis are taken from Part I of the 2005/06 Regulatory and Statistical Return (RSR) and 2004/05 RSR.⁴
- Data from all HAs that reported their target rents in the long version of the RSR (Part I) and made a valid return are included.⁵
- Only self-contained stock is included.
- Data include social general needs housing.
- Estate Renewal Challenge Fund stock is included.
- Target rents are compared to net rents (average assured and secure weekly rents combined – service charges are excluded).⁶
- All rent data are expressed in pounds (£s) per week.

Increase in gross rents (Table 6)

- Data for rent increase analysis are taken from Part H of the 2005/06 RSR and 2004/05 RSR.
- Data from all HAs that completed the long version of the RSR (Part H) and made a valid return are included.
- Data include social general needs housing.
- Estate Renewal Challenge Fund stock is excluded.
- Rent increases cover the period 1 April 2005 to 31 March 2006. 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 data are expressed in pounds (£s) per week.

Regional average actual rents and target rents

Comparison of the differences between average regional actual rents and target rents in 2005 and 2006 gives a broad indication as to whether actual rents are converging towards target rents. Table 1 describes average regional and national actual and target rents as at 31 March 2006 and 31 March 2005. The final column shows how much of a difference exists between the regional (and national) average actual rent and target rent in 2006 and in 2005. The difference 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.

The data indicate that three out of five regions in England witnessed convergence to target rents between 2005 and 2006. In 2006, the differences between the regional

⁴ Data are as reported by HAs. One extreme case where the target and average actual rents were £1,051.2 and £850.02 respectively in 2005/06 was excluded from the analyses in order to avoid an upward bias. This data came from a group home with over 15 occupants let on one tenancy in Kingston LA (London).

⁵ 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 2000 to 31 March 2001 were not required to report target rents in the 2004/05 RSR.

⁶ Due to rounding at the data process stages, percentage figures may contain point-one errors.

average actual rent and the target rent in London (10.6%), South East (0.6%) and South West (-0.8%) were narrowed by 0.9, 0.4 and 0.5 percentage points respectively. Central (3.2%) and North (4.1%), in contrast, widened the gap from the previous year by 0.7 and 1.6 points respectively.

In 2006, in all regions, with the exception of London, the difference between the regional average actual rent and the target rent was no more than 5%. London, however, had a significant proportion (12.6%) of the average target rents reported by individual HAs were above the rent cap. The rent cap, which varies by property size, limits the target rent on individual properties.⁷ This means, in effect, that the average actual rent for London does not need to make such a large upward adjustment to meet target. Other regions were less affected by the rent cap - in the South East 2.5% of reported average target rents were higher than the rent cap and in all other regions the proportion was only 0.5% or less.

At the national level the gap between the actual net rent and the target rent has moderately widened from £2.32 in 2005 (target 3.7% higher than actual rent) to £2.70 in 2006 (target 4.2% higher than actual rent).

Table 1 Average regional actual (net) rents and target rents (£s per week) at 31 March 2006 and 31 March 2005

HC investment region	Average actual rent for region	Average target rent for region	Percentage difference ^a
	2006 2005 £	2006 2005 £	2006 2005
London	78.07	86.36	10.6%
	74.76	83.33	11.5%
South East	74.88	75.32	0.6%
	71.73	72.45	1.0%
South West	64.59	64.06	-0.8%
	62.33	61.52	-1.3%
Central	61.19	63.17	3.2%
	58.99	60.48	2.5%
North	55.53	57.78	4.1%
	53.28	54.60	2.5%
England	64.51	67.21	4.2%
	62.05	64.37	3.7%

Notes

a. The difference is calculated by subtracting average actual rent from average target rent and is expressed as percentage of actual rent. A negative percentage indicates that the average actual rent is higher than the average target rent.

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 2006. Two bedroom

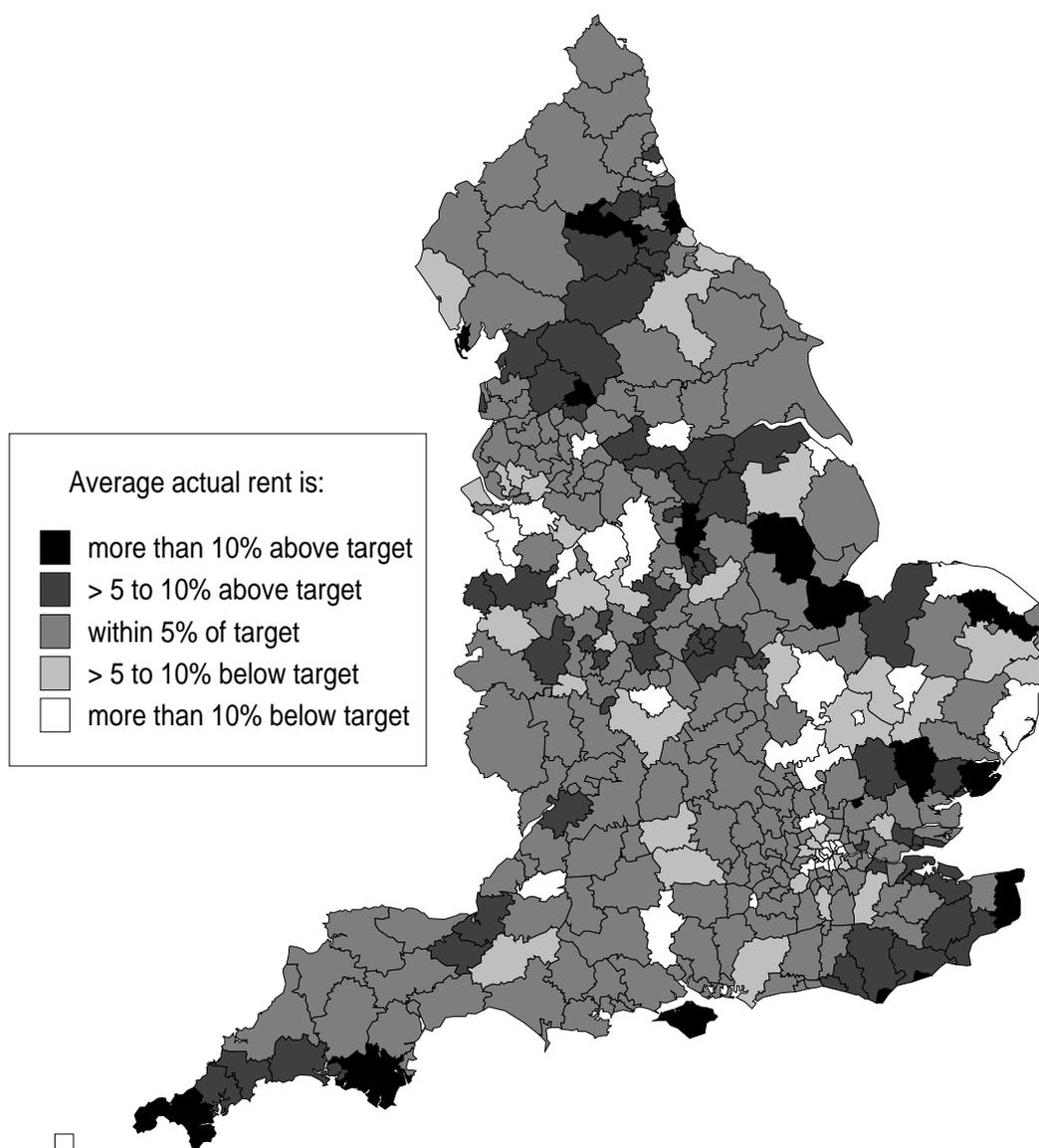
⁷ The average actual rents for four-plus bedrooms were compared with the rent cap for four bedrooms.

properties are selected as an example because they form the largest proportion (36.7% in 2006) of self-contained target rent 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 local authorities 2005: 7.6%
Percentage of local authorities 2006: 6.2%
- Average actual rent is >5% to 10% **above** the average target rent
Percentage of local authorities 2005: 17.5%
Percentage of local authorities 2006: 17.2%
- Average actual rent is within $\pm 5\%$ of the average target rent
Percentage of local authorities 2005: 52.3%
Percentage of local authorities 2006: 56.2%
- Average actual rent is >5% to 10% **below** the average target rent
Percentage of local authorities 2005: 12.1%
Percentage of local authorities 2006: 11.0%
- Average actual rent is > 10% **below** the average target rent
Percentage of local authorities 2005: 10.5%
Percentage of local authorities 2006: 9.3%

Map 1 - Difference in average actual rents and average target rents for two bedroom properties by local authority area, 31 March 2006



The number of local authorities where the HA average actual rent was within $\pm 5\%$ of target rent rose to 199 out of 354 local authorities (56.2%) in 2006 from 185 (52.3%) in 2005. However, with the exception of London, every region had at least one local authority in every band of difference. None of the local authorities in London had an HA average rent that was more than 10% **above** the average target rent.

The number of local authorities where the HA average actual rent was more than 10% **below** target fell from 37 (10.5%) in 2005 to 33 (9.3%) in 2006. In 2006 majority of such local authorities were either in Central (12 local authorities) or London (11).

The number where the HA average actual rent was more than 10% **above** target fell from 27 (7.6%) in 2005 to 22 (6.2%) in 2006. Of the 22 local authorities, 10 were in Central.

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 2006 in comparison with 2005 by:

- Bedsize
- Size of HA (for two bedroom properties)⁸
- 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 difference. The final column gives the number of cases⁹ included in the analysis. Cases that fall within the middle category have an average actual rent that is already 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

Table 2 gives a breakdown of the three categories of actual to target rent difference by size of property. A higher proportion of average actual rents reported by individual housing associations were within $\pm 10\%$ of target rents in 2006 (73.0%) than in 2005 (70.1%). This improvement can be observed within all bedsizes (see Column 3 of Table 2).

The data suggest that there was particularly rapid progress of 4.9 percentage points for four-plus bedrooms (65.9% of reported actual rents were within $\pm 10\%$ of target rent in 2006 compared to 61.0% in 2005). This was followed by one bedroom, three bedrooms, and two bedrooms – the increases were 3.9 points (71.7% in 2006 from 67.8% in 2005), 3.3 points (70.5% in 2006 from 67.2% in 2005) and 3.0 points (72.9% in 2006 from 69.9% in 2005) respectively. Bedsits showed moderate progress of 1.2 points (63.6% in 2006 from 62.4% in 2005).

⁸ Two bedroom properties are selected as an example because they form the largest proportion of stock.

⁹It 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 local authority, the average may or may not be an accurate reflection of all their rents.

Table 2 Difference^a between average actual and target rents (percentage of cases^b within each bedsize category) at 31 March 2006 and 31 March 2005

Bedsize	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
Bedsits				
2006	9.9%	63.6%	26.5%	947
2005	10.1%	62.4%	27.5%	1097
One bedroom				
2006	14.1%	71.7%	14.2%	3274
2005	14.5%	67.8%	17.7%	3434
Two bedrooms				
2006	15.0%	72.9%	12.1%	4040
2005	15.6%	69.9%	14.5%	4041
Three bedrooms				
2006	17.9%	70.5%	11.6%	3758
2005	21.1%	67.2%	11.7%	3703
Four-plus bedrooms				
2006	19.0%	65.9%	15.1%	2250
2005	26.0%	61.0%	13.0%	2189
All properties				
2006	15.1%	73.0%	11.9%	4555
2005	16.2%	70.1%	13.7%	4692

Notes

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

Difference between average actual and target rents by size of housing association

Table 3 gives a breakdown of the three categories of actual to target rent difference by size of HA for two bedroom properties. The data indicate that there has been a continued convergence to target rents within each size category of HA.

The most marked improvement was within the small HA (<1,000 units) category. The proportion of average actual rents that were within $\pm 10\%$ of target rent increased by 4.1 percentage points from 68.3% in 2005 to 72.4% in 2006. This was followed by the medium HA (1,000-4,999 units) category, which made the progress of 3.7 points from 73.2% in 2005 to 76.9% in 2006.

The very large HA (>10,000+ units) category reported the lowest proportion of average actual rents within $\pm 10\%$ of target, despite improving by 3.2 points (67.0% in 2006 from 63.8% in 2005). The medium-sized HAs (1,000-4,999 units) and the large-sized HAs (5,000-9,999 units) equally reported the highest proportion of average actual rents within $\pm 10\%$ of target (76.9% in 2006 for each). But the latter category failed to improve from the previous year, keeping the proportion almost unchanged.

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 2006 and 31 March 2005

Housing association size	Actual rent more than 10% above target rent	Actual rent within $\pm 10\%$ of target rent	Actual rent more than 10% below target rent	Number of cases
Small				
(< 1,000 units)				
2006	10.9%	72.4%	16.6%	421
2005	15.3%	68.3%	16.4%	426
Medium				
(1,000 – 4,999 units)				
2006	10.5%	76.9%	12.6%	1440
2005	10.4%	73.2%	16.3%	1398
Large				
(5,000-9,999 units)				
2006	12.0%	76.9%	11.2%	753
2005	14.7%	77.0%	8.3%	723
Very large				
(>10,000+ units)				
2006	22.4%	67.0%	10.6%	1426
2005	20.9%	63.8%	15.3%	1494
All Sizes				
2006	15.0%	72.9%	12.1%	4040
2005	15.6%	69.9%	14.5%	4041

Notes

- The difference is calculated by subtracting average actual rent from average target rent and is expressed as percentage of actual rent.
- 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.
- HA size is calculated on ownership of stock (units and bedspaces, including leasehold housing where less than 100% of the equity has been purchased, but excluding leasehold housing where 100% of the equity has been purchased and excluding staff units). Source: RSR Parts A and B.

Difference between average actual and target rents for two bedroom properties by LSVT and non- LSVT housing associations

In 2006 a higher proportion of LSVT HAs reported average actual rents that were within $\pm 10\%$ of target (76.0%) than non-LSVTs (72.5%). Most of this difference is accounted for by the relatively high proportion (15.9%) of the average actual rents reported by non-LSVT HAs being more than 10% **above** target rent, compared to LSVT HAs (9.4%). Over 2005 to 2006, however, the proportion of average actual rents that were within $\pm 10\%$ of target rent for non-LSVT HAs increased by 3.7 percentage points, while the equivalent for LSVT HAs decreased by 2.3 points.

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 2006 and 31 March 2005

Type of housing association	Actual rent more than 10% above target rent	Actual rent within $\pm 10\%$ of target rent	Actual rent more than 10% below target rent	Number of cases
LSVT				
2006	9.4%	76.0%	14.6%	541
2005	8.6%	78.3%	13.1%	489
Non-LSVT				
2006	15.9%	72.5%	11.7%	3499
2005	16.5%	68.8%	14.7%	3552
All types				
2006	15.0%	72.9%	12.1%	4040
2005	15.6%	69.9%	14.5%	4041

Notes

- The difference is calculated by subtracting average actual rent from average target rent and expressed as percentage of actual rent.
- 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.
- LSVT HAs registered during the period April 2000 to 31 March 2001 were not required to report target rents in the 2004/05 RSR.

Difference between average actual and target rents for two bedroom properties by BME and non- BME housing associations

BME HAs and non-BME HAs both continued to make progress towards target rents over 2005 to 2006. In 2006 non-BME HAs reported a higher proportion of average actual rents within $\pm 10\%$ of target (73.3%) than BMEs (65.5%). Virtually all of this difference is accounted for by the relatively high proportion (18.6%) of the average actual rents reported by BME HAs being more than 10% **below** target rent, compared to non-BME HAs (11.7%).

Table 5 Difference^a between average actual and target rents for two bedroom properties (percentage of cases^b within BME and non-BME categories) at 31 March 2006 and 31 March 2005

Type of housing association	Actual rent more than 10% above target rent	Actual rent within \pm 10% of target rent	Actual rent more than 10% below target rent	Number of cases
BME				
2006	16.0%	65.5%	18.6%	194
2005	21.4%	64.3%	14.3%	168
Non-BME				
2006	15.0%	73.3%	11.7%	3846
2005	15.3%	70.2%	14.5%	3873
All types				
2006	15.0%	72.9%	12.1%	4040
2005	15.6%	69.9%	14.5%	4041

Notes

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

Changes in rents

HAs were required to keep annual individual rent increases within a limit of RPI+0.5% (3.1+0.5=3.6%).¹⁰ In addition, HAs were permitted to change individual net rents by up to an extra plus or minus £2.00 per week if the actual rent differed from the target rent. Across all social general needs tenancies, the average gross rent increase over the year to 31 March 2006 was 4.4% (see Table 6). Taking into consideration that there needs to be an upward adjustment to meet target, the overall increase should be slightly above RPI + 0.5%. Therefore, on average, changes in HA rents for 2006 appeared to be within the set bounds at the national level.

Table 6: Average assured and secure gross^a rent

No. of HAs	2005		No. of HAs	2006		2005/06 Increase
	Social general needs stock (total units)	Average gross rent		Social general needs stock (total units)	Average gross rent	
490	1,430,539	63.46	547	1,454,719	66.23	4.4%

Notes:

- a. Average gross rent increase includes service charges eligible for housing benefit.

¹⁰ See Housing Corporation; *Circular: Rents, Rent Differentials and Service Charges for housing associations*; November 2005.

Conclusion

A comparison of the differences between average actual rents and average target rents in 2005 and 2006 indicates a mixed picture of progress – in three out of five regions across England actual rents continued to converge towards target rents, whereas the remaining two regions the gap widened. At the national level, the difference has therefore slightly increased. However, at the local authority level as well as the level of average rents reported by individual housing associations, proportions of average actual rents that were within $\pm 10\%$ of target have increased.

London and Central stood out as having a relatively high proportion of local authorities with average actual rents that would need to **increase** by more than 10% in order to meet target. However, in a significant number of cases the target rent on an individual property will be subject to the rent cap, which means that the actual rent adjustment is lower. In addition, HAs are not compelled to increase actual rents if they can demonstrate that without such increases they can fulfil their commitments to tenants, lenders and other stakeholders, as well as meeting future repairing obligations on their stock. On the other hand there are areas where actual rents will need to **decrease** by more than 10% in order to meet target, particularly in the Central region.

A detailed examination of actual to target rent differences for two bedroom properties, by size and type of HA shows that progress has been made almost throughout the sector. Very large HAs reported the lowest proportion of average actual rents that were within $\pm 10\%$ of target, but had shown relatively good progress since the previous year. Non-LSVTs were more likely to report average actual rents that were more than 10% **above** target rent than LSVTs, and BME HAs were more likely to report average actual rents that were more than 10% **below** target rent than non-BME HAs.

At the national level the overall increase in gross rents, at 4.4% for 2006 is above the guideline of 3.6%. However this does not mean that they have breached the limit because they may also vary individual by a further £2 in order to achieve restructuring.