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Housing associations and the movement to target rents, 2007 to 2008

This paper compares actual net rents (i.e. excluding service charges) with target net rents at 31 March 2007 and 31 March 2008, and examines the extent to which actual net rents have moved towards target net rents. It also describes the annual change in gross rents for the period 1 April 2007 to 31 March 2008.

Key findings

- In 2008 the average actual net rent for general needs social rented housing in England was £69.96. This represented an increase of 4.9% over 2007. The average target net rent was £72.66 – 4.3% higher than in 2007.
- At the national level the gap between the average actual and target net rents has narrowed from £3.01 in 2007 (target 4.5% higher than actual net rent) to £2.70 in 2008 (target 3.9 % higher than actual net rent).¹
- The differences between the average actual net rent and the target net rent were within a ±5% range in all regions in England except London (7.8%). In particular, the South West showed almost no difference (0.0%). This was followed by the South East (2.3%), Central (2.5%) and the North (4.4%).
- The difference in London declined by 1.6 percentage points over the year. The differences in the South West, Central and North regions have also reduced by 1.1, 0.7 and 0.6 points respectively. In the South East region however the gap widened by 0.4 points.
- In 2008, London had a large proportion (15.4%) of average target net rents reported by individual housing associations (HAs) where target rents were above the rent cap. (The rent cap limits the actual net rent on individual properties.) Other regions were less affected by the potential rent cap: in the South East 3.2% of reported average target net rents were higher than the rent cap. In all other regions, the proportion was less than 1%.
- At the local authority area level, the number of local authorities where the HA average actual net rent for two bedroom properties was within ± 5% of target net rent rose to 225 out of 354 local authorities (63.6%) in 2008, from 209 (59.0%) in 2007.
- The number of local authorities where the HA average actual net rent for two bedroom properties was more than 10% **below** target fell from 30 (8.5%) in 2007 to 24 (6.8%) in 2008. In 2008, a large proportion of such local authorities were in London (41.7% or 10 local authorities).
- The number of local authorities where the HA average actual net rent for two bedroom properties was more than 10% **above** target fell from seven (2.0%) in 2007 to five (1.4 %) in 2008.

¹ The comparison this year is based on Housing Associations with 1,000 plus properties that completed the long RSR form in both years.

- A higher proportion of average actual net rents reported by individual HAs for two bedroom properties were within $\pm 10\%$ of target net rents in 2008 (82.8% as compared to 78.7% in 2007). Similar improvements were observed for all the other property size categories.
- Focusing on the differences between average actual and target net rents reported by individual HAs for two bedroom properties:
 - In 2008, a higher proportion of average actual net rents for two bedroom properties were within $\pm 10\%$ of target (82.6%) than in 2007 (77.6%).
 - In 2008, large-sized HAs, those with 5,000-9,999 units, reported the highest proportion (86.6%) of average actual net rents within $\pm 10\%$ of target. This was followed by medium-sized HAs, 1,000-4,999 units (83.2%).
 - In 2008, a higher proportion of large scale voluntary transfer (LSVT) HAs reported average actual net rents that were within $\pm 10\%$ of target (85.6%) than was the case for non-LSVTs (81.9%).
 - In 2008, the proportion of black minority ethnic (BME) HAs reporting average actual net rents that were within $\pm 10\%$ of target (88.6%) was higher than the equivalent for non-BME HAs (82.4%).
- Across all social rented general needs tenancies, the average gross rent increase over the year to 31 March 2008 was 5.0%, slightly above the increase in average net rents at 4.9%. This suggests that service charges have risen slightly faster than net rents.

Introduction

In April 2002, the Government introduced the rent-restructuring regime originally specified in *Quality and choice: A decent home for all*, (DETR, 2000). The aim was to bring greater coherence to rents in the social housing sector. From 1 April 2002, housing associations (HAs) have been required to calculate a target net rent for each of their social rented properties and to adjust the actual net rent to meet the target net rent in real terms over a ten-year period.² 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 net rent.

HAs calculate the target net 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, adjustments to target net rents are subject to a rent cap that varies by property size. In 2007/08, the rent cap was £102.33 for bedsits and one-bedroom properties, £108.33 for two bedroom, £114.36 for three bedroom, £120.37 for four bedroom, £126.39 for five bedroom and £132.41 for six or more bedrooms.³ Both target net rents and rent caps are defined in terms of net rents, i.e., exclusive of service charges.

To avoid excessive year-on-year increases in rents the Government sets a guideline limit for rent increases in any one year of retail price index (RPI, all items) +0.5 percent. For the period 1 April 2007 to 31 March 2008, the guideline limit was 4.1% (3.6% + 0.5%).⁴ In addition, to allow gradual convergence between actual and target rents individual property rents may change by up to a further plus or minus £2 per week.

HAs are not compelled to increase actual net rents to meet target net rents (or rent caps), providing that they are able to fulfil their commitments to tenants, lenders and other stakeholders, as well as meet future repair obligations on their stock. By the same token, where target net rents are lower than actual net rents, HAs can reduce actual net rents to meet target in less than 10 years, providing they can continue to meet their commitments.

The analysis looks first at national, regional and local authority patterns of average actual and target net rents and examines whether there has been a general movement towards target net rents between 2007 and 2008. Second, it looks at the comparison between actual and target net rents in both 2007 and 2008, with respect to property size and type and size of HA. Finally, it clarifies the annual change in gross rents (i.e. rents plus service charges) between 31 March 2007 and 31 March 2008.

² The Government recognises that a very small proportion of HAs will be prevented for financial reasons from completing their restructuring within 10 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 net rents although they should still aim to achieve target net rent levels by the end of the implementation period in March 2012 if possible.

³ See Housing Corporation; *Circular 09/07: Rents, Rent Differentials and Service Charges for Housing Associations*; November 2007.

⁴ Ditto.

Methodology

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

- Data for target net rent analysis are taken from Part I of the 2007/08 Regulatory and Statistical Return (RSR) and 2006/07 RSR.⁵
- Data from all HAs that reported their target net rents in the long version of the RSR (Part I) and made a valid return are included.⁶
- Only self-contained stock is included.
- Data include social general needs housing.
- Estate Renewal Challenge Fund stock is included.
- Target net rents are compared to net rents (average assured and secure weekly rents combined – service charges are excluded).
- All rent data are expressed in pounds (£) per week.

Increase in gross rents (Table 6)

- Data for rent increase analysis are taken from Part H of the 2007/08 RSR and 2006/07 RSR.⁷
- Data from all HAs that reported their rents in the long version of the RSR (Part H) and made a valid return are included.⁸
- Data include social general needs housing.
- Estate Renewal Challenge Fund stock is excluded.
- Rent increases cover the period 1 April 2007 to 31 March 2008. Percentage changes in rents are calculated on gross rents (average assured and secure weekly rents combined) plus service charges eligible for housing benefit.
- All rent data are expressed in pounds (£) per week.

National and regional average actual net rents and target net rents

Table 1 sets out average national and regional actual and target net rents as at 31 March 2008 and 31 March 2007. The final column shows how much of a difference exists between the average actual net rents and target net rents in 2008 and in 2007. The difference is calculated by subtracting the average actual net rent from the average target net rent and is expressed as a percentage of actual net rent. A negative percentage indicates that the average actual net rent is higher than the average target net rent.

The table shows that average net rents in England rose by £3.29 or 4.9% (from £66.67 in 2007 to £69.96 in 2008). This increase is some 20% above the RPI+1/2% requirement of 4.1%. In part, this reflects the process of adjustment to target rents.

⁵ Data are as reported by HAs. Extreme values as well as values which are associated with those outliers (in total 52 values from 13 cases in 2006/07 RSR and 34 values across 11 cases in 2007/08 RSR) were excluded from the analyses in order to avoid any possible biases.

⁶ In general, HAs that own or manage 1,000 units or more have completed the long version of the RSR since 2006/07.

⁷ Data are as reported by HAs. Extreme values as well as values which are associated with those outliers (in total 36 values from 12 cases in 2007/08 RSR) were excluded from this table in order to avoid any possible biases.

⁸ As Footnote 6.

By region, the largest increase was observed in the Central region (5.6%) followed by the South West (5.0%).

Comparing of the differences between average actual net rents and target net rents in 2007 and 2008 gives a broad indication as to the extent to which actual net rents are converging towards target net rents. The data indicate that at the national level the difference between the actual net rent and the target net rent has narrowed from £3.01 in 2007 (target 4.5% higher than actual net rent) to £2.70 in 2008 (target 3.9% higher than actual net rent). The gap for England excluding London was £1.94 (2.9%) – down from £2.11 (3.3%) in the previous year.

In all regions in England except London (7.8%) the differences between the average actual net rent and the target net rent remained within a $\pm 5\%$ range. In particular in the South West there was almost no difference (0.0%), followed by the South East (2.3%), Central (2.5%) and the North (4.4%).

In London, there was continuing convergence towards target net rents between 2007 and 2008: the gap in the region narrowed by 1.6 percentage points over the two years. The difference in the South West, Central and North regions also declined from 2007 by 1.1, 0.7 and 0.6 points respectively. In the South East region the gap widened by 0.4 points.

One important reason why the difference between the regional average actual net rent and the target net rent in London was more than 5%, is that a larger number of units have ‘target’ rents above the relevant rent compared so cannot fully adjust. Of the average target net rents reported by individual HAs, 15.4% were above the rent cap, which limits the target net rent on individual properties according to property size.⁹ Other regions were less affected by the rent cap. In the South East, 3.2% of reported average target net rents were above the rent cap. In all other regions, the proportion was less than 1%.

⁹ Based on the number of cases reported, i.e., not on a stock base.

Table 1: Average actual net rents and target net rents (£ per week) at 31 March 2008 and 31 March 2007

	Average actual net rent 2008 2007 £	Average target net rent 2008 2007 £	Percentage difference ^a 2008 2007
HC investment region			
London	85.63	92.30	7.8%
	81.60	89.24	9.4%
South East	80.67	82.50	2.3%
	77.40	78.87	1.9%
South West	70.11	70.13	0.0%
	66.77	67.51	1.1%
Central	67.44	69.15	2.5%
	63.87	65.92	3.2%
North	60.15	62.80	4.4%
	57.35	60.19	5.0%
England	69.96	72.66	3.9%
	66.67	69.68	4.5%
England excluding London	66.98	68.92	2.9%
	63.79	65.90	3.3%

Note:

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

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

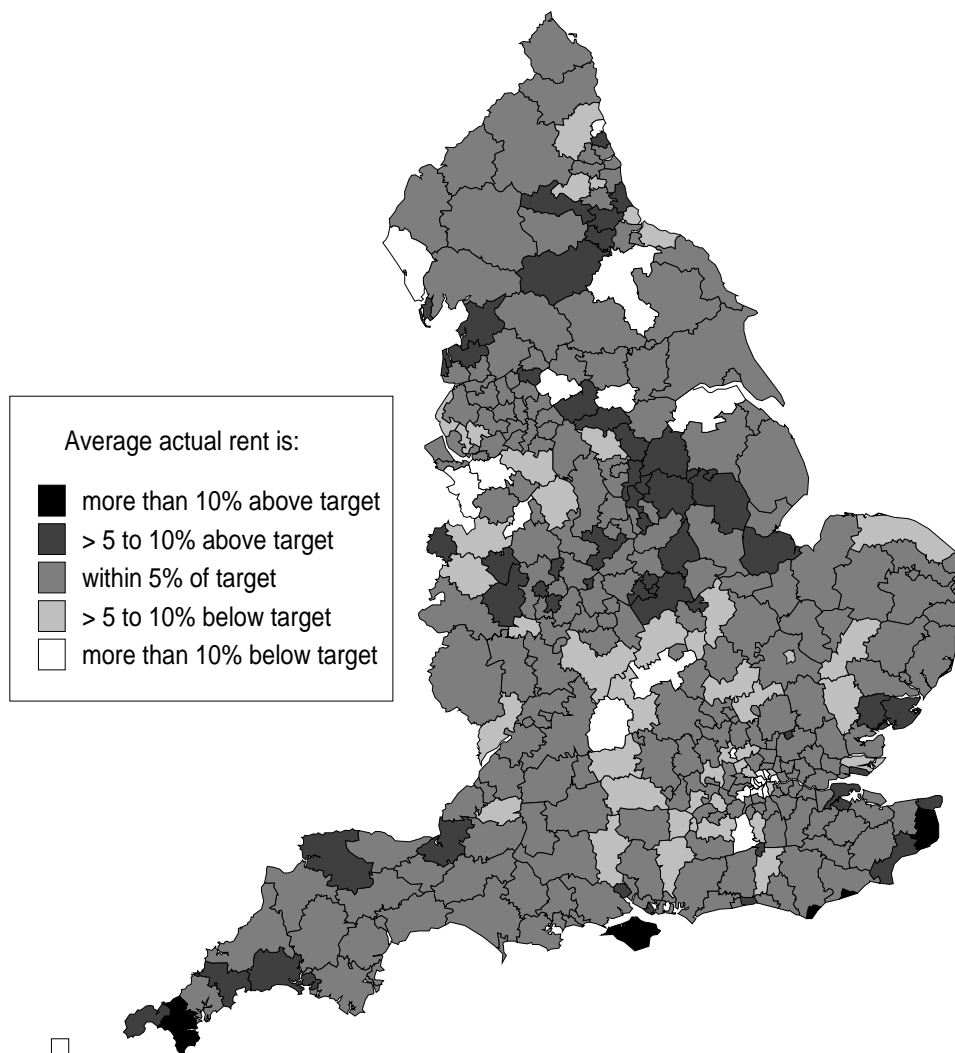
Map 1 illustrates the variation in the differences between average actual and target net rents across England at the local authority level as at 31 March 2008. Two bedroom properties are selected as the example because they form the largest proportion (36.9% in 2008) of self-contained target net rent stock.¹⁰

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

- Average actual net rent is > 10% **above** the average target net rent
Percentage of local authorities 2007: 2.0%
Percentage of local authorities 2008: 1.4%
- Average actual net rent is >5% to 10% **above** the average target net rent
Percentage of local authorities 2007: 17.2%
Percentage of local authorities 2008: 15.3%
- Average actual net rent is within $\pm 5\%$ of the average target net rent
Percentage of local authorities 2007: 59.0%
Percentage of local authorities 2008: 63.6%
- Average actual net rent is >5% to 10% **below** the average target net rent
Percentage of local authorities 2007: 13.3%
Percentage of local authorities 2008: 13.0%
- Average actual net rent is > 10% **below** the average target net rent
Percentage of local authorities 2007: 8.5%
Percentage of local authorities 2008: 6.8%

¹⁰ The second largest proportion was three bedrooms property (36.7%).

Map 1 - Difference in average actual rents and average target rents for two bedroom properties by local authority area, 31 March 2008



The number of local authorities where the HA average actual net rent was within \pm 5% of target net rent rose from 209 (59.0%) in 2007 to 225 out of 354 local authorities (63.6%) in 2008. In both the South East and the South West regions, there was 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 5% **above** the average target net rent. In the North and the Central regions, there were no local authorities with an HA average rent that was more than 10% **above** the average target net rent.

The number of local authorities where the HA average actual net rent was more than 10% **below** target fell from 30 (8.5%) in 2007 to 24 (6.8%) in 2008. In 2008, a large proportion of such local authorities were in London (41.7% or 10 local authorities).

The number of local authorities where the HA average actual net rent was more than 10% **above** target fell from seven (2.0%) in 2007 to five (1.4%) in 2008. Of the five local authorities, four were in the South East region and one in the South West region.

Differences in average actual net rents and target net rents by property size and type and size of HA

This section examines the differences between average actual and target net rents in 2008 compared with 2007 by:

- Bedsize
- Size of HA (for two bedroom properties)¹¹
- LSVT HAs and non-LSVT HAs (for two bedroom properties)
- BME and non-BME HAs (for two bedroom properties)

HAs report average actual and target net 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 net rent in each authority. 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 three categories:

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

Columns two to four of Tables 2 to 5 show the percentage of cases falling within each of the three categories of differences between actual and target net rent. The final column gives the number of cases included in the analysis.¹² Cases that fall within the middle category have an average actual net rent that is already close to or on target. Cases falling within the other two categories have an average actual net rent that requires more adjustment in order to converge with the target net rent.

Difference between average actual and target net rents by property size

Table 2 gives a breakdown of the three categories of actual to target net rents differences between the sizes of property. A higher proportion of average actual net rents reported by individual HAs were within $\pm 10\%$ of target net rents in 2008 (82.8%) than in 2007 (78.7%). This improvement can be observed across all bedsizes (see Column 3 of Table 2).

The data suggest that there was particularly rapid progress, of 10.5 percentage points for six-plus bedroom properties (52.0% of reported actual net rents were within $\pm 10\%$ of target net rent in 2008 compared to 41.5% in 2007). This was followed by five bedrooms and two bedrooms; the increases were 5.5 points (60.7% in 2008 from 55.2% in 2007) and 5.0 points (82.6% in 2008 from 77.6% in 2007) respectively. All the remaining four size categories experienced increases of 4.0 points or above.

¹¹ Two bedroom properties are selected as an example because they form the largest proportion of stock.

¹² 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 net rents (percentage of cases^b within each bedsize category) at 31 March 2008 and 31 March 2007

Bedsizes	Actual net rent more than 10% above target net rent	Actual net rent within $\pm 10\%$ of target net rent	Actual net rent more than 10% below target net rent	Total number of cases
Bedsits				
2008	8.6%	73.2%	18.2%	879
2007	10.3%	68.6%	21.0%	870
One bedroom				
2008	8.9%	80.7%	10.4%	3154
2007	11.8%	76.1%	12.1%	3077
Two bedrooms				
2008	8.5%	82.6%	8.9%	3822
2007	12.2%	77.6%	10.2%	3748
Three bedrooms				
2008	7.2%	82.4%	10.3%	3543
2007	10.6%	78.1%	11.4%	3478
Four bedrooms				
2008	6.9%	76.8%	16.2%	2162
2007	9.1%	72.7%	18.2%	2093
Five bedrooms				
2008	8.6%	60.7%	30.7%	713
2007	11.6%	55.2%	33.2%	674
Six-plus bedrooms				
2008	12.8%	52.0%	35.2%	321
2007	18.0%	41.5%	40.5%	289
All properties				
2008	7.6%	82.8%	9.6%	4273
2007	10.4%	78.7%	10.9%	4194

Notes

- The difference is calculated by subtracting the average actual net rent from the average target net rent and is expressed as percentage of the actual net rent.
- Each case represents the difference between the average target net rent and the average actual net rent reported by each HA for each of the local authority areas within which it owns stock.

Difference between average actual and target net rents by size of HA

Table 3 gives a breakdown of the three categories of the differences between actual to target net rents by size of HA for two bedroom properties. Overall, the data indicate that there has been continued convergence towards target net rents.

The most marked improvement was within the large HA (5,000-9,999 units) category where the proportion of average actual net rents that were within $\pm 10\%$ of target net

rent increased by 5.9 percentage points, from 80.7% in 2007 to 86.6% in 2008. This proportion was the highest among the four size categories.

The second highest proportion was observed in the medium HA (1,000-4,999 units) category: 83.2% in 2008. This was followed by those of very large HAs ($\geq 10,000$ units) and small HAs ($< 1,000$ units) where the proportions were 80.0% and 74.7% respectively.

Table 3: Difference^a between average actual and target net rents for two bedroom properties (percentage of cases^b within size^c of HA category) at 31 March 2008 and 31 March 2007

HA size	Actual net rent more than 10% above target net rent	Actual net rent within $\pm 10\%$ of target net rent	Actual net rent more than 10% below target net rent	Number of cases
Small				
($< 1,000$ units)				
2008	12.0%	74.7%	13.3%	75
2007	19.2%	69.9%	11.0%	73
Medium				
(1,000 – 4,999 units)				
2008	5.5%	83.2%	11.3%	1277
2007	8.6%	79.9%	11.5%	1335
Large				
(5,000-9,999 units)				
2008	6.9%	86.6%	6.5%	913
2007	11.2%	80.7%	8.1%	830
Very large				
($\geq 10,000$ units)				
2008	11.7%	80.0%	8.3%	1557
2007	15.5%	74.4%	10.1%	1510
All Sizes				
2008	8.5%	82.6%	8.9%	3822
2007	12.2%	77.6%	10.2%	3748

Notes

- The difference is calculated by subtracting the average actual net rent from the average target net rent and is expressed as percentage of the actual net rent.
- Each case represents the difference between the average target net rent and the average actual net 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 net rents for two bedroom properties by LSVT and non-LSVT HAs

In 2008 a higher proportion of LSVT HAs reported average actual net rents that were within $\pm 10\%$ of target (85.6%) than non-LSVTs (81.9%).

From 2007 to 2008, the proportion of average actual net rents that were within $\pm 10\%$ of target net rents for LSVT HAs increased by 6.6 percentage points, while the equivalent for non-LSVT HAs rose by 4.5 points.

Table 4: Difference^a between average actual and target net rents for two bedroom properties (percentage of cases^b within LSVT and non-LSVT categories) at 31 March 2008 and 31 March 2007

Type of HA	Actual net rent more than 10% above target net rent	Actual net rent within $\pm 10\%$ of target net rent	Actual net rent more than 10% below target net rent	Number of cases
LSVT				
2008	4.6%	85.6%	9.8%	654
2007	7.1%	79.0%	13.9%	562
Non-LSVT				
2008	9.3%	81.9%	8.8%	3168
2007	13.1%	77.4%	9.5%	3186
All types				
2008	8.5%	82.6%	8.9%	3822
2007	12.2%	77.6%	10.2%	3748

Notes

- The difference is calculated by subtracting the average actual net rent from the average target net rent and expressed as percentage of the actual net rent.
- Each case represents the difference between the average target net rent and the average actual net rent reported by each HA for each of the local authority areas within which it owns stock.

Difference between average actual and target net rents for two bedroom properties by BME and non-BME HAs

In 2008, the proportion of BME HAs reporting average actual net rents that were within $\pm 10\%$ of target was 88.6%. The equivalent for non-BME HAs was 82.4%.

Both groups continued to make progress towards target net rents over 2007 to 2008. The proportion of average actual net rents that were within $\pm 10\%$ of target net rent for BMEs increased by 8.8 percentage points, while the equivalent for non-BME HAs rose by 4.8 points.

Table 5: Difference^a between average actual and target net rents for two bedroom properties (percentage of cases^b within BME and non-BME categories) at 31 March 2008 and 31 March 2007

Type of HA	Actual net rent more than 10% above target net rent	Actual net rent within \pm 10% of target net rent	Actual net rent more than 10% below target net rent	Number of cases
BME				
2008	5.7%	88.6%	5.7%	88
2007	13.1%	79.8%	7.1%	84
Non-BME				
2008	8.5%	82.4%	9.0%	3734
2007	12.1%	77.6%	10.3%	3664
All types				
2008	8.5%	82.6%	8.9%	3822
2007	12.2%	77.6%	10.2%	3748

Notes

- The difference is calculated by subtracting the average actual net rent from the average target net rent and expressed as percentage of the actual net rent.
- Each case represents the difference between the average target net rent and the average actual net rent reported by each HA for each of the local authority areas within which it owns stock.

Changes in gross rents

The discussion of rents presented so far relates only to net rents. Tenants actually pay gross rents, i.e. rents including service charges, which may rise at a different rate than net rents. It is therefore important to monitor the changes in rents across the sector including service charges.

Across all general needs social rented tenancies, the average gross rent increased over the year to 31 March 2008 by 5.0% (see Table 6) – slightly above the net rent increase. This suggests that service charges rose rather more rapidly than net rents.

Table 6: Average assured and secure gross rent^a

No. of HAs	2007		No. of HAs	2008		Increase
	Social general needs stock (total units)	Average gross rent (£)		Social general needs stock (total units)	Average gross rent (£)	
369	1,503,165	68.72	381	1,594,464	72.18	5.0%

Note:

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

Summary

A comparison of the differences between average actual net rents and average target net rents in 2007 and 2008 indicates that, as in the previous 12-month period, actual net rents have continued to converge towards target net rents. This can be observed at both the national and regional levels. The South West average actual net rents were

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almost equal to the target. Only in London was the difference outside the $\pm 5\%$ range. At the local authority level, the proportions of average actual net rents that were within $\pm 10\%$ of target have increased, reflecting continued movement towards target net rents.

London still stood out as having a relatively high proportion of local authorities with average actual net rents that would need to increase by more than 10% in order to meet their target, as well as having the largest rent increases during the year. However, in 15% of cases the target net rent on an individual property are subject to the rent cap, which means that the actual net rent adjustment must remain below target. More generally, HAs are not compelled to increase actual net rents if they can demonstrate that without such increases they can fulfil their commitments to tenants, lenders and other stakeholders, as well as meet future repair obligations on their stock.

A detailed examination of differences between actual and target net rents for two bedroom properties, by size and type of HA, shows that progress has been made throughout the sector. In particular, large HAs increased the proportion of average actual net rents that were within $\pm 10\%$ of target to nearly 87%. The proportions of LSVT HAs and BME HAs where average actual net rents were within $\pm 10\%$ of target were also well above 80%.

The overall increase in gross rents during the year to March 2008 was 5.0%. This was slightly faster than the increase in net rents of 4.9%.