

Comparison between housing association sector and private sector rental rates of return across England, 1998/99 to 2006/07

A Dataspring Brief Report on behalf of the
Tenant Services Authority

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August 2008

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¹ This report is based on Udagawa (2008) *Comparison between Housing Association Sector and Private Sector Rental Rates of Return across England: 1998/99 to 2006/07* which can be accessed as a source document through the Dataspring's website.

1. Introduction

This paper examines the spatial pattern of rental rates of return in the housing association (HA) sector as compared to those in the private rented sector. It will first look at the differential of rates of return between the HA sector and the private sector in 2006/07, using HA gross rents. It then compares the HA sector and the private sector rates of return over the period 1998/99 to 2006/07, using HA net rents. It also examines in detail changes in differentials between HA and private sector rates of return at regional and local authority levels, and particularly local authority areas in London, Birmingham, Manchester and Newcastle².

2. HA and private rental rates of return and rate differentials, 2006/07

2.1 Rental rates of return and rate differential at the national level

In this section, HA rental rates of return are measured by average annual HA *gross* rents. These are calculated from weekly averages, as a percentage of lower quartile (LQ) house prices for each local authority (LA) area across England. HA *gross* rents consist of net rents and service charges eligible for housing benefits, which are taken from the Regulatory and Statistical Return (RSR). Similarly, private rents used in the calculation of private rental rates of return are private sector *gross* rents, coming from the Rent Service of the Department for Work and Pensions for the determination of housing benefit cases. LQ house prices, provided by the Land Registry, is used to represent market prices at the lower part of the rental market.³ In 2006/07, all these three variables were positively correlated with one another (Table 2.1). The relationship between HA rents and LQ house prices was slightly weaker than the equivalent for private sector rents.

Table 2.1 Correlation coefficients of HA gross rents, private gross rents and LQ house prices in England, 2006/07

	HA gross rents	Private gross rents	LQ house price
HA gross rents	1.000		
Private rents	0.841	1.000	
LQ house prices	0.780	0.867	1.000

Note: The City of London and the Isles of Scilly were excluded in the calculation of HA gross rents.

Source: Calculation based on data from RSR, the Rent Service and the Land Registry.

In 2006/07, HA rental rate of return was 2.88% while the private sector rental rate of return was 5.07%. The rate differential between HA and private sectors was -2.19 percentage points.

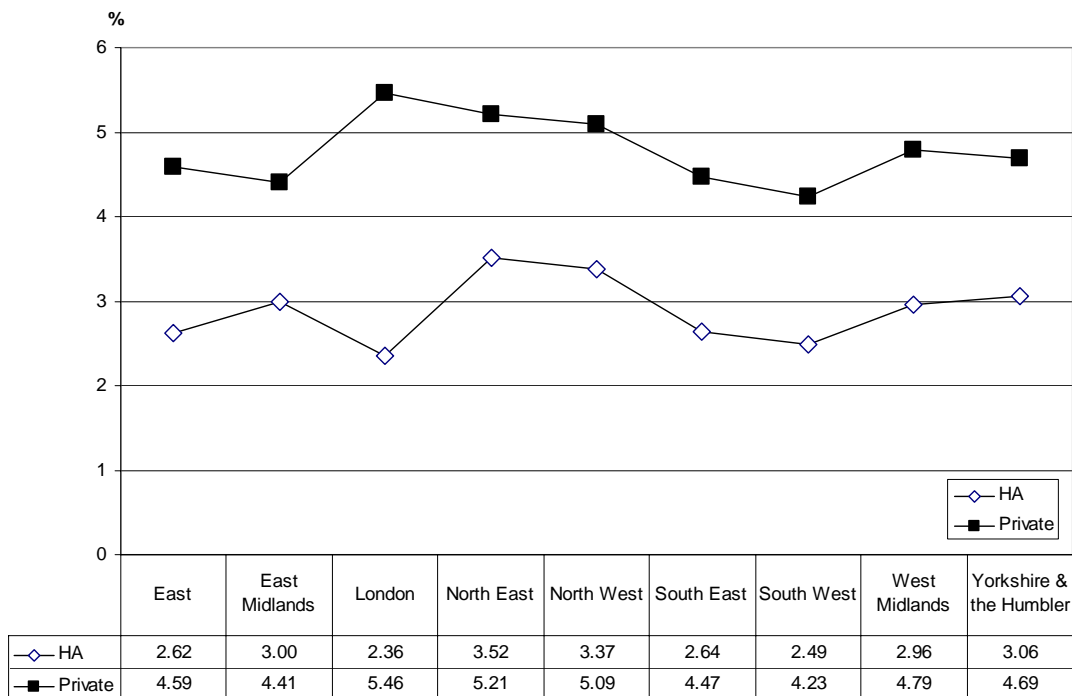
² Newcastle-upon-Tyne.

³ According to the *Family Resource Survey*, cited in CLG (2006) *Housing in England 2004/05*, 49% of social housing renters (householders and partners) had gross annual incomes of less than £10K in 2004/05, whereas the equivalent proportion for private housing renters was 22%.

2.2 Rental rates of return at the regional level

All nine regions had their private sector rates higher than HA rates of return (Fig. 2.1). London had the lowest HA rental rate of return (2.36%) and the highest private rental rate of return (5.46%) and consequently had the largest rate differential between the two sectors (-3.10 percentage points). The East had the second widest gap (-1.97 points), which was followed closely by the South East and the West Midlands (-1.83 points for each). The East Midlands had the smallest rate differential (-1.41 points). This was followed by the North East (-1.69 points) and the North West (-1.72 points).

Figure 2.1 HA and private sector rental rates of return (%) by region, 2006/07



Source: Calculation from data on RSR, the Rent Service and the Land Registry.

Table 2.2 Rental rates of return (%) and rate differentials for all LA areas (%-point) by region, 2006/07

	HA rental rates of return			Private rental rates of return			Differential (HA – private)		
	Median	Standard deviation	Range	Median	Standard deviation	Range	Median	Standard deviation	Range
East	2.55	0.35	1.38	4.46	0.61	3.58	-1.80	0.49	2.74
E Mid	3.00	0.52	2.42	4.45	0.58	2.32	-1.37	0.33	1.46
London	2.30	0.38	1.60	5.22	0.55	2.24	-2.91	0.49	2.49
NE	3.43	0.64	2.39	5.00	0.89	3.12	-1.57	0.41	1.58
NW	3.38	0.88	4.61	4.97	1.04	5.31	-1.68	0.56	3.50
SE	2.46	0.43	1.86	4.42	0.57	3.88	-1.96	0.45	3.01
SW	2.44	0.26	1.13	3.97	0.51	2.77	-1.56	0.36	2.27
W Mid	2.72	0.58	2.59	4.23	0.73	3.06	-1.52	0.34	1.29
Y & H	3.01	0.69	2.84	4.53	0.67	2.56	-1.29	0.38	1.41
<i>England</i>	<i>2.69</i>	<i>0.66</i>	<i>5.57</i>	<i>4.50</i>	<i>0.76</i>	<i>6.44</i>	<i>-1.70</i>	<i>0.58</i>	<i>4.02</i>

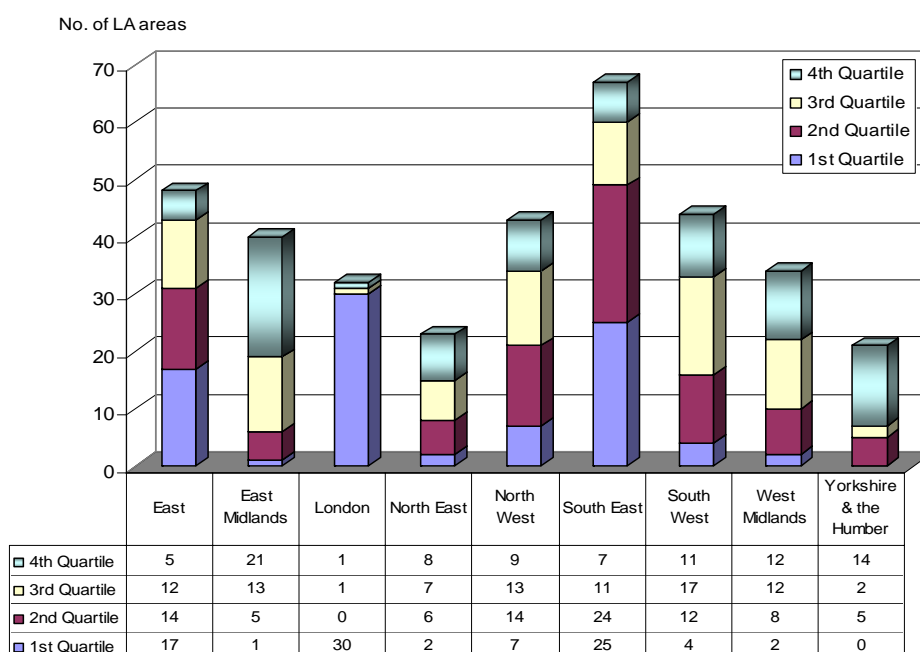
Source: Calculation from data on RSR, the Rent Service and the Land Registry.

2.3 The differential between HA and private rental rates of return at the LA level by region

Table 2.2 shows HA and private sector rental rates of return and rate differentials for all LA areas by region in 2006/07. The median of HA rental rates of return for England was 2.69%, with standard deviation of 0.66% and a range of 5.57 percentage points. The differential between HA and private rental rates of return was -1.70 points. The variation in rate differentials across all LA areas (measured by standard deviation) was 0.58 percentage points. The range between the maximum rate differential and the minimum differential was 4.02 points.

At regional level, London had the largest median rate differentials for its constituent LA areas, -2.91 points. This was followed by those of the South East, -1.96, and the East, -1.80. The smallest median was reported in Yorkshire and the Humber (-1.29). The variation of rate differentials across LA areas was the greatest in the North West (0.56), followed by London and the East as 0.49 each. The East Midlands had the smallest standard deviation for rate differentials (0.33). Another measure of variation, the range, found that it was the North West having the largest variation, 3.50, followed by the South East, 3.01 and the East, 2.74.

Figure 2.2 The number of LA areas in each quartile of rate differentials (%-point) by region, 2006/07



Note: The 1st quartile represents rate differentials of > -2.04, the 2nd between -1.71 and -2.04, the 3rd between -1.39 and -1.70 and the 4th of < -1.39.

Source: Calculation from data on RSR, the Rent Service and the Land Registry.

Figure 2.2 shows the number of LA areas categorised by quartile bands of rate differentials between HA and private sectors for each region in 2006/07. LA areas in the first quartile were those having the widest rate differentials. Private sector rates were higher than HA rates while LA areas in the fourth quartile were those having HA rates closest to their private sector rates.

Almost all LA areas (93.8%) in London had private sector rates significantly outperforming HA rates. A similar pattern, but to a lesser extent, was found in the South East and the East in which 73.1% and 64.6% of LA areas, respectively, had rate differentials within the first and second quartiles. In contrast, the great majority of LA areas (66.7%) in Yorkshire and the Humber had small rate differentials between the two sectors in the fourth quartile. The East Midlands (85.0%), the West Midlands (70.6%) and the North East (65.2%) also had large proportions of LA areas having rate differentials within the third and fourth quartiles.

2.4 The differential between HA and private rental rates of return in urban and rural⁴ LA areas

In 2006/07, LA areas in the most urban area, the 'Major urban', had the largest median of rate differentials (-2.21 percentage points), while those in the most rural area, the 'Rural-80', had the smallest (-1.37 points). Variations of rate differentials across LA areas were the largest for 'Major urban' with a standard deviation of 0.68 and a range of 2.90. LA areas in the second most urbanized group, the 'Large urban', showed the least variations with a standard deviation of 0.33 and a range of 1.51.

In sum, the median of differentials between HA and private rental rates of return for urban LA areas was -1.92 percentage points and -1.49 points for rural LA areas. Variations of rate differentials were greater for urban LA areas than for rural LA areas in terms of both standard deviations and ranges from the minimum differentials to maximum differentials. Standard deviations for urban and rural LA areas were 0.60 and 0.42, respectively, while ranges for the two groups were 3.50 and 2.47.

Table 2.3 Rental rates of return (%) and rate differentials for all LA areas (%-point) by urban/rural LA classification, 2006/07

	HA rental rates of return			Private rental rates of return			Differential (HA – private)		
	Median	Standard deviation	Range	Median	Standard deviation	Range	Median	Standard deviation	Range
Major urban	2.58	0.63	2.76	5.04	0.61	4.03	-2.21	0.68	2.90
Large urban	3.01	0.60	2.88	4.81	0.59	2.73	-1.74	0.33	1.51
Other urban	3.01	0.88	4.76	4.96	0.84	5.05	-1.91	0.53	2.65
<i>Urban</i>	<i>2.87</i>	<i>0.74</i>	<i>5.56</i>	<i>4.95</i>	<i>0.69</i>	<i>5.05</i>	<i>-1.92</i>	<i>0.60</i>	<i>3.50</i>
Rural-26	2.69	0.55	2.64	4.29	0.50	2.72	-1.60	0.43	2.31
Rural-50	2.55	0.58	2.87	4.29	0.56	2.91	-1.63	0.34	1.83
Rural-80	2.45	0.40	2.11	3.85	0.54	3.40	-1.37	0.43	2.30
<i>Rural</i>	<i>2.50</i>	<i>0.51</i>	<i>2.87</i>	<i>4.14</i>	<i>0.58</i>	<i>4.04</i>	<i>-1.49</i>	<i>0.42</i>	<i>2.47</i>

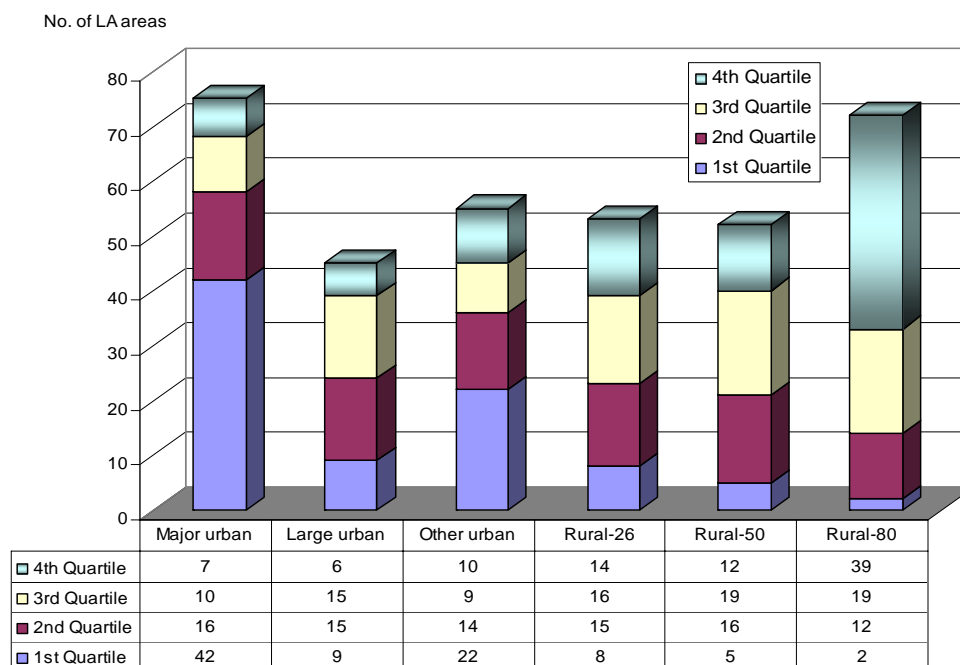
Source: Calculation from data on RSR, the Rent Service and the Land Registry.

Figure 2.3 shows that the majority of urban LA areas were within the first or the second quartile. Over 70% of all LA areas in the 'Major urban' and 65.5% of the 'Other urban' had private sector rental rates of return significantly outperforming HA rates. For 'Large urban' LA areas, the equivalent proportion was 53.3%. Rural LA areas were more likely to have HA rates closer to the private sector equivalents. For

⁴ Definitions of urban or rural LA areas are based on Defra (2006) *Rural Definition and Local Authority Classification*, available from <http://www.defra.gov.uk/rural/ruralstats/rural-definition.htm#defn>. Note that the classification was a snap-shot as in 2005. The City of London and the Isles of Scilly were excluded.

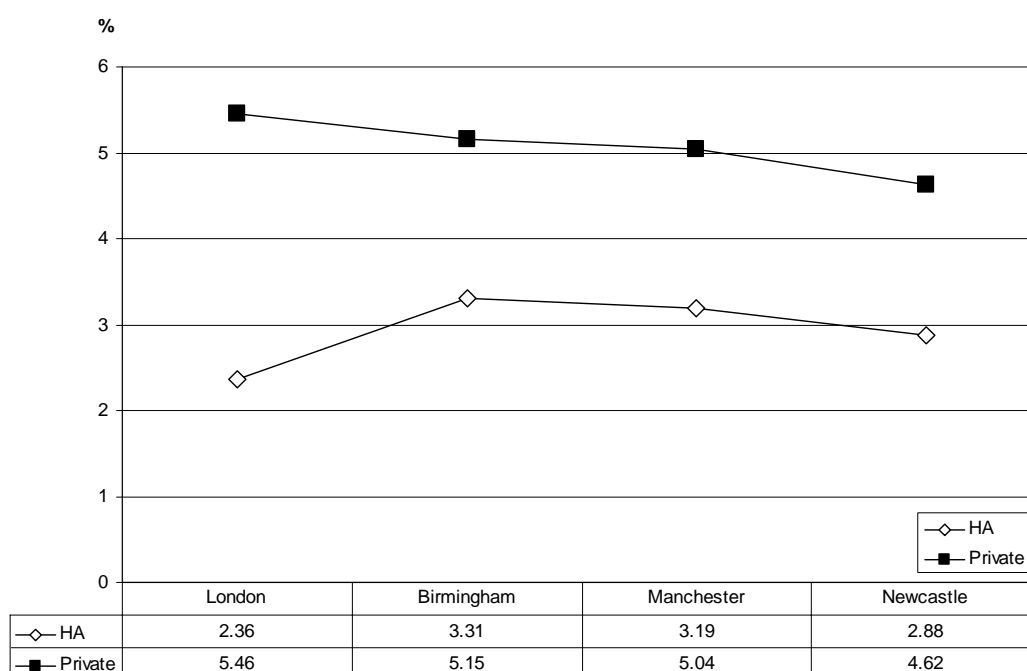
example, the most rural group, the 'Rural 80', had the majority of its LA areas (80.6%) either in the third or fourth quartile.

Figure 2.3 The number of LA areas in each quartile of rate differentials (%-point) by urban and rural LA areas, 2006/07



Source: Calculation from data on RSR, the Rent Service and the Land Registry.

Figure 2.4 HA and private sector rental rates of return for LA areas in London, Birmingham, Manchester and Newcastle, 2006/07



Source: Calculation from data on RSR, the Rent Service and the Land Registry.

2.5 Differentials between HA and private rental rates of return for LA areas in London, Birmingham, Manchester and Newcastle

In 2006/07, the rate differential between HA and private sectors for LA areas in London was -3.10 percentage points, the widest gap among the four metropolitan cities shown in Figure 2.4. It was also far above the national average of -2.19 points. The other three cities' rate differentials were fairly close to one another, and all of them had differentials which were smaller than the national average. For Birmingham, it was -1.84, -1.85 for Manchester and -1.74 for Newcastle.

3. HA and private sector rental rates of return and their differentials, 1998/99 to 2006/07

This section focuses on changes of differentials between HA and private rental rates of return between 1998/99 and 2006/07. Unlike the previous section, HA rental rates of return are calculated from average annual HA *net* rents. HA *net* rents exclude service charges eligible for housing benefits. Private rental rates of return are average annual private *gross* rents as a percentage of LQ house prices. Unlike the HA rent data, it is not possible to deduct the service charges from the private rent data that were obtained from the Rent Service.

Table 3.1 shows correlation coefficients between HA net rents, private sector gross rents and LQ house prices for all LA areas in England in 1998/99 and 2006/07. Compared with figures in 1998/99, the correlation between HA net rents and house prices increased significantly while the equivalent for private sector rents fell slightly. The relationship between HA and private sector rents also grew stronger.

Table 3.1 Correlation coefficients of HA net rents, private gross rents and LQ house prices in England, 1998/99 and 2006/07

	1998/99			2006/07		
	HA net rents	Private gross rents	LQ house prices	HA net rents	Private gross rents	LQ house prices
HA net rents	1.000			1.000		
Private gross rents	0.649	1.000		0.833	1.000	
LQ house prices	0.604	0.899	1.000	0.793	0.867	1.000

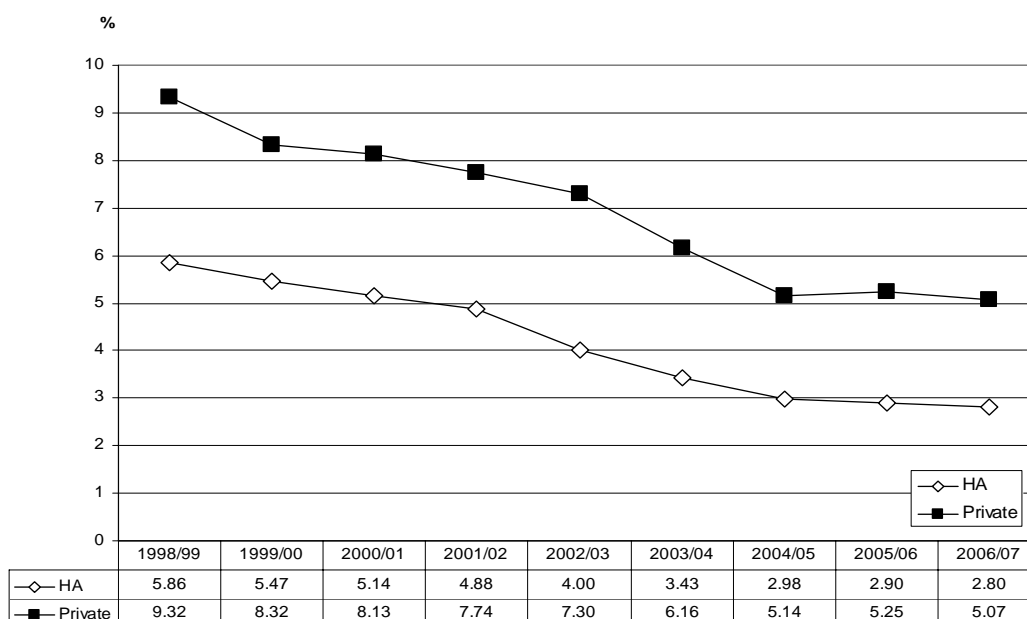
Source: Calculation from data on RSR, the Rent Service and the Land Registry.

It should be noted that in 2006/07, the correlation coefficient between private gross rents and HA net rents (0.833) was smaller than the equivalent for HA gross rents (0.841; see Table 2.1). In contrast, the magnitude of the correlation between LQ house prices and HA net rents (0.793) was larger than the equivalent for HA gross rents (0.780).

3.1 Rental rates of return and rate differentials at the national level

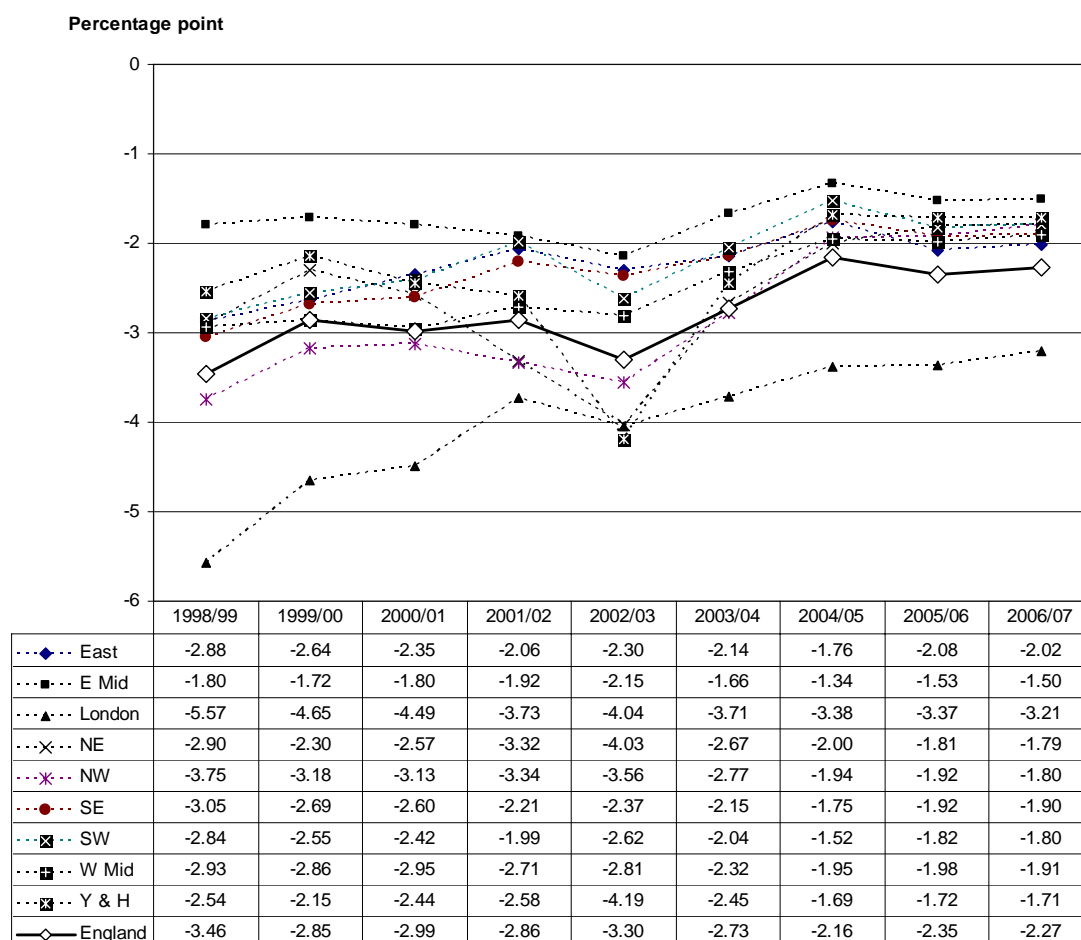
HA and private rental rates of return declined throughout the period from 1998/99 to 2006/07 as shown in Figure 3.1. This is because private rental rates of return fell faster than those of HA rates, rate differentials between the two sectors decreased from -3.46 percentage points in 1998/99 to -2.27 points in 2006/07. Thus, the two sectors' rental rates of return converged by 1.19 points over the nine-year period.

Figure 3.1 HA and private rental rates of return in England, 1998/99 to 2006/07



Source: Calculation from data on RSR, the Rent Service and the Land Registry.

Figure 3.2 Rate differentials between HA and private sectors (%-point) by region, 1998/99 to 2006/07



Source: Calculation from data on RSR, the Rent Service and the Land Registry.

3.2 Differentials between HA and private rental rates of return by region

Figure 3.2 shows rate differentials between HA and private sectors from 1998/99 to 2006/07 at the regional level. In 2006/07, the rate differential between the two sectors was the greatest in London, -3.21 percentage points, in which the HA and private rental rates of return were 2.25% and 5.46%, respectively. This was followed by the East at -2.02 points, and the West Midlands, -1.91 points. The three regions having the smallest rate differentials were the East Midlands (-1.50 points), Yorkshire and the Humber (-1.71 points) and the North East (-1.79 points).

Compared with the figures of 1998/99, rate differentials in 2006/07 narrowed across all regions. The gap between the two rates narrowed most dramatically in London by 2.36 percentage points, from -5.57 points in 1998/99 to -3.21 points in 2006/07. This was followed by those of the North West (a gap of 1.95 points narrowing from -3.75 to -1.80) and the South East (1.15 points narrowing from -3.05 to -1.90). The differential narrowed the least in the East Midlands (0.30 points from -1.80 to -1.50), followed by Yorkshire and the Humber (0.83 points from -2.54 to -1.71), and the East (0.90 point from -2.88 to -2.02).

3.3 Rental rates of return and rate differentials by LA areas

In 2006/07, the median of rate differentials between HA and private sectors for all LA areas in England was -1.78 percentage points, compared with -2.85 in 1998/99 (Table 3.2). Variations of rate differentials across LA areas reduced both in terms of standard deviations and ranges in the nine-year period. The standard deviation of rate differentials in 2006/07 was 0.59 points with the range of 4.07 points. Both fell by 0.58 and 2.21 points, respectively, from 1998/99 figures, but the range increased by 0.60 points compared with that of 2005/06. The declining trend of rate differentials between the two sectors implies that HA and private rental rates of return were converging for all LA areas, but variations of rental rates of return were smaller within the HA sector because HA rents were more regulated than those within the private sector.

Table 3.2 Variations of rental rates of return and rate differentials for all LA areas (%-point), 1998/99 to 2006/07

	HA rental rates of return			Private rental rates of return			Differential (HA – private)		
	Median	Standard deviation	Range	Median	Standard deviation	Range	Median	Standard deviation	Range
1998/99	5.70	1.60	10.76	8.54	1.58	10.93	-2.85	1.17	6.28
1999/00	5.27	1.66	10.88	8.02	1.56	10.89	-2.64	1.03	5.95
2000/01	4.74	1.92	12.02	7.26	1.91	14.36	-2.53	0.91	5.41
2001/02	4.24	2.02	15.35	6.35	2.29	17.72	-2.27	0.83	4.54
2002/03	3.46	2.10	20.54	6.18	2.59	26.12	-2.61	1.12	7.34
2003/04	2.94	1.57	12.93	5.19	1.87	16.42	-2.14	0.81	4.85
2004/05	2.72	1.15	12.87	4.49	1.31	13.81	-1.65	0.68	3.58
2005/06	2.71	0.80	7.68	4.71	0.89	8.36	-1.85	0.60	3.47
2006/07	2.60	0.63	5.47	4.50	0.76	6.44	-1.78	0.59	4.07
<i>Change</i>									
98/99 to 06/07	-3.10	-0.97	-5.29	-4.04	-0.82	-4.49	1.07	-0.58	-2.21

Source: Calculation from data on RSR, the Rent Service and the Land Registry.

Table 3.3 Changes of variations in rental rates of return and rate differentials for all LA areas by region (%-point) from 1998/99 to 2006/07

	Change of HA rental rates of return			Change of private rental rates of return			Change in rate differentials		
	Median	Standard deviation	Range	Median	Standard deviation	Range	Median	Standard deviation	Range
East	-2.82	-0.85	-3.05	-3.61	-0.49	-0.70	0.92	-0.33	-1.22
East Midlands	-3.69	-0.86	-2.87	-3.75	-0.78	-3.50	0.30	-0.31	-0.86
London	-2.30	-0.79	-3.40	-4.59	-0.63	-2.76	2.31	-0.37	-0.88
North East	-3.64	-0.74	-3.27	-4.77	-0.90	-3.84	0.76	-0.36	-1.54
North West	-3.44	-1.07	-3.99	-5.01	-1.10	-4.24	1.85	-0.24	-0.05
South East	-2.34	-0.95	-3.73	-3.77	-0.59	-1.68	1.31	-0.43	-1.10
South West	-3.16	-0.61	-2.96	-4.04	-0.37	-1.37	0.82	-0.30	-1.12
West Midlands	-3.01	-0.91	-4.30	-3.69	-0.71	-2.62	0.86	-0.32	-1.38
Yorkshire & the Humber	-4.27	-0.78	-3.16	-4.61	-0.68	-2.75	1.08	-0.30	-1.08
<i>England</i>	<i>-3.10</i>	<i>-0.97</i>	<i>-5.29</i>	<i>-4.04</i>	<i>-0.82</i>	<i>-4.49</i>	<i>1.07</i>	<i>-0.58</i>	<i>-2.21</i>

Source: Calculation from data on RSR, the Rent Service and the Land Registry.

Table 3.3 compares changes of variations in rental rates of return between HA and private sectors and their rate differentials in percentage points for all LA areas across nine regions from 1998/99 to 2006/07. LA areas in London witnessed the most drastic decline of the median rate differentials between the two sectors of 2.31 percentage points. This was followed by LA areas in the North West (1.85 points) and the South East (1.31 points). The smallest decrease of only 0.30 percentage point was found in LA areas in the East Midlands. LA areas in the South West had the second least decline by 0.82 points and, the West Midlands at 0.86 was the third.

Within this nine-year period, all LA areas had a reduction in variations of rate differentials. Since they experienced declines in medians of rate differentials (Table 3.3), their HA and private sector rates converging gradually. Standard deviations for rate differentials between 1998/99 and 2006/07 dropped most drastically in LA areas of the South East (0.43 percentage points). LA areas in London followed this with a decline of 0.37 points. The decrease in standard deviations of rate differentials for LA areas in the North West was the smallest with -0.24, followed by those in the South West and Yorkshire and the Humber at -0.30 each.

Table 3.4 shows the changes in the number of LA areas within each quartile band of rate differentials between HA and private sectors in 1998/99 and 2006/07. Looking first at London, almost all LA areas had their private sector rates significantly outperforming HA rates, 30 out of 32 LA areas were found in the first quartile of rate differentials in both years. A similar pattern was found in the great majority of LA areas in the South East – the proportions of LA areas in the first and second quartiles were 38.8% (26 out of 67) and 31.3% (21) in 1998/99, and 38.8% (26 out of 67) and 37.3% (25) in 2006/07, respectively. The north of England displayed a different picture. There were an increasing number of LA areas in Yorkshire and the Humber had narrowing rate differentials between the two sectors. The number of LAs in the fourth quartile grew from eight in 1998/99 to 14 in 2006/07, implying that LAs in Yorkshire and the Humber had their HA and private rental rates of return converged faster than their counterparts in other regions. Similarly, the South West had a high proportion of LA areas in the third and fourth quartiles – 43.2% (19 out of 44) and 27.3% (12) in 1998/99, and 45.5% (20 out of 44) and 27.3% (12) in 2006/07, respectively.

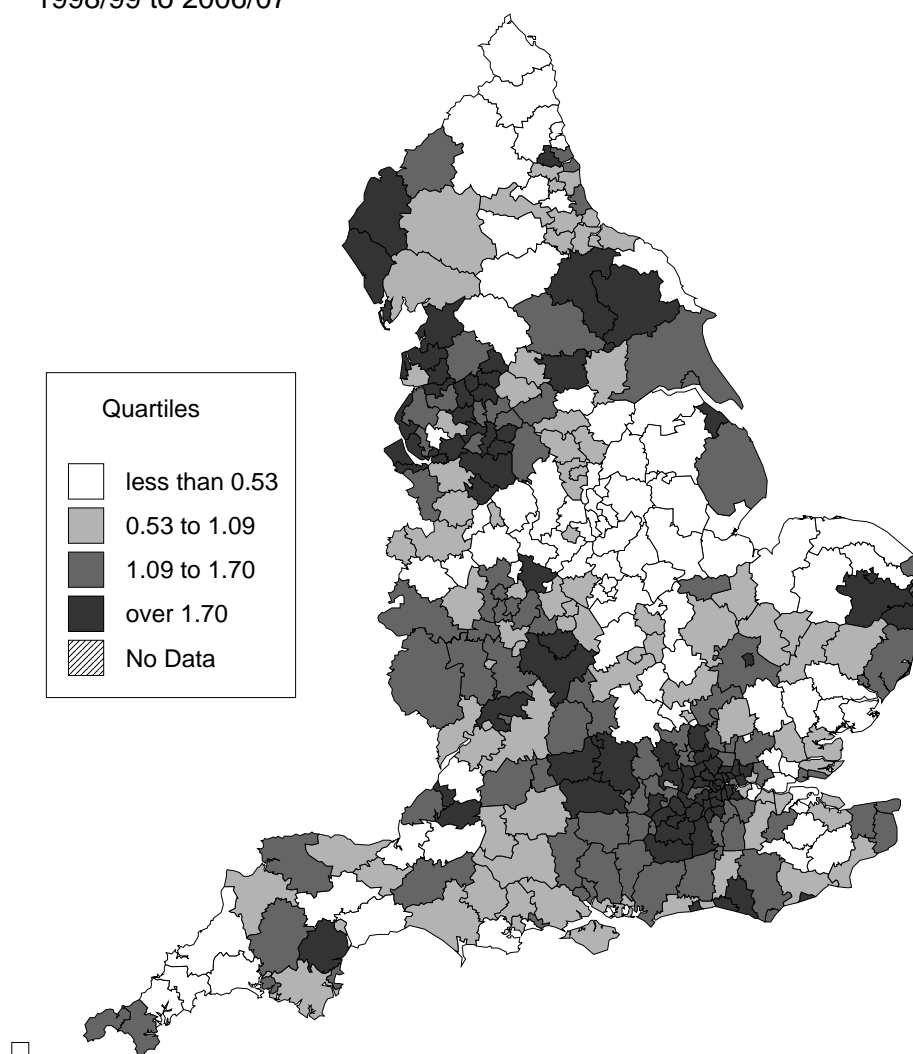
Table 3.4 The number of LA areas in each quartile of rate differentials (%-point) by region, 1998/99 and 2006/07

	Wide rate differential				→	Narrow rate differential			
	1st Quartile		2nd Quartile			3rd Quartile		4th Quartile	
	1998/99	2006/07	1998/99	2006/07		1998/99	2006/07	1998/99	2006/07
East	8	16	15	12	13	12	12	8	
East Midlands	0	1	1	7	9	13	30	19	
London	30	30	2	0	0	1	0	1	
North East	1	2	7	6	8	7	7	8	
North West	18	7	17	16	6	11	2	9	
South East	26	26	21	25	14	10	6	6	
South West	2	5	11	7	19	20	12	12	
West Midlands	2	1	8	10	12	12	11	11	
Yorkshire & the Humber	0	0	6	5	7	2	8	14	

Note: The 1st quartile represented rate differentials of > -3.79, the 2nd between -2.85 and -3.79, the 3rd between -2.21 and -2.84 and the 4th of < -2.21 for 1998/99. For 2006/07, the 1st quartile represented rate differentials of > -2.13, the 2nd between -1.78 and -2.13, the 3rd between -1.45 and -1.77 and the 4th of < -1.45.

Source: Calculation from data on RSR, the Rent Service and the Land Registry.

Map 3.1 Changes in rate differentials (%-point) in quartile bands by LA areas from 1998/99 to 2006/07



Source: Calculation from data on RSR, the Rent Service and the Land Registry.

Map 3.1 shows the spatial pattern of changes in rate differentials from 1998/99 to 2006/07. LA areas with the largest changes in rate differentials were located in and around major cities in England, such as London, Manchester, Birmingham and Newcastle, which will be examined in detail later. In contrast, LA areas with modest changes were often found in the East, the South West, the East and West Midlands and the North East.

3.4 Differentials between HA and private rental rates of return by urban and rural LA areas

Table 3.5 shows rate differentials between the two sectors for urban and rural LA areas across England from 1998/99 to 2006/07. There was a decline in rate differentials for both urban and rural LA areas. In 1998/99, medians of rate differentials were -3.44 percentage points for urban LA areas and -2.39 points for rural LA areas. By 2006/07, they had fallen to -2.02 and -1.55, respectively. During the nine-year period, the urban median rate differentials outperformed the rural equivalent. Also, variations of rate differentials were greater for the urban than for the rural LA areas in terms of both standard deviations and ranges, with the exception of standard deviations in 2002/03. The declining medians of rate differentials and the reduction in variations for both urban and rural LA areas imply that HA and private rental rates of return were converging regardless of the extent of urbanisation in a LA area.

Table 3.5 Differentials between HA and private rental rates of return (%-point) by urban and rural LA areas, 1998/99 to 2006/07

	Urban LA areas			Rural LA areas		
	Differential (HA – private)			Differential (HA – private)		
	Median	Standard deviation	Range	Median	Standard deviation	Range
1998/99	-3.44	1.16	6.2	-2.39	0.86	4.61
1999/00	-3.12	1.01	5.79	-2.19	0.79	4.52
2000/01	-3.07	0.86	5.29	-2.08	0.71	3.79
2001/02	-2.81	0.79	4.41	-1.88	0.59	3.47
2002/03	-3.03	1.01	7.34	-2.22	1.13	6.62
2003/04	-2.61	0.80	4.82	-1.84	0.58	3.24
2004/05	-2.05	0.68	3.27	-1.32	0.43	2.08
2005/06	-2.10	0.63	3.40	-1.65	0.38	2.27
2006/07	-2.02	0.60	3.40	-1.55	0.42	2.50
<i>Change</i>						
<i>98/99 to 06/07</i>	<i>1.42</i>	<i>-0.56</i>	<i>-2.80</i>	<i>0.84</i>	<i>-0.44</i>	<i>-2.11</i>

Source: Calculation from data on RSR, the Rent Service and the Land Registry.

Table 3.6 Differentials between HA and private rental rates of return (%-point) by urban/rural LA classification, 1998/99 to 2006/07

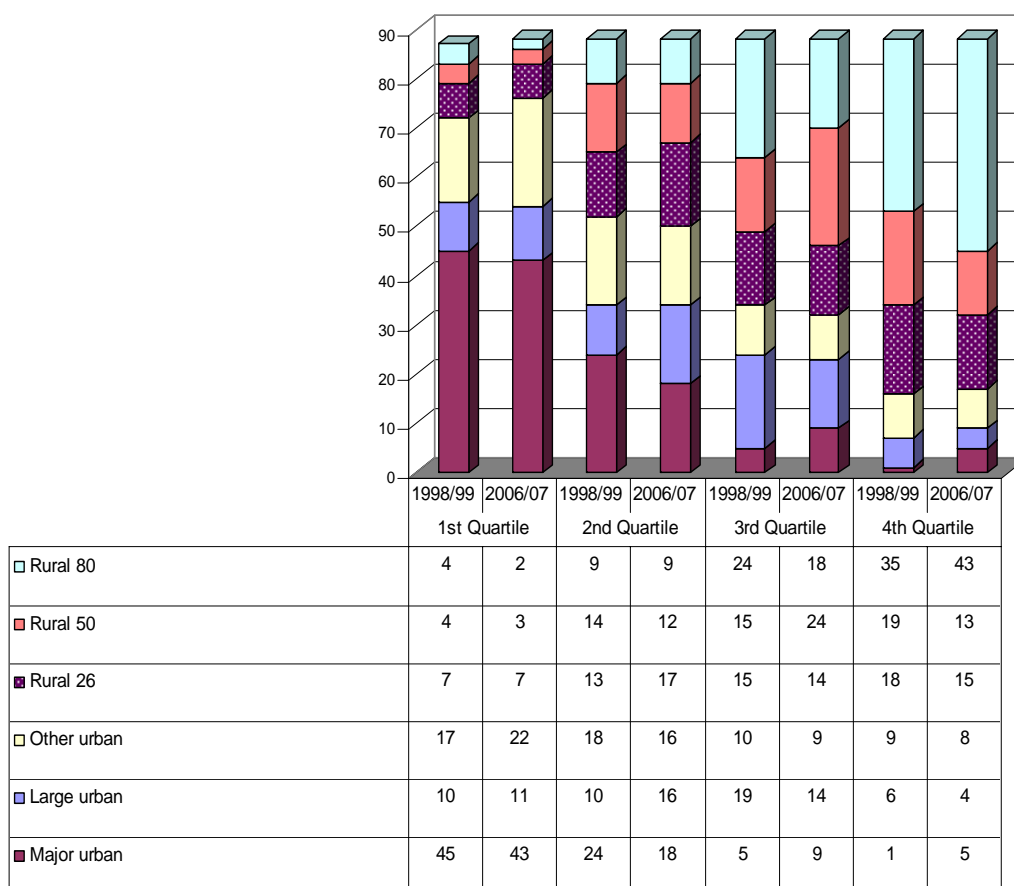
	Major urban LA areas			Large urban LA areas			Other urban LA areas			Rural 26 LA areas			Rural 50 LA areas			Rural 80 LA areas		
	Differential (HA – private)			Differential (HA – private)			Differential (HA – private)			Differential (HA – private)			Differential (HA – private)			Differential (HA – private)		
	Median	Standard deviation	Range	Median	Standard deviation	Range	Median	Standard deviation	Range	Median	Standard deviation	Range	Median	Standard deviation	Range	Median	Standard deviation	Range
1998/99	-4.07	1.09	4.69	-2.77	0.96	4.05	-3.23	0.99	4.99	-2.70	0.95	4.39	-2.67	0.74	3.12	-2.23	0.82	4.06
1999/00	-3.51	0.97	4.41	-2.73	0.94	4.24	-3.00	0.93	4.44	-2.40	0.88	4.52	-2.27	0.69	2.89	-2.03	0.72	3.62
2000/01	-3.35	0.73	3.14	-2.62	0.77	3.35	-2.83	0.90	5.29	-2.23	0.80	3.63	-2.33	0.59	2.65	-1.91	0.66	3.28
2001/02	-3.16	0.57	2.82	-2.21	0.77	3.20	-2.35	0.80	4.41	-2.03	0.59	2.95	-2.03	0.55	2.74	-1.64	0.59	2.98
2002/03	-3.40	0.88	5.12	-2.70	0.83	3.21	-2.70	1.15	7.34	-2.33	1.07	6.52	-2.17	0.64	2.50	-2.22	1.41	6.44
2003/04	-3.17	0.69	3.15	-2.15	0.55	2.79	-2.37	0.91	4.82	-1.93	0.62	2.67	-1.77	0.53	2.95	-1.79	0.55	3.20
2004/05	-2.45	0.68	2.71	-1.66	0.44	1.83	-1.97	0.61	2.84	-1.55	0.47	2.05	-1.37	0.38	1.46	-1.21	0.37	1.65
2005/06	-2.36	0.70	3.40	-1.96	0.46	2.69	-2.09	0.54	2.51	-1.81	0.41	2.27	-1.76	0.33	1.46	-1.47	0.33	1.65
2006/07	-2.31	0.67	2.86	-1.86	0.33	1.46	-1.98	0.52	2.56	-1.72	0.42	2.27	-1.70	0.34	1.79	-1.41	0.42	2.31
<i>Change</i>																		
98/99 to 06/07	1.76	-0.42	-1.83	0.91	-0.63	-2.59	1.25	-0.47	-2.43	0.98	-0.53	-2.12	0.97	-0.40	-1.33	0.82	-0.40	-1.75

Source: Calculation from data on RSR, the Rent Service and the Land Registry.

Table 3.6 lists out rate differentials between the two sectors according to the Defra's urban and rural LA areas classification. Variations of rate differentials across LA areas were the biggest for those in the 'Major urban' category (a standard deviation of 0.67 and a range of 2.86 in 2006/07) while those in the second most urbanized group, 'Large urban', showed the narrowest variations (0.33 and 1.46, respectively).

Figure 3.3 shows the number of LA areas in each quartile band of rate differentials between HA and private sectors by the six urban-rural LA area categories. In 2006/07, the great majority of LA areas in the 'Major urban' category and 'Other urban' category were either in the first or second quartile groups, accounting for 81.3% and 69.1% of the total number of LA areas represented. A similar trend was also apparent in LA areas in 'Large urban' with 60% of them within the first two quartiles. This shows that urban LA areas tend to have private sector rates of return significantly outperforming their HA equivalents. By contrast, LA areas in the two most rural groups, 'Rural 80' and 'Rural 50', were mostly in the third or fourth quartiles (84.7% and 71.2%, respectively). The most rural LA areas are likely to have HA rates closer to their private sector equivalents. The distribution of LA areas in 1998/99 showed a similar pattern to that of 2006/07, with the exception of those in the 'Large urban' category which had more LA areas in the third quartile.

Figure 3.3 The number of LA areas in each quartile of rate differentials (%-point) by urban/rural LA classification, 1998/99 and 2006/07



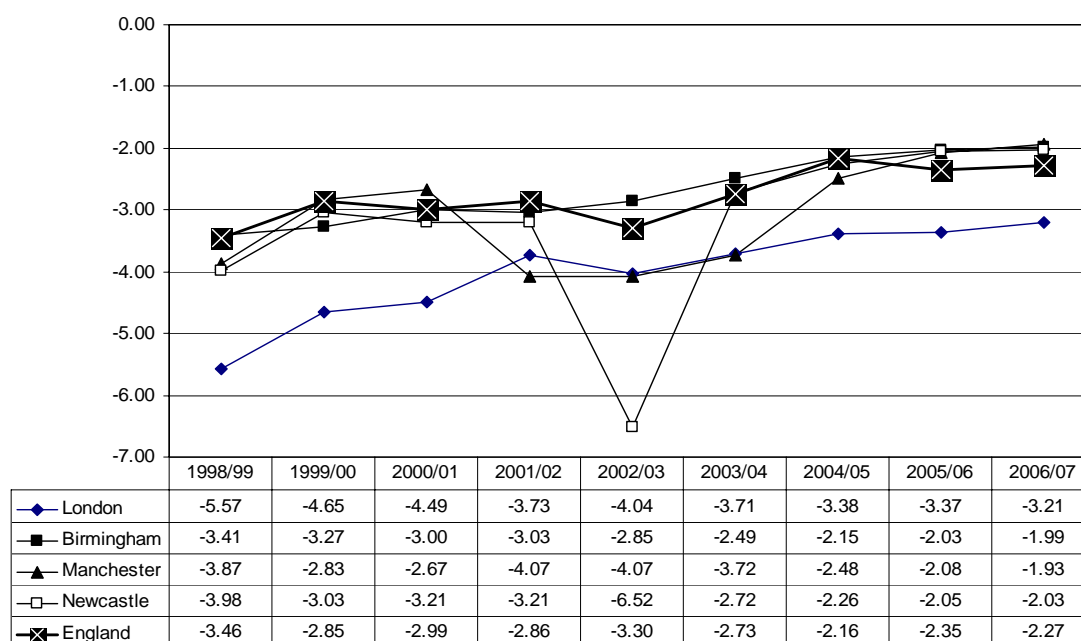
Note: The 1st quartile represented rate differentials of > -3.79, the 2nd between -2.85 and -3.79, the 3rd between -2.21 and -2.84 and the 4th of < -2.21 for 1998/99. For 2006/07, the 1st quartile represented rate differentials of > -2.13, the 2nd between -1.78 and -2.13, the 3rd between -1.45 and -1.77 and the 4th of < -1.45.

Source: Calculation from data on RSR, the Rent Service and the Land Registry.

3.5 Differentials between HA and private rental rates of return for LA areas in London, Birmingham, Manchester and Newcastle

This section focuses on urban LA areas in London, Birmingham, Manchester and Newcastle. Figure 3.4 shows the trend of differentials in rental rates of return (HA rental rates of return minus private sector rental rates of return) of these four metropolitan areas from 1998/99 to 2006/07. In 2006/07, the rate differential for London was 3.21 percentage points, which was the largest among the four cities and exceeded the national average of 2.27 points. Rate differentials of the other three cities were fairly close together, and all were below the national average. Throughout the nine-year period, LA areas in London and Birmingham showed a continuing decline in differentials as did rate differentials for Manchester and Newcastle. However, Newcastle suffered a significant drop in the differential in 2002/03.

Figure 3.4 Rate differentials (%-point) for LA areas in London, Birmingham, Manchester and Newcastle, 1998/99 to 2006/07



Source: Calculation from data on RSR, the Rent Service and the Land Registry.

Between 1998/99 and 2006/07, rate differentials reduced most rapidly in LA areas in London by 2.36 percentage points, followed by Newcastle (1.95), Manchester (1.94) and Birmingham (1.42). The extent of the narrowing rate differentials was greater than the national reduction of 1.19 points. This implies that HA rents in all four metropolitan cities moved closer towards the private sector's equivalents than other parts of England.

4. Conclusions

This paper examined the relationship between rental rates of return in HA and private rented sectors in order to reveal the extent to which they converged over time. The analyses first showed that, in 2006/07, HA rental rates of return, for both gross and net rental rates, were significantly lower than the equivalents for the private sector.

Then, between 1998/99 and 2006/07, both HA net rental rates of return and private gross rental rates of return declined. This trend might be a result of the increase in house prices. Thus, it is not surprising to find that the trend slowed in 2006/07 when house prices faltered.

Rate differentials between the two sectors showed considerable variations across England although the differentials have narrowed across all LA areas by region and by urban and rural area classification. Generally, differentials between HA and private rental rates of return were the largest in LA areas of London and other pressured urban areas in spite of greater reduction over the nine-year period. LA areas in the north of England had closer HA and private rental rates of return and a relatively modest reduction in their rate differentials. Similarly, rate differentials in rural LA areas, the low demand areas, had a lesser reduction as compared with those in urban LA areas, reflecting the differences in incomes and house prices between urban and rural areas. The analysis of rate differentials in the four metropolitan areas also confirmed that LA areas in London had the largest rate differentials between the two sectors, far above the national average. While rate differentials of all four cities were reduced, this was most notable in London where it narrowed the most.