

## **Housing association rents and rental rates of return, 1998/99 to 2006/07**

A Dataspring Brief Report on behalf of the  
Tenant Services Authority

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<sup>1</sup> This report is based on Udagawa (2008) *Detailed Analysis of Housing Association Sector Rents and Rental Rates of Return, 1998/99 to 2006/07* which can be accessed as a source document through the Dataspring's website.

## 1. Introduction

The rent restructuring regime was introduced in April 2002 with the objective of bringing a greater coherence of rent structures across the whole social rented sector. The new rent regime required housing associations (HAs) to adjust their existing rents to target rents which take account of both the capital value of the property and local incomes. Since then, the average annual increase of HA rents has been set at Retail Price Index (RPI) +0.5%. In order to ensure HA average rents move towards target rents by 2011, individual HA rents are allowed to have an additional adjustment of up to £2 per week. The impact of these adjustments have been analysed by Solomou et al. (2005), Solomou (2006), and Udagawa (2007).<sup>2</sup>

It is useful to analyse the relationship between HA rents and house prices. The relationship is important for the viability of the sector because rents are the only form of return available to the social sector landlord, whereas in the private sector, it is capital gains that are relevant. HA rents must be adequate to cover the costs of managing and maintaining the stock and to help support investment. In equity terms, it is also important to understand the extent of the variation of economic subsidy, which is measured by rental rates of return, as a result of the rent structuring that has been put in place.

This paper examines the relationship between HA rents and the lower quartile (LQ) house prices. It focuses on three issues:

- Changes of HA rents from 1998/99 to 2006/07
- The relationship between HA rents and LQ house prices at national, regional and local levels
- Rental rates of return in the HA sector measured by HA rents divided by LQ house prices

## 2. HA rents across England, 1998/99 to 2006/07

HA rents come from the Regulatory and Statistical Return (RSR), which records HA rent levels by local authority areas in England as at March 31<sup>st</sup> each year.<sup>3</sup> The study uses average weekly net rents for general needs housing<sup>4</sup> and for self-contained properties only which does not include rents of bedsits. This is the closest comparison that can be made with house prices which implicitly value the stream of imputed net rents received by the owner.

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<sup>2</sup> Solomou, W., Whitehead, C. and Wright, P. (2005) *Understanding the Rent Restructuring Framework for Housing Association Target Rents*. Briefing paper. Cambridge: Cambridge Centre for Housing and Planning Research; Solomou, W. (2006) *Housing Associations and the Movement towards Target Rents 2004 to 2005*. Dataspring Paper. Cambridge: Cambridge Centre for Housing and Planning Research; and Udagawa, C. (2007) *Housing Associations and the Movement towards Target Rents 2005 to 2006*. Dataspring Paper. Cambridge: Cambridge Centre for Housing and Planning Research.

<sup>3</sup> The data was compiled from responses by HAs that completed the long version of the RSR and made a valid return. Before 2006/07, those HAs that own or manage more than 250 dwellings and/or bedspaces, including shared ownership dwellings, were required to complete the long version of the RSR. In 2006/07, this threshold was raised to 1,000 dwellings.

<sup>4</sup> The definition of 'general needs' housing was changed in 2005. Prior to this, general needs housing included the sheltered housing for older people. From 2005 onwards, sheltered housing that meet certain design criteria was categorised as the housing for older people and was transferred from general needs housing to 'supported housing'.

## 2.1 The national trend of HA rents

### *HA rents for assured and secured tenancies combined*

Table 2.1 shows HA rents for general needs *assured and secured tenancies combined* for England from 1998/99 to 2006/07. Average weekly rents rose from £52.39 per week in 1998/99 to £66.86 in 2006/07, a rise of 27.6% for the nine-year period or an average annual increase of 3.1%. This increase was significantly above the RPI.<sup>5</sup> In real terms, it was 4.9% increase for the whole period or an annual growth rate of 0.6%.

Table 2.1 Average weekly HA rents (assured and secured tenancies combined) in England, 1998/99 to 2006/07

	Rent (£)	Nominal change	Rent in 1998/99 prices (£)	Real change
1998/99	52.39		52.39	
1999/00	53.60	2.3%	53.02	1.2%
2000/01	54.36	1.4%	52.07	-1.8%
2001/02	56.28	3.5%	52.99	1.8%
2002/03	57.09	1.4%	52.86	-0.3%
2003/04	58.79	3.0%	52.96	0.2%
2004/05	61.82	5.2%	54.04	2.0%
2005/06	64.51	4.4%	54.90	1.6%
2006/07	66.86	3.6%	54.94	0.1%
<i>Change</i>				
<i>98/99 to 06/07</i>		27.6%		4.9%
<i>Estimated annual</i>		3.1%		0.6%

Note: The City of London and Isles of Scilly were excluded. Deflators used in the calculation of rents in 1998/99 prices were listed in footnote 5.

Source: Calculation based on the RSRs.

### *HA rents for assured tenancies and HA rents for secured tenancies*

Assured and secured tenancies have different regimes to fix and increase rents. Rent levels of secured tenancies, which are protected by the 'fair rent' registered by the Rent Officer, are generally lower than those of assured tenancies. Unlike assured rents that can be increased once a year, secured rents can only be reviewed at the end of a two year registration period. After 15 January 1989, when existing tenants under secured tenancies vacate their units, HAs can let units under assured tenancies and raise rents by charging target rents. The following section will look at the extent of the replacement of secured tenancies by assured tenancies and the subsequent impact on the rental difference between these two tenancies.

Figure 2.1 shows how the number of HA general needs units on assured tenancies has increased from 1998/99 to 2006/07. The proportion of assured tenancies in the total general needs housing grew from 80.9% in 1998/99 to 91.5% in 2006/07. By 2006/07, only 8.5% of general housing needs were allocated as secured tenancies. Furthermore, the average weekly rent for assured tenancies was £53.55 and £47.06 for

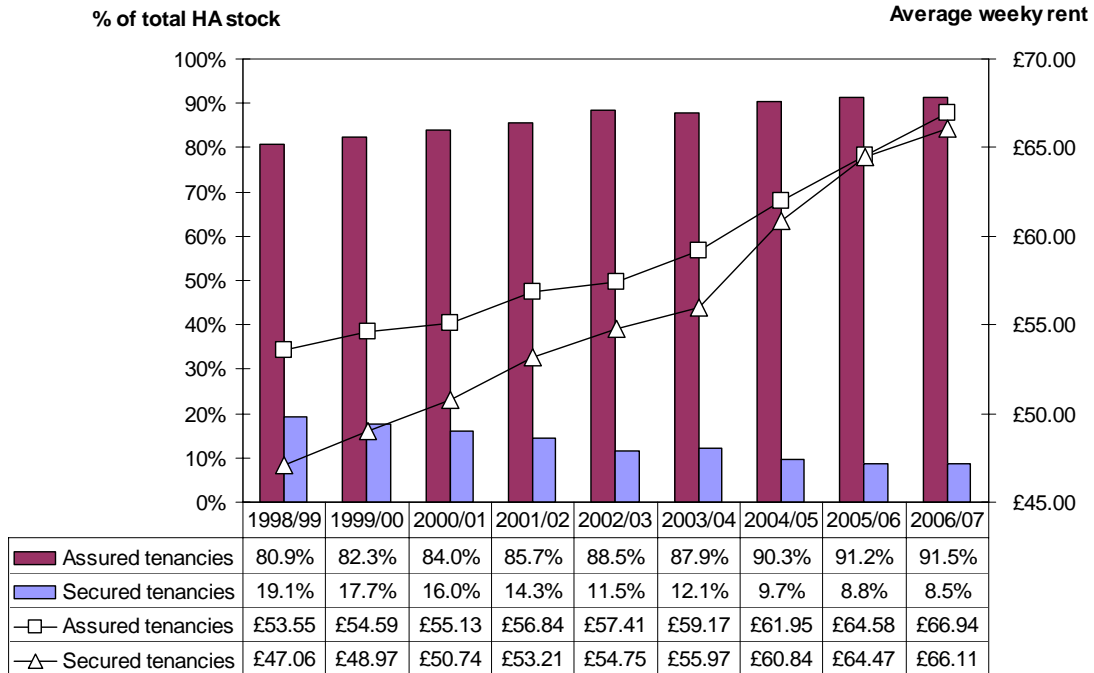
<sup>5</sup> RPI (for all items) from 1998 to 2006 were:

98	99	00	01	02	03	04	05	06	Change (98 to 06)	Annual change
3.4	1.5	3.0	1.8	1.7	2.9	3.0	2.8	3.2	21.7	2.5

Source: ONS and Dataspring's calculation.

secured tenancies. Both average rents increased over the nine year period, but rents for secured tenancies rose faster than those for assured tenancies. Average assured rents grew by 25.0% over the period from 1998/99 to 2006/07 (or 2.7% in real terms) while that of secured rents rose by 42.7% (or 15.4% in real terms). The difference between the two rents reduced from £6.49 in 1998/99 to £0.83 in 2006/07.

Figure 2.1 HA rents for assured tenancies and HA rents for secured tenancies, 1998/99 to 2006/07: all property sizes



Note: Bedspaces and bedsits were excluded. HA rents from two local authority areas were not available, thus there was a disparity in the combined averages of these two types of rents listed in Table 2.1.

Source: Calculation based on the RSRs.

Table 2.2 HA rents for assured tenancies and HA rents for secured tenancies in 1998/99 prices, 1998/99 to 2006/07: 1-bed to 4+ bed

	Assured tenancies (£)				Secured tenancies (£)			
	1-bed	2-bed	3-bed	4+ bed	1-bed	2-bed	3-bed	4+ bed
1998/99	45.69	53.85	60.32	71.97	41.61	46.84	52.21	60.64
1999/00	46.24	54.13	60.59	72.42	42.76	48.06	53.30	62.53
2000/01	45.32	52.90	59.08	70.80	42.57	48.18	53.41	62.63
2001/02	46.00	53.59	59.70	70.93	43.76	49.56	54.92	64.19
2002/03	46.06	53.30	58.28	69.46	44.33	50.19	55.37	65.00
2003/04	46.19	53.49	58.48	69.46	44.81	49.74	53.99	64.58
2004/05	46.95	53.64	57.79	68.81	47.06	51.91	56.54	66.06
2005/06	47.89	54.38	58.46	69.11	48.74	53.19	58.07	68.00
2006/07	47.88	54.37	58.65	68.94	48.80	52.20	57.42	67.62
<i>Real change</i>								
<i>98/99 to 06/07</i>	4.8%	1.0%	-2.8%	-4.2%	17.3%	11.4%	10.0%	11.5%
<i>Estimated annual</i>	0.5%	0.1%	-0.3%	-0.5%	1.9%	1.3%	1.1%	1.3%

Source: Calculation based on the RSRs.

In terms of bedsizes, Table 2.2 shows that the extent of rent increases for smaller sized properties was greater than for larger properties. Real rents for properties with three or more bedrooms in assured tenancies fell continuously from 1998/99 to 2004/05. In 2005/06 when the new bedsize weights for larger properties were introduced in the calculation of target rents, this trend continued for properties with four or more bedrooms but ended for 3-bed properties. As a result, the real decline of assured rents for 4+ bed properties was greater than for 3-bed properties. Thus, it is not surprising to find that the average real assured rent for 4+ bed properties in 2006/07 was higher than that of 2004/05.

## 2.2 Regional trends in HA rents

Table 2.3 shows HA net rents for *assured and secured tenancies combined* by region over the period of 1998/99 to 2006/07. London was the highest HA rent region throughout the period and in 2006/07, it had an average weekly rent of £82.15. The North East was the lowest rent region from 1998/99 to 2003/04, but from 2004/05 onwards, Yorkshire and the Humber had the lowest average rents.

HA rents increased over the period in all nine regions. London had the fastest rent growth of 36.3% between 1998/99 and 2006/07; an annual rate of 3.9%. This was followed by the North West, 33.8% (an annual rate of 3.7%) and the South East, 31.9% (an annual rate of 3.5%). At 17.4% the slowest growth was in Yorkshire and the Humber (an annual rate of 2.0%), followed by the East Midlands, 25.8% (an annual rate of 2.9%) and the West Midlands with 26.6% (an annual rate of 3.0%). All regions, except Yorkshire and the Humber, had annual rent increases above the RPI. Yorkshire and the Humber was the only region in England that showed a negative real growth.

Table 2.3 Average weekly rents (£; assured and secured tenancies combined) by region, 1998/99 to 2006/07

	London	SE	East	SW	E Mid	W Mid	NW	NE	Y & H
1998/99	60.27	58.93	52.99	50.91	48.92	48.08	44.17	44.11	46.83
1999/00	62.32	60.80	54.74	52.58	48.96	47.94	46.04	45.19	48.87
2000/01	63.55	62.06	56.30	53.57	49.81	47.91	46.78	46.25	48.02
2001/02	66.17	64.54	57.96	55.83	50.46	50.19	49.47	46.65	49.78
2002/03	68.52	66.37	59.61	57.50	51.65	51.11	50.32	47.70	49.26
2003/04	70.93	67.69	61.14	58.77	52.99	52.71	51.95	49.19	50.94
2004/05	75.36	71.86	63.94	62.29	56.25	55.74	54.82	51.78	51.31
2005/06	78.72	75.01	66.48	64.76	59.09	58.32	56.63	54.55	54.05
2006/07	82.15	77.71	69.11	66.94	61.54	60.86	59.11	55.98	54.97
<i>Nominal change</i>									
98/99 to 06/07	36.3%	31.9%	30.4%	31.5%	25.8%	26.6%	33.8%	26.9%	17.4%
Estimated annual	3.9%	3.5%	3.4%	3.5%	2.9%	3.0%	3.7%	3.0%	2.0%
<i>Real change</i>									
98/99 to 06/07	12.0%	8.3%	7.2%	8.0%	3.4%	4.0%	10.0%	4.3%	-3.5%
Estimated annual	1.4%	1.0%	0.9%	1.0%	0.4%	0.5%	1.2%	0.5%	-0.5%

Source: Calculation based on the RSRs.

## 2.3 HA rents at local authority level

### *Range of average weekly rents*

Table 2.4 illustrates the ranges of HA rents for the *combined assured and secured tenancies* at the local authority (LA) level over the period 1998/99 to 2006/07.<sup>6</sup> In 2006/07, the median rent was £66.73 per week, compared with £52.32 in 1998/99, an increase of 27.5%. Over the nine-year period, the distribution of rents across LA areas has widened. In 1998/99, the lowest rent was £39.06 while the highest was £72.58, a range of £33.52, and the standard deviation for the year was £7.23. By 2006/07, the range increased to £43.08 with the highest average rent of £91.56 and the lowest, £48.48. Correspondingly, the standard deviation increased to £9.86.

Table 2.4 Ranges of average weekly rents (£; assured and secured tenancies combined) at LA level, 1998/99 to 2006/07

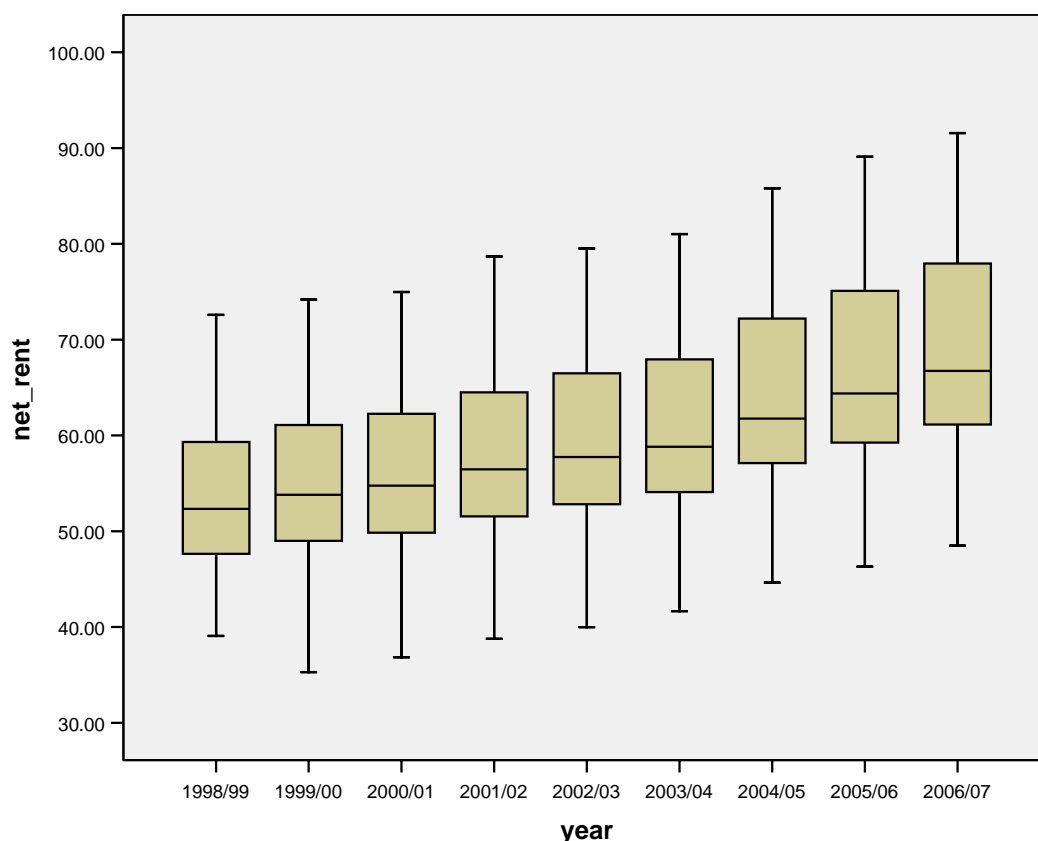
	<b>Median</b>	<b>Standard deviation</b>	<b>Minimum</b>	<b>Maximum</b>	<b>Max. – Min.</b>
1998/99	52.32	7.23	39.06	72.58	33.52
1999/00	53.80	7.42	35.28	74.19	38.91
2000/01	54.76	7.65	36.84	74.98	38.14
2001/02	56.47	7.94	38.76	78.69	39.93
2002/03	57.76	8.13	39.97	79.52	39.55
2003/04	58.82	8.26	41.66	81.03	39.37
2004/05	61.75	8.98	44.64	85.81	41.17
2005/06	64.38	9.36	46.30	89.10	42.80
2006/07	66.73	9.86	48.48	91.56	43.08

Source: Calculation based on the RSRs.

Figure 2.2 shows clearly that HA net rents increased steadily throughout the nine-year period, except for a decline in the lowest rent in 1999/00. The absence of no extreme value in Figure 2.2 suggests that the rent restructuring framework has helped to harmonise rent movements across LA areas.

<sup>6</sup> LA areas were based on the boundaries as of April 1998.

Figure 2.2 Distribution of average weekly HA rents (£, assured and secured tenancies combined) across all LA areas, 1998/99 to 2006/07



Source: Calculation based on the RSRs.

### ***LA areas with the highest and the lowest average weekly rents***

Table 2.5 lists the ten LA areas in England with the highest and the ten with the lowest average weekly rents in 1998/99 and in 2006/07. Those with the highest average rents were all located in southern England. In 1998/99, Wokingham had the highest average rent (£72.58), followed by Croydon (£70.57) and Gosport (£69.49). Three of these LA areas continued to be LA areas with the highest rents of 2006/07. Wokingham remained as the top LA area having the highest average rent in England at £91.56. This was followed by Woking at £89.52 and Three Rivers with £88.78. Five of the ten highest rent LA areas were located in London; four in the South East; and the remaining one in the East.

The ten LAs with the lowest average weekly rents were located in northern England. Table 2.5 shows that in 1998/99, Warrington had the lowest average rent of £39.06, followed by East Lindsey at £39.18 and Hambleton at £39.31. Four of the ten lowest rent LA areas were located in the North West, four in the North East, and one each in the East Midlands and Yorkshire and the Humber. Three of them remained within the group of the ten LA areas having the lowest rent in 2006/07. Newcastle-under-Lyme was the lowest rent LA area with an average weekly rent of £48.48. The second lowest LA area was Derwentside of £49.78, and the third lowest was North Lincolnshire, £50.09. Five of these were located in Yorkshire and the Humber, four in the North East, and the remaining one in the West Midlands.

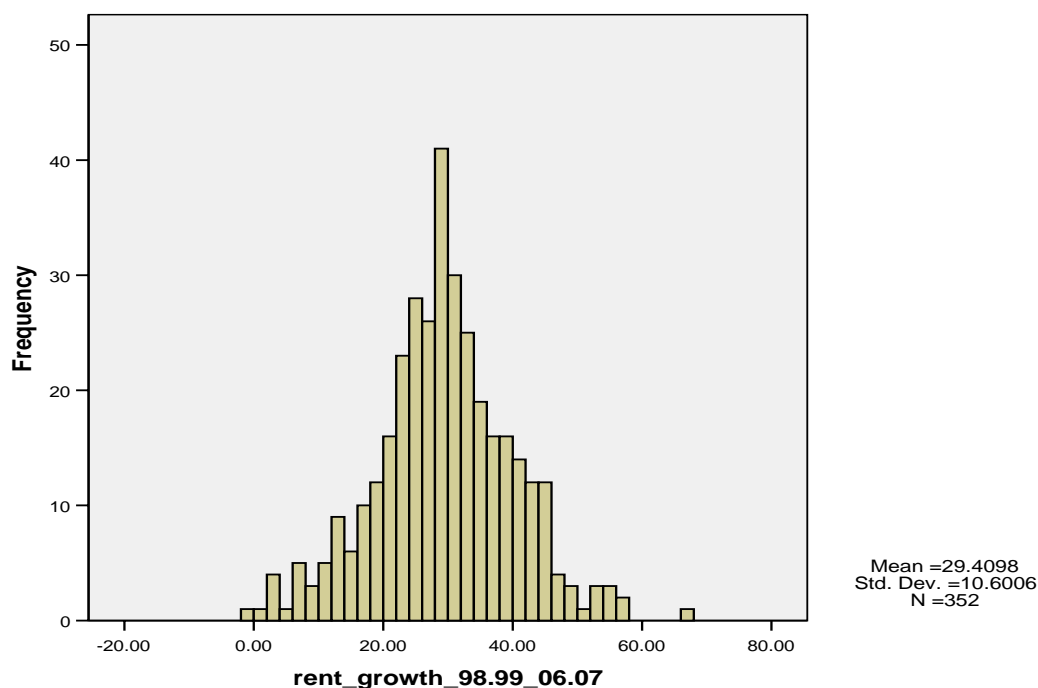


Table 2.5 Ten LA areas with the highest and ten LA areas with the lowest average weekly rents in 1998/99 and 2006/07

1998/99			2006/07		
LA area	Region	Rent (£)	LA area	Region	Rent (£)
<i>Highest average weekly rent</i>			<i>Highest average weekly rent</i>		
Wokingham	SE	72.58	Wokingham	SE	91.56
Croydon	Lon	70.57	Woking	SE	89.52
Gosport	SE	69.49	Three Rivers	East	88.78
Barking and Dagenham	Lon	69.10	Mole Valley	SE	88.74
Epping Forest	East	68.05	Croydon	Lon	88.73
Mid Sussex	SE	67.52	Tandridge	SE	88.17
Maidstone	SE	67.18	Camden	Lon	88.12
Castle Point	East	66.91	Hillingdon	Lon	87.74
Hounslow	Lon	66.65	Redbridge	Lon	87.69
Redbridge	Lon	66.51	Kingston upon Thames	Lon	87.62
<i>Lowest average weekly rent</i>			<i>Lowest average weekly rent</i>		
Warrington	NW	39.06	Newcastle-under-Lyme	W Mid	48.48
East Lindsey	E Mid	39.18	Derwentside	NE	49.78
Hambleton	Y & H	39.31	North Lincolnshire	Y & H	50.09
Congleton	NW	39.36	Calderdale	Y & H	50.47
Copeland	NW	39.62	Wakefield	Y & H	51.24
Allerdale	NW	40.78	North East Lincolnshire	Y & H	51.65
Chester-le-Street	NE	41.01	Wansbeck	NE	51.69
Newcastle upon Tyne	NE	41.21	Bradford	Y & H	52.82
South Tyneside	NE	41.71	Chester-le-Street	NE	53.49
Wansbeck	NE	41.83	Newcastle upon Tyne	NE	53.53

Source: Calculation based on the RSRs.

Figure 2.3 Distribution of average rates of rent growth (%) for all LA areas, 1998/99 to 2006/07



Source: Calculation based on the RSRs.

### ***LA areas with the largest and the smallest rent growth***

Almost all LA areas experienced rent increases over the nine-year period. Figure 2.3 shows that the median growth rate for HA rents for all LA areas was 29.4%. The majority of LA areas had a growth rate of around 25%. Eighty-eight LA areas had growth rates *above* 35.5% (the upper quartile of the nominal rent growth). Around two third of these (55 LA areas) were from southern England; 19 located in the South East, 17 in London, 13 in the East and ten in the South West. Another 88 LA areas had their rates of rent growth *below* 23.4% (the lower quartile of the nominal rent growth). Sixteen were LA areas in the South West.

Table 2.6 lists the ten LA areas with the largest and ten LA areas with the smallest increases in average rents from 1998/99 to 2006/07. Wyre had the largest increase of 66.0% – from £42.24 in 1998/99 to £70.13 in 2006/07, followed by Congleton (57.0% – from £39.36 in 1998/99 to £61.80 in 2006/07) and Stratford-on-Avon (56.9% – from £43.22 in 1998/99 to £67.83). Four of these ten LA areas were located in the North West; two in the South East; and one each in the West Midlands, Yorkshire and the Humber, the South West and the East. Six of these areas were rural LAs while four were urban.

Table 2.6 also shows that Maidstone was the LA area with the smallest rent growth. In percentage term, there was no rent growth between 1998/99 and 2006/07. The second lowest growth was found in Newcastle-under-Lyme (0.8% – from £48.08 to £48.48); followed by North Norfolk (2.3% – from £54.62 to £55.90). Of the ten LA areas having the smallest rent growth, two each were located in the East Midlands, the South East, and Yorkshire and the Humber, and one each in the South East, the West Midlands, the East and the North West. Six of these areas were urban LAs and four were rural.

Table 2.6 Ten LA areas with the largest and ten LA areas with the smallest rent growth between 1998/99 and 2006/07

LA areas	Region	Urban/rural	Rent (£)		Change
			1998/99	2006/07	
<i>Largest rent growth</i>					
Wyre	NW	Urban	42.24	70.13	66.0%
Congleton	NW	Rural	39.36	61.80	57.0%
Stratford-on-Avon	W Mid	Rural	43.22	67.83	56.9%
Epsom and Ewell	SE	Urban	53.71	83.54	55.5%
Hambleton	Y & H	Rural	39.31	61.01	55.2%
Bath and North East Somerset	SW	Rural	41.99	64.95	54.7%
Vale of White Horse	SE	Rural	48.01	73.84	53.8%
Hertsmere	E	Rural	52.29	80.01	53.0%
South Ribble	NW	Urban	43.05	65.76	52.8%
Warrington	NW	Urban	39.06	58.73	50.4%
<i>Smallest rent growth</i>					
Maidstone	SE	Rural	67.18	67.16	0.0%
Newcastle-under-Lyme	W Mid	Urban	48.08	48.48	0.8%
North Norfolk	E	Rural	54.62	55.90	2.3%
Fylde	NW	Urban	56.13	57.51	2.5%
South Gloucestershire	SW	Urban	61.51	63.13	2.6%
Erewash	E Mid	Urban	54.56	56.49	3.5%
North Lincolnshire	Y & H	Rural	47.76	50.09	4.9%
Wakefield	Y & H	Urban	48.22	51.24	6.3%
Derbyshire Dales	E Mid	Rural	55.98	59.62	6.5%
Weymouth and Portland	SW	Urban	58.63	62.51	6.6%

Source: Calculation based on the RSRs.

## 2.4 HA rents by urban and rural LA areas

In 2006/07, the average HA weekly rent was £66.90 for urban LA areas and £66.79 for rural LA areas (Table 2.7). Compared with rents in 1998/99, the average rent in urban areas rose by £13.97 or 26.4% (in real terms 3.9%) while the average rural rent increased by £15.32 or 29.8% (in real terms 6.6%). Average urban rents were above the rural equivalent except in 2004/05 and 2005/06.

Table 2.7 Average weekly rents by urban and rural LA areas, 1998/99 to 2006/07

	Weekly rent (£)	
	Urban LA areas	Rural LA areas
1998/99	52.93	51.47
1999/00	54.05	52.84
2000/01	55.00	53.32
2001/02	56.77	55.47
2002/03	57.39	56.56
2003/04	59.15	58.17
2004/05	61.77	61.93
2005/06	64.46	64.62
2006/07	66.90	66.79
<i>Nominal change:</i>		
<i>98/99 to 06/07</i>	26.4%	29.8%
<i>Estimated annual</i>	3.0%	3.3%
<i>Real change:</i>		
<i>98/99 to 06/07</i>	3.9%	6.6%
<i>Estimated annual</i>	0.5%	0.8%

Source: Calculation based on the RSRs.

Table 2.8 Average weekly rent by LA level according to the six urban/rural classifications, 1998/99 to 2006/07

	Weekly rent (£)					
	Major urban	Large urban	Other urban	Rural-26	Rural-50	Rural-80
1998/99	53.61	51.41	52.26	53.32	51.91	49.54
1999/00	55.27	51.66	52.63	54.24	53.96	50.86
2000/01	56.62	51.14	54.03	53.21	54.99	52.17
2001/02	58.08	53.21	56.32	55.21	57.56	54.21
2002/03	58.12	54.51	57.83	56.48	57.49	55.87
2003/04	60.16	56.27	58.62	58.08	59.14	57.50
2004/05	62.82	58.53	61.41	62.39	63.08	60.56
2005/06	65.96	60.50	63.42	65.21	65.81	63.08
2006/07	68.58	62.74	65.53	67.72	67.34	65.36
<i>Nominal change:</i>						
<i>98/99 to 06/07</i>	27.9%	22.0%	25.4%	27.0%	29.7%	31.9%
<i>Estimated annual</i>	3.1%	2.5%	2.9%	3.0%	3.3%	3.5%
<i>Real change:</i>						
<i>98/99 to 06/07</i>	5.1%	0.3%	3.0%	4.4%	6.6%	8.4%
<i>Estimated annual</i>	0.6%	0.0%	0.4%	0.5%	0.8%	1.0%

Source: Calculation based on the RSRs.

Table 2.8 shows average weekly HA rents by the six categories of LA areas according to the Department for Environment, Food and Rural Affairs' (Defra) urban and rural area classification.<sup>7</sup> In general, LA areas in the 'Major Urban' category

<sup>7</sup> The urban and the rural area classifications used in this paper are based on the Defra (2006) 'Rural Definition and Local Authority Classification', (<http://www.defra.gov.uk/rural/ruralstats/rural-definition.htm#defn>), which classifies urban and rural areas into six categories:

charged the highest HA rents except in 2004/05 when the average rent in LA areas in the 'Rural-50' category was the highest. By contrast, LA areas in the second most urban group, the 'Large Urban' category, often had the lowest rents expect in the first two years when LA areas in the most rural category, the 'Rural-80', had the lowest. LA areas in the 'Rural-80' category had the largest growth in average rents over the nine-year period at 31.9% or an annual rate of 3.5% (in real terms 8.4% or an annual rate of 1.0%). This was followed by LA areas in the 'Rural-50' category at 29.7% or an annual rate of 3.3% (in real terms 6.6% or an annual rate of 0.8%). The smallest growth rate was found in the 'Large Urban' LA area category at 22.0% or an annual rate of 2.5% (in real terms 0.3% or no growth annually).

### **3. The relationship between HA net rents and LQ house prices across England, 1998/99 to 2006/07**

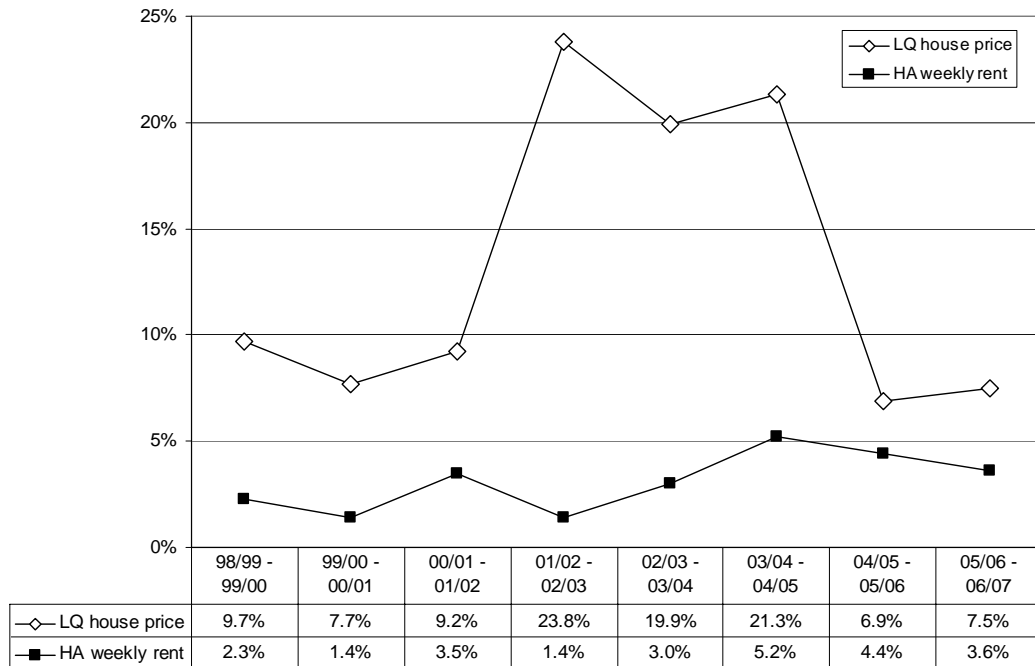
This section examines how HA rents vary in relation to house prices. Lower quartile house prices reflect the lower part of the private market, are therefore the closest comparative to HA housing which can be used as a proxy of these market value. Data on LQ house prices come from the Land Registry, which cover the financial year (1<sup>st</sup> April to 31<sup>st</sup> March of the following year). The figures are not adjusted for inflation.

#### **3.1 The relationship between HA rents and LQ house prices in England**

LQ house prices in England increased considerably from 1998/99 to 2006/07. In 1998/99, the average house price was £46,500. By 2006/07, it had risen to £124,200. Figure 3.1 shows that the annual changes in LQ house prices were particularly high from 2002/03 to 2004/05. Following the movement of LQ house prices, annual changes in HA average weekly net rents started to rise between 2003/04 and 2004/05, reaching to peak between 2003/04 and 2004/05. When LQ house price fell in the early 2005, the annual change of HA rents also declined. The synchronised changes in LQ house prices and HA rents are further confirmed by the positive and significant relationship between the two (Fig. 3.2). The correlation coefficient between HA rents and LQ house prices for the whole period was 0.801 (Table 3.1).

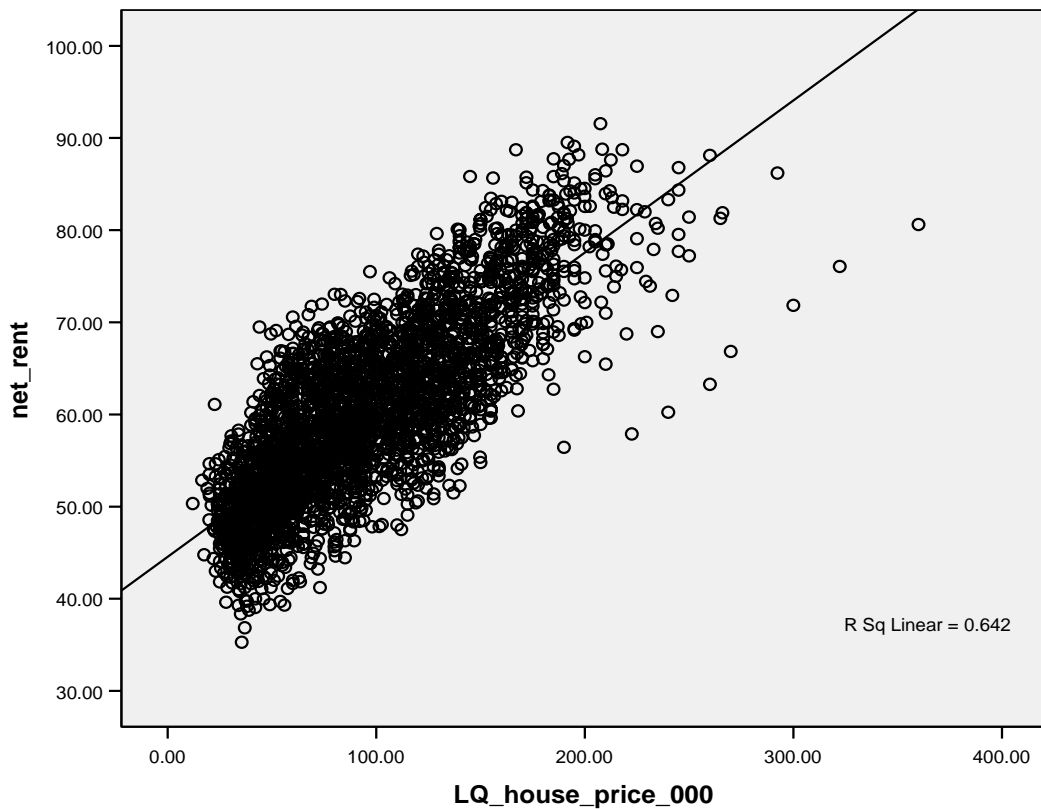
- 
1. Major Urban: districts with either 100,000 people or 50% of their population in urban areas with a population of more than 750,000
  2. Large Urban: districts with either 50,000 people or 50% of their population in one of 17 urban areas with a population between 250,000 and 750,000
  3. Other Urban: districts with fewer than 37,000 people or less than 26% of their population in rural settlements and larger market towns
  4. Significant Rural: districts with more than 37,000 people or more than 26% of their population in rural settlements and larger market towns
  5. Rural-50: districts with at least 50 percent but less than 80% of their population in rural settlements and larger market towns
  6. Rural-80: districts with at least 80% of their population in rural settlements and larger market towns

Figure 3.1 Changes of LQ house prices and HA weekly net rents over previous year, 1998/99 to 2006/07: England



Source: Calculation based on the RSRs.

Figure 3.2 The relationship between HA weekly net rents and LQ house prices (£), 1998/99 to 2006/07: England



Source: Calculation based on the RSRs.

Table 3.1 Correlation coefficients between LQ house prices and HA weekly net rents for each year, 1998/99 to 2006/07: England

	Correlation coefficient	Constant	Coefficient for LQ house price	Adjusted R <sup>2</sup>
1998/99	0.604	41.329***	0.230***	0.364
1999/00	0.626	43.502***	0.193***	0.390
2000/01	0.657	44.645***	0.167***	0.430
2001/02	0.683	45.862***	0.158***	0.466
2002/03	0.740	45.605***	0.148***	0.546
2003/04	0.763	44.366***	0.150***	0.581
2004/05	0.760	43.525***	0.164***	0.576
2005/06	0.780	43.116***	0.179***	0.607
2006/07	0.793	43.320***	0.183***	0.627
<i>Change</i>				
<i>98/99 to 06/07</i>	<i>0.801</i>	<i>44.556***</i>	<i>0.165***</i>	<i>0.642</i>

Note: N = 352 for each year.

\*\*\* 1% significance level.

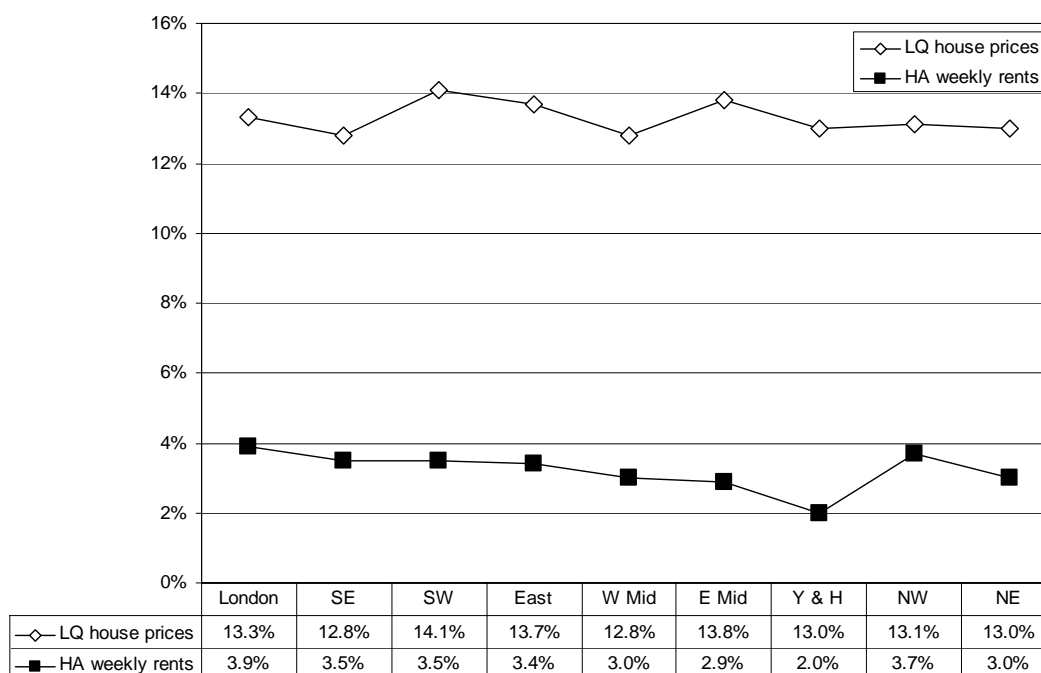
Source: Calculation based on the RSRs.

Table 3.1 also shows that the correlation coefficient between LQ house price and HA weekly rent increased steadily each year except for a slight decline in 2004/05. In 2002/03, the correlation coefficient rose to 0.740 from the previous year's 0.683. This indicates the effect of target rents, which was introduced in 2002, making HA net rents relate more closely to market prices at the lower end of the private market.

### 3.2 The relationship between HA rents and LQ house prices by region

Figure 3.3 shows that South West had the fastest growth in LQ house prices between 1998/99 and 2006/07 with an annual growth of 14.1%. This was followed by the East Midlands (13.8%) and the East (13.7%). The South East and the West Midlands showed the slowest growth although their increases were still considerable, with each having an annual rate of 12.8%. The third slowest rate of growth was found in the North East at 13.0%.

Figure 3.3 Annual changes of LQ house prices and HA weekly net rents by region, 1998/99 to 2006/07



Source: Calculation based on the RSRs.

Table 3.2 Correlation coefficients between LQ house prices and HA weekly net rents by region, 1998/99 to 2001/02 and 2002/03 to 2006/07

	1998/99 to 2001/02	2002/03 to 2006/07
London	0.003	0.344
North East	0.041	0.481
East Midlands	0.363	0.527
North West	0.187	0.549
West Midlands	0.248	0.567
South East	0.316	0.579
Yorkshire and the Humber	0.277	0.631
South West	0.459	0.642
East	0.520	0.734

Source: Calculation based on the RSRs.

Figure 3.3 shows that the regional pattern of annual changes in LQ house prices was quite different from that in HA weekly net rents between 1998/99 and 2006/07. However, dividing this period into before and after the introduction of target rents, i.e. the pre-rent restructuring years (1998/99 to 2001/02) and post-rent restructuring years (2002/03 to 2006/07), Table 3.2 illustrates clearly the effect of rent restructuring on the relationship between house prices and HA rents. Correlation coefficients for every region increased very considerably after 2002, implying HA rents were more closely related to house prices. London had the smallest coefficient in the first period with the highest correlation in the East. In the second period, the range of correlations was much less, but London still had the smallest and the East the highest.

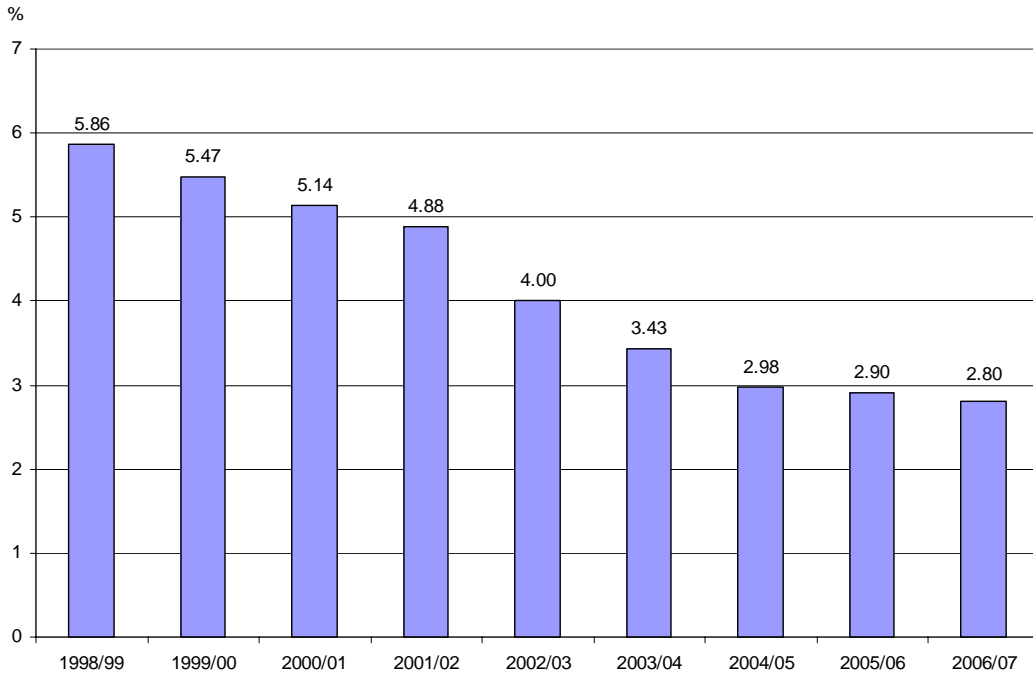


## 4. HA rental rates of return across England, 1998/99 to 2006/07

### 4.1 The national trend in HA rental rates of return

The HA rental rate of return is measured in terms of the HA average annual rent, calculated from the average weekly net rent, as a percentage of LQ house prices for each LA area across England. Figure 4.1 shows the average HA rental rate of return for England over the period 1998/99 to 2006/07. The rate declined continuously throughout the period as LQ house prices grew more rapidly (in percentage terms) than HA. The fall was particularly sharp during 2002/03 to 2004/05 when there were large increases in house prices. By 2006/07, the rate had fallen to 2.8%.

Figure 4.1 Average HA rental rates of return, 1998/99 to 2006/07: England



Note: The City of London and Isles of Scilly were excluded.

Source: Calculation based on the RSRs.

Table 4.1 HA rental rates of return (%) by region, 1998/99 to 2006/07

	London	SW	SE	East	W Mid	E Mid	Y & H	NW	NE
1998/99	4.48	5.30	5.11	5.51	5.95	6.52	6.76	6.56	7.17
1999/00	3.88	4.88	4.65	5.09	5.54	6.06	6.69	6.47	6.91
2000/01	3.34	4.35	4.06	4.61	5.19	5.82	6.42	6.57	7.18
2001/02	2.99	3.87	3.73	4.07	4.83	5.25	6.47	6.44	6.93
2002/03	2.55	3.23	3.03	3.35	4.09	4.27	5.63	5.95	6.53
2003/04	2.35	2.71	2.71	2.83	3.43	3.44	4.42	4.82	5.12
2004/05	2.28	2.51	2.59	2.62	3.05	3.08	3.47	3.9	4.14
2005/06	2.29	2.55	2.63	2.66	2.92	3.01	3.27	3.53	3.71
2006/07	2.25	2.43	2.57	2.57	2.88	2.91	2.98	3.29	3.42
<i>Change:</i>									
<i>98/99 to 06/07</i>	-2.23	-2.87	-2.54	-2.94	-3.07	-3.61	-3.78	-3.27	-3.75

Source: Calculation based on the RSRs.

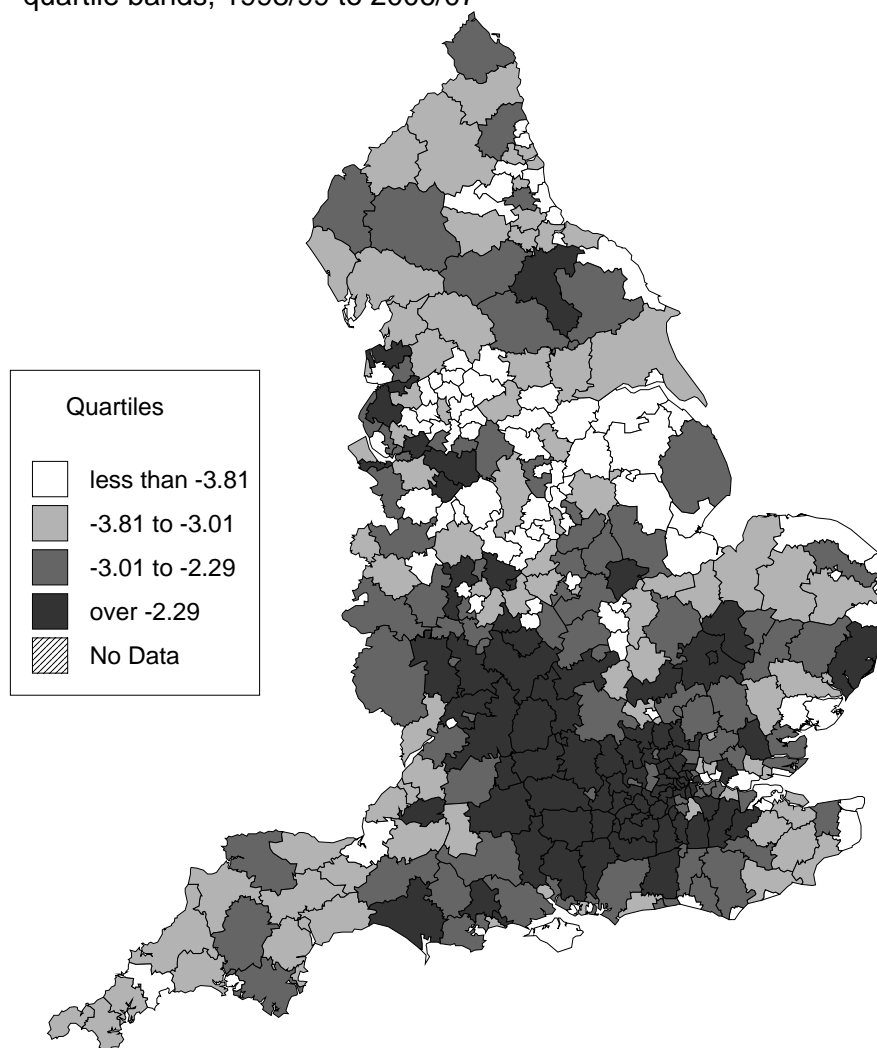
## 4.2 Regional trends in HA rental rates of return

HA rental rates of return also declined across the regions throughout the nine-year period (Table 4.1). The largest decline in the average rental rate of return was in Yorkshire and the Humber (3.78 points), followed by the North East (3.75 points). The smallest decline was in London (2.23 points) followed by the South East (2.54 points).

In 2006/07, the highest average rental rate of return was in the North East (3.42%), followed by the North West (3.29%) and Yorkshire and the Humber (2.98). The lowest was found in London (2.25%), followed by the South West (2.43%), the East and the South East (2.57% for each). All southern regions had HA rental rates of return that were below the national average (2.80; Figure 4.1).

## 4.3 HA rental rates of return at LA level

Map 4.1 Changes in HA rental rates of returns by LA areas in (percentage point) quartile bands, 1998/99 to 2006/07



Source: Calculation based on the RSRs.

### **Changes in average rental rates of return**

Map 4.1 illustrates changes in HA rental rates of return across all LA areas from 1998/99 to 2006/07. LA areas with relatively small declines in average rental rates of return were generally located in the southern part of England, particularly around London. Those with sharp declines in rates were often located in Yorkshire and the Humber and in the Midlands.

### **Ranges of average rental rates of return**

Table 4.2 shows average HA rental rates of return for the 354 LA areas in England from 1998/99 to 2006/07. The median of the rates of return was 2.60% in 2006/07. This was 3.10 percentage points lower than that of 1998/99. The variation across LA areas was smaller in 2006/07. The standard deviation was 0.63 in 2006/07 compared to 1.60 in 1998/99, while the range from the maximum to the minimum declined to 5.47 percentage points from 10.76 in 1998/99. Figure 4.2 illustrates how the variation across all LA areas authorities declined over the nine-year period.

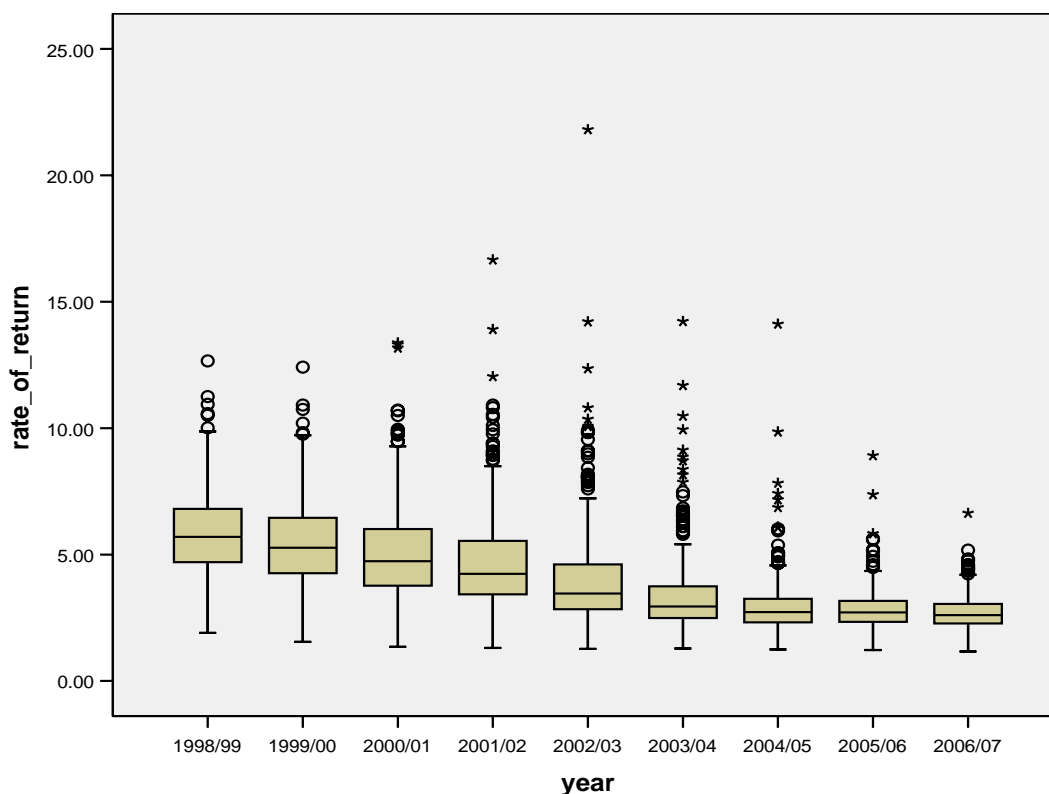
Table 4.2 HA rental rates of return (%) at the LA level, 1998/99 to 2006/07

	<b>Median</b>	<b>Standard deviation</b>	<b>Maximum</b>	<b>Minimum</b>	<b>Max. – Min.</b>
1998/99	5.70	1.60	12.66	1.90	10.76
1999/00	5.27	1.66	12.42	1.54	10.88
2000/01	4.74	1.92	13.37	1.35	12.02
2001/02	4.24	2.02	16.66	1.31	15.35
2002/03	3.46	2.10	21.81	1.27	20.54
2003/04	2.94	1.57	14.22	1.29	12.93
2004/05	2.72	1.15	14.12	1.25	12.87
2005/06	2.71	0.80	8.91	1.23	7.68
2006/07	2.60	0.63	6.63	1.16	5.47
<i>Change</i>					
<i>98/99 to 06/07</i>	<i>-3.10</i>	<i>-0.97</i>	<i>-6.03</i>	<i>-0.74</i>	<i>-5.29</i>

Note: Due to rounding, the value of the range may not equal the difference from the maximum to the minimum.

Source: Calculation based on the RSRs.

Figure 4.2 The distribution of HA rental rates of return (%) across LA areas in England, 1998/99 to 2006/07



Source: Calculation based on the RSRs.

### ***LA areas with the highest and the lowest rental rates of return***

In 1998/99, Pendle had the highest average rental rate of return (12.66%; Table 4.3), followed by Hyndburn (11.25%) and Burnley (10.94%). Five of the ten LA areas with the highest rates were located in the North West; two in the East Midlands; and one each in the North East, the West Midlands, and Yorkshire and the Humber. Seven of these remained in the ten LA areas with the highest rates of return in 2006/07, with Burnley (6.63%), Barrow-in-Furness (5.18%) and Pendle (4.83%) as the three highest. Again, five of these were LA areas in the North West; two in the North East; and one each in Yorkshire and the Humber, the West Midlands and the East Midlands.

Table 4.3 also shows that Kensington and Chelsea, Westminster, and Hammersmith and Fulham were top three LA area with the lowest average rental rates of return in both 1998/99 and 2006/07. As mentioned above, HA rental rates of return were lower in southern regions, so it is unsurprising to find six of the ten LAs with the lowest rates were located in London; three in the South East; and the remaining one in the West Midlands. Eight of these LA areas remained in the same list in 2006/07, including the top three LA areas of Kensington and Chelsea, Westminster, and Hammersmith and Fulham. Seven of these were located in London and three in the South East.

Table 4.3 Ten LA areas with the highest and ten LA areas with the lowest HA rental rates of return, 1998/99 and 2006/07

1998/99			2006/07		
LA	Region	Rate of return (%)	LA	Region	Rate of return (%)
<i>Highest HA rental rates of return</i>					
Pendle	NW	12.66	Burnley	NW	6.63
Hyndburn	NW	11.25	Barrow-in-Furness	NW	5.18
Burnley	NW	10.94	Pendle	NW	4.83
Barrow-in-Furness	NW	10.58	Kingston upon Hull	Y & H	4.76
Easington	NE	10.51	Blackburn with Darwen	NW	4.61
Blackburn with Darwen	NW	10.01	Stoke-on-Trent	W Mid	4.57
Stoke-on-Trent	W Mid	9.87	Hyndburn	NW	4.52
Corby	E Mid	9.74	Sedgefield	NE	4.44
Mansfield	E Mid	9.69	Hartlepool	NE	4.44
Kingston upon Hull	Y & H	9.46	Bolsover	E Mid	4.34
<i>Lowest HA rental rates of return</i>					
Kensington & Chelsea	London	1.90	Kensington & Chelsea	London	1.16
Westminster	London	2.51	Westminster	London	1.53
Hammersmith & Fulham	London	2.56	Hammersmith & Fulham	London	1.60
South Bucks	SE	2.78	South Bucks	SE	1.69
Richmond upon Thames	London	2.83	Richmond upon Thames	London	1.69
Chiltern	SE	2.87	Camden	London	1.76
Camden	London	2.95	Chiltern	SE	1.77
Surrey Heath	SE	3.00	Islington	London	1.79
Islington	London	3.01	Elmbridge	SE	1.81
Stratford-on-Avon	W Mid	3.12	Wandsworth	London	1.84

Source: Calculation based on the RSRs.

### ***LA areas with the largest and the smallest declines in rental rates of return***

Between 1998/99 and 2006/07, all LA areas in England experienced varying decreases in their rental rates of return. Table 4.3 lists the ten LA areas with the largest and the smallest declines in rates of return accordingly. Pendle had the sharpest drop at 7.83 points, from 12.66% in 1998/99 to 4.83% in 2006/07. Pendle was followed by Hyndburn, 6.73 points (11.25% to 4.52%) and Easington, 6.27 points (10.51% to 4.23%, respectively). The rapid reductions in rates of return were mainly an outcome of sharp increases in LQ house prices, which rose nearly 170% over the nine-year period. In Derwentside, the modest increase in HA rent, only 7.4% between 1998/99 and 2006/07, contributed to the sharp drop in its rate of return. Five of the ten LA areas with the largest declines in rates of return were located in the North West, two each in the East Midlands and the North East, and one in the West Midlands.

Kensington and Chelsea had the lowest average rental rate of return in both 1998/99 and 2006/07 (Table 4.3) and had the smallest decline at 0.74 points – from 1.90% in 1998/99 to 1.16% in 2006/07 (Table 4.4). This was followed by Surrey Heath at 0.91 points (3.00% to 2.09%) and Hammersmith and Fulham at 0.96 points (2.56% to 1.60%). The ten LA areas having the smallest declines in rates of return experienced relatively moderate increases in house prices of between 117% and 140% over the nine-year period. However, as these LAs were already high-price areas, the relatively low increases in house prices brought about only moderate reductions in rates of return. As was expected, most of these were located in southern England;

five in the South East and four in London. The remaining one was a LA area in West Midland.

Table 4.4 Ten LA areas with the largest and ten LA areas with the smallest decline in HA rental rates of return between 1998/99 and 2006/07

LA	Region	Rate of return (%)		1998/99 to 2006/07
		1998/99	2006/07	(%-point)
<i>Largest decline in HA rental rates of return</i>				
Pendle	NW	12.66	4.83	-7.83
Hyndburn	NW	11.25	4.52	-6.73
Easington	NE	10.51	4.24	-6.27
Corby	E Mid	9.74	3.65	-6.09
Manchester	NW	8.97	3.11	-5.86
Derwentside	NE	9.10	3.36	-5.74
Mansfield	E Mid	9.69	4.14	-5.55
Blackburn with Darwen	NW	10.01	4.61	-5.40
Barrow-in-Furness	NW	10.58	5.18	-5.40
Stoke-on-Trent	W Mid	9.87	4.57	-5.30
<i>Smallest decline in HA rental rates of return</i>				
Kensington and Chelsea	London	1.90	1.16	-0.74
Surrey Heath	SE	3.00	2.09	-0.91
Hammersmith and Fulham	London	2.56	1.60	-0.96
Westminster	London	2.51	1.53	-0.98
Stratford-on-Avon	W Mid	3.12	2.12	-1.00
South Bucks	SE	2.78	1.69	-1.09
Chiltern	SE	2.87	1.77	-1.10
Epsom and Ewell	SE	3.14	2.04	-1.10
Vale of White Horse	SE	3.24	2.11	-1.13
Richmond upon Thames	London	2.83	1.69	-1.14

Source: Calculation based on the RSRs.

#### 4.4 Trends in HA rental rates of return for urban and rural LA areas

Table 4.5 shows the estimated average rental rates of return for urban and rural LA areas. In 2006/07, the rates were 2.63% for urban areas and 2.48% for rural areas. These compared with 5.86% and 5.46%, respectively, in 1998/99. Thus, there were declines in average rental rates of return of 3.23 percentage points for urban LA areas and 2.98 points for rural areas. The declining trend began to slow in 2005/06. Although urban rates of returns were always higher than the rural ones, the difference between these two has been reduced to less than 0.20 points in recent years.

Table 4.5 HA rental rates of return (%) by urban and rural LA areas, 1998/99 to 2006/07

	Urban area		Rural area		Urban – rural
	Rate of return	Change from the previous year	Rate of return	Change from the previous year	
1998/99	5.86		5.46		0.39
1999/00	5.51	-0.35	5.04	-0.42	0.47
2000/01	4.77	-0.74	4.47	-0.57	0.30
2001/02	4.22	-0.55	4.01	-0.46	0.21
2002/03	3.45	-0.77	3.31	-0.70	0.14
2003/04	2.93	-0.52	2.75	-0.56	0.18
2004/05	2.65	-0.28	2.54	-0.21	0.12
2005/06	2.70	0.05	2.57	0.03	0.14
2006/07	2.63	-0.07	2.48	-0.09	0.14
<i>Change</i>					
<i>98/99 to 06/07</i>		-3.23		-2.98	

Source: Calculation based on the RSRs.

## 5. Conclusions

Since the introduction of the rent restructuring framework in April 2002, HA rents have become more closely related to property values, as evidenced by the increasingly strong relationship between HA rents and LQ house prices. Although the relationship between HA rents and LQ house prices has strengthened, HA rental rates of return have fallen significantly. This may be attributed to the rapid growth in house prices that exceeded the general price inflation, while increases in HA rents were linked to the retail price index. In the two years since 2005/06, lower house price inflation has resulted in a slow down in the rate of decline of HA rental rates of return.

In high house price regions, such as London, the rent restructuring regime has dampened the effect of the larger increases in house prices and produced relatively lower HA rental rates of return in these regions. In contrast, rental rates of return followed a reverse pattern in regions with relatively low house prices. Most notably, the North East has experienced relatively higher rates of return.

Overall, the target rent formula has generated greater consistency between rents in different parts of the country. At the same time, the regulatory regime with respect to limits on rent increases has significantly reduced rental rates of return in the HA sector very significantly over the last few years.