

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

### Summary

#### Introduction

This summary brings together three reports which examine changes in housing association (HA) rents and rental rates of return between 1998/99 and 2006/07; private rents and rental rates of return between 1996/97 and 2006/07; and the comparison of rental rates of return between the two sectors from 1998/99 to 2006/07.

#### Methodology

The studies used several datasets. HA gross and net rents come from the Housing Corporation's Regulatory and Statistical Return, while private gross rents come from the Rent Officer Service at the former Department for Transport, Local Government and the Regions for 1996/97 to 2000/01 and from the Rent Service of the Department for Work and Pensions for 2001/02 to 2006/07. Rental rates of return are measured as the ratio of average annual rents to lower quartile (LQ) house prices. Price data come from the Land Registry.

#### Key findings

##### *Private gross rents and rental rates of return, 1996/97 to 2006/07*

- Private gross rents in England increased from £82.77 per week in 1996/97 to £121.10 in 2006/07. The increase in private rents was therefore 46.3% with an annual increase of 3.9% over the 11 years.
- LQ house prices rose sharply over the same period from £41,500 to £124,200, an increase of almost 200% or 11.6% per annum.
- As both private rents and house prices followed the same general trend, there was a significant positive correlation between private rents and house prices.
- Private rental rates of return, measured as the ratio of average annual private gross rents to LQ house prices, declined continuously from 10.4% in 1996/97 to 5.1% in 2006/07.
- Although London had the highest rate of return (5.5%) in 2006/07, it also had declined most over the period (6.4 percentage points). This was mainly due to the rapid rise in house prices, particularly after 2001/02.
- Three of the ten local authority (LA) areas that had the highest private rental rates of return in both years were located in the North West, Burnley (18.3% in 1996/97 and 8.6% in 2006/07), Pendle (17.0% and 7.0%, respectively) and Hyndbrun (16.6% and 6.5%, respectively). They also experienced the largest decline in returns over the 11-year period.
- LA areas in central and northern England where house prices increased relatively slowly had lower rates of return with smaller declines over the period.
- The private rental rate of return in urban LA areas was 11.5% in 1996/97 and fell by 6.4 percentage points, to 5.0% in 2006/07. The equivalent figures for rural LA areas were 8.4% and 4.0%, respectively, a 4.5 percentage point decline.

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

- HA net rents for assured and secured tenancies combined in England increased from £52.39 per week in 1998/99 to £66.86 in 2006/07, a rise of 27.6% or an annual increase of 3.1% over the nine-year period.

- The rate of increase for HA secured tenancies (42.7% since 1998/99) was greater than that for assured tenancies (25%). The difference between the two rents declined from £6.49 in 1998/99 to £0.83 in 2006/07.
- LQ house prices and HA average rents moved together over the period. The annual percentage increase in HA net rents started to rise in 2000/01–2002/03, reached the peak at 5.2% in 2003/04–2004/05 and declined to 3.6% in 2005/06 when LQ house prices fell.
- HA rental rates of return, measured by average annual HA net rents divided by LQ house prices, declined continuously from 5.9% in 1998/99 to 2.8% in 2006/07.
- All southern regions had lower HA rental rates of return that were below the national average, with London having the lowest at 4.5% in 1998/99 and 2.3% in 2006/07. In contrast, the North East had the highest rates of return, 7.2% and 3.4%, respectively, but also, in common with other northern regions it experienced a relatively large decline in these rates of return.
- All the ten LA areas with the highest HA rental rates of return were located in the north of England in both years. These authorities also experienced the largest decline in the nine-year period.
- Nearly all of the ten LA areas with the lowest HA rental rates of return and the smallest decline in HA rates were located in southern England where house prices increased relatively rapidly.
- HA rental rate of return in urban LA areas was 5.9% in 1998/99 and fell by 3.2 percentage point, to 2.6% in 2006/07. The equivalent figures for rural LA areas were 5.5% and 2.5%, respectively, a 3.0 percentage point decline.

#### ***Comparison between HA and private rental rates of return, 1998/99 to 2006/07***

- The HA gross rental rate of return was 2.88% for England as a whole in 2006/07 while the private gross rental rate of return was 5.07%. The rate differential between HA and private sectors was therefore 2.19 percentage points.
- Because private gross rental rates of return fell faster than those for HA net rates, rate differentials between the two sectors decreased from -3.5 points in 1998/99 to -2.3 points in 2006/07, a reduction in the differentials of 1.2 points over the nine-year period.
- In 2006/07, the rate differential between the two sectors was the largest in London at 3.2 points. The smallest differential at 1.5 points was in the East Midlands.
- Over the nine-year period, rate differentials between the two sectors narrowed in all regions. The greatest contraction was in London (by 2.4 points). The gap in the East Midlands narrowed the least (by 0.30 points).
- In 2006/07, the median of rate differentials between HA and private sectors for all LA areas was 1.8 points, compared with 2.9 in 1998/99. The medians declined throughout the study period.
- Variations in these differentials across LA areas contracted over the nine-year period, measured in terms of either standard deviations or ranges (the maximum differential minus the minimum differential). For example, the standard deviation (0.6 points) and the range (4.1 points) for 2006/07 had decreased by 0.6 and 0.1 points, respectively from 1998/99.
- Both urban and rural LA areas saw a declining variation in rate differentials between the two sectors, except in 2002/03 for both groups and in 2006/07 for the rural group. Standard deviations decreased by 0.56 for urban LA areas and by 0.44 for rural LA areas between 1998/99 and 2006/07. Ranges declined by 2.80 and 2.11, respectively.
- Compared with figures in 1998/99, rate differentials in 2006/07 for London, Birmingham, Manchester and Newcastle had reduced more than the national average of 1.2 points. This implies that in all four metropolitan areas, HA and private sector rents were converging, if only to a limited extent.

#### **Conclusions**

The three papers, HA rents, private rents and their rental rates of return, examine how each has changed over time and show the extent to which the two rents have converged. The analyses show that HA and private rents increased between 1998/99 and 2006/07 while their rental rates of return both declined throughout the period. The differentials between the two rental rates narrowed across all LA areas, by region and by urban and rural area classification. In high house price regions, such as London, the rent restructuring regime has dampened the increase in HA rents, produced relatively lower HA rental rates of return and larger rate differentials between the two sectors. On the other hand, LA areas in the northern part of England had HA and private rental rates closer to one another and saw a relatively modest reduction in their rate differentials.