

## **Detailed analysis of the current pattern of registered social landlord rents, 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 the Current Pattern of Registered Social Landlord (RSL) Rents: 2001/02 – 2006/07* which can be accessed as a source document through the Dataspring's website.

# Summary

## Introduction

This paper clarifies the current pattern of registered social landlord (RSL) rents using the latest RSR 2006/07 data. It also examines how rents have developed over the past five years, particularly in the context of the rent restructuring regime, introduced from 1 April 2002.

## Methodology

The main source of data is the Regulatory and Statistical Return (RSR) which consists of the individual returns of housing associations to the Housing Corporation. The RSR data used covers the period from 2001/02 (the year before the implementation of the rent restructuring regime) to 2006/07. Most of the analysis uses net rents because target rents are set in net rent terms.

## Key findings

### ***RSL rent patterns at the national and regional levels***

- The national average net rent for all property sizes was £66.66 per week in 2006/07. At the regional level, London had the highest average net rents at £81.45 and Yorkshire and the Humber the lowest at £54.81.
- The national average net rent for all property sizes continuously increased over the period from 2001/02 to 2006/07. The increase over the five year period was £10.98 or 19.7% – an increase of around 3.5% per year.
- Generally rents for smaller properties have increased more than for all properties taken together. Those for three or more bedrooms have increased relatively less. As a result, rent differentials with respect to property size have narrowed over the observation period.
- The annual rates of rent increases were generally above the guideline, i.e., RPI  $\pm$ 0.5% but remained below the 'guideline + £2' limit. In 2006/07, the national increase was 3.69% compared to the 3.2% guideline.
- The national average service charge for all property sizes was £4.54 per week. At the regional level, London had the highest service charge at £6.94 and South West the lowest at £3.43.
- There was a significant improvement in the progress of average net rents towards target rents. Even in London where average net rents have sometimes increased above 'the guideline + £2' limit, the gap between its regional averages and target rents has become smaller over time.

***RSL rent patterns at the local authority level***

- In 2006/07, the *median* net weekly rent for all property sizes in the 354 English local authority areas (LAs) was £68.65. The range was £43.12 – from £48.44 to £91.56.
- Following the national pattern for all property sizes, LAs in London and the southern regions had the highest average rents in each property category.
- The *median* level of average service charges for all property sizes in the 354 LAs was £4.12 per week. The range was £10.74 – from £0.89 to £11.63.
- Across the country, 202 LAs had average net rents within the  $\pm 0.5\%$  of target range. Around 60% of differences between net rent and target rents fell within the range.

***Property size effects on RSL rent patterns***

- Average net rents increased according to property size across most LAs. Using the average rent of 2-bed units as a base, the medians of average net rents were, from bedspaces to 6+ bed respectively, 0.68, 0.74, 0.86, 1.00, 1.11, 1.21, 1.31 and 1.42.
- Average net rents for all size categories, except bedspaces, showed a consistent positive relationship with those for all properties sizes together and for units with two bedrooms.
- The pattern of target rents across LAs was more coherent than that for actual rents, suggesting that target rents by property size at the LA level were generally very consistent with the rent restructuring formula.

***Local effects on RSL rent patterns***

- Average net rents in most LAs showed positive and significant relationships with the equivalents in their neighbouring LAs – except with respect to bedspaces.
- The relationship between the disparities in LAs' net and target rents, and equivalents in neighbouring LAs was positive but not statistically significant, indicating that there are consistencies between neighbouring areas but that other factors also help determine how actual rents adjust towards target rents.

**Conclusions**

Over the five year period since rent restructuring was introduced, rent coherence has undoubtedly increased across the housing association sector and actual rents have generally moved towards target rents. Rents have risen somewhat more rapidly than RPI +0.5%, partly because of restructuring. Rent patterns now relate more closely to regional relativities in capital values (although not in terms of absolute levels) and show considerable consistency between LAs and their neighbouring authority areas.

## 1. Introduction

In 2000, the rent restructuring regime was first set out in the Housing Green Paper with the objectives of bringing greater coherence to rent structures across the whole social sector and relating rents more closely to fundamentals. Target rents were introduced by the government in April 2002 as part of the rent restructuring framework. The framework required housing associations (HAs) to adjust their existing rents to target rents by 2010 based on a formula taking account of local income, property size, and property value. Registered social landlord (RSL) rents were also subject to a control regime based on RPI +0.5%. However rents on individual properties could in addition be adjusted by plus/minus £2 per week to allow adjustment towards target rents.

The rent regime therefore includes a number of important elements:

- Limiting average rents to inflation plus a small amount for rising rent costs
- Adjusting individual rents so they are better related to both capital values and local incomes
- Achieving target rents, based on these values and incomes plus property size over a ten-year period

Last year, Dataspring undertook a detailed analysis of the spatial pattern of RSL rents for the year 2005/06.<sup>2</sup> This paper both updates this analysis to 2006/07 and examines the pattern of change since 2001/02 at national, regional and local levels. It concentrates not only on the analysis of average rents but also the relationship between average rents and target rents; how rents vary with property size; and rent relativities at the local level. It also includes some analysis of service charges.

Average weekly RSL rents are calculated as weighted averages for the corresponding area. The source of the RSL rent data is the Regulatory and Statistical Return (RSR). For details of the data see *Guide to Local Rents 2007 Part II: Social Landlord Rents*.<sup>3</sup>

The RSR 2007 data used in this paper are HA net rent levels as at 31 March 2007 and cover only those for general needs assured and secure tenancies combined. These data come from all HAs that completed the long version of the RSR and made a valid return. It therefore includes those HAs that own or manage more than 1000 dwellings and/or bedspaces, including shared ownership dwellings. All general needs dwellings, including Estate Renewal Challenge Fund stock are included. Supported housing and housing for older people, is excluded. Net rents are used because target rents are set in net rent terms.

The paper is structured as follows: Section 2 describes the pattern of RSL net rents and services charges at national and regional levels, and examines the development of RSL net rents and their disparities from target rents between 2002/03 and 2006/07. Section 3 looks at the patterns of net rents and service charges at the local authority level. Section 4 examines the relationship between property size and the extent to which the bedsize factors affect RSL rents at the local authority level. Section 5 investigates local factors as determinants of RSL rents at the local authority level by comparing the average rent of a local authority area with the weighted average of its surrounding areas. Section 6 summarises the key points arising from the above analyses and draws conclusions.

<sup>2</sup> Detailed analysis of the current pattern of registered social landlord (RSL) rents 2005/06.

<sup>3</sup> Available at Dataspring Outputs, Project: Guide to Local Rents (<http://www.dataspring.org.uk/outputs/detail.asp?OutputID=153>).

## 2. RSL rent patterns at the national and regional levels

This section examines the regional pattern of average rents and service charges by property size in 2006/07. It also looks at the development of RSL net rents since 2001/02, the year before the introduction of target rents, and assesses how far average net rents have moved towards target rents between 2002/03 and 2006/07.

### 2.1 The pattern of net rents in 2006/07

The national average net rent for all property sizes in 2006/07 was £66.66 per week. At the regional level, London had the highest average net rent (£81.45) and Yorkshire and Humber showed the lowest (£54.81), a range of £26.64 (Table 2.1). The average rent in London was only 150% of that in Yorkshire and Humber – a very small difference as compared to market rents, but more directly related to income relativities.

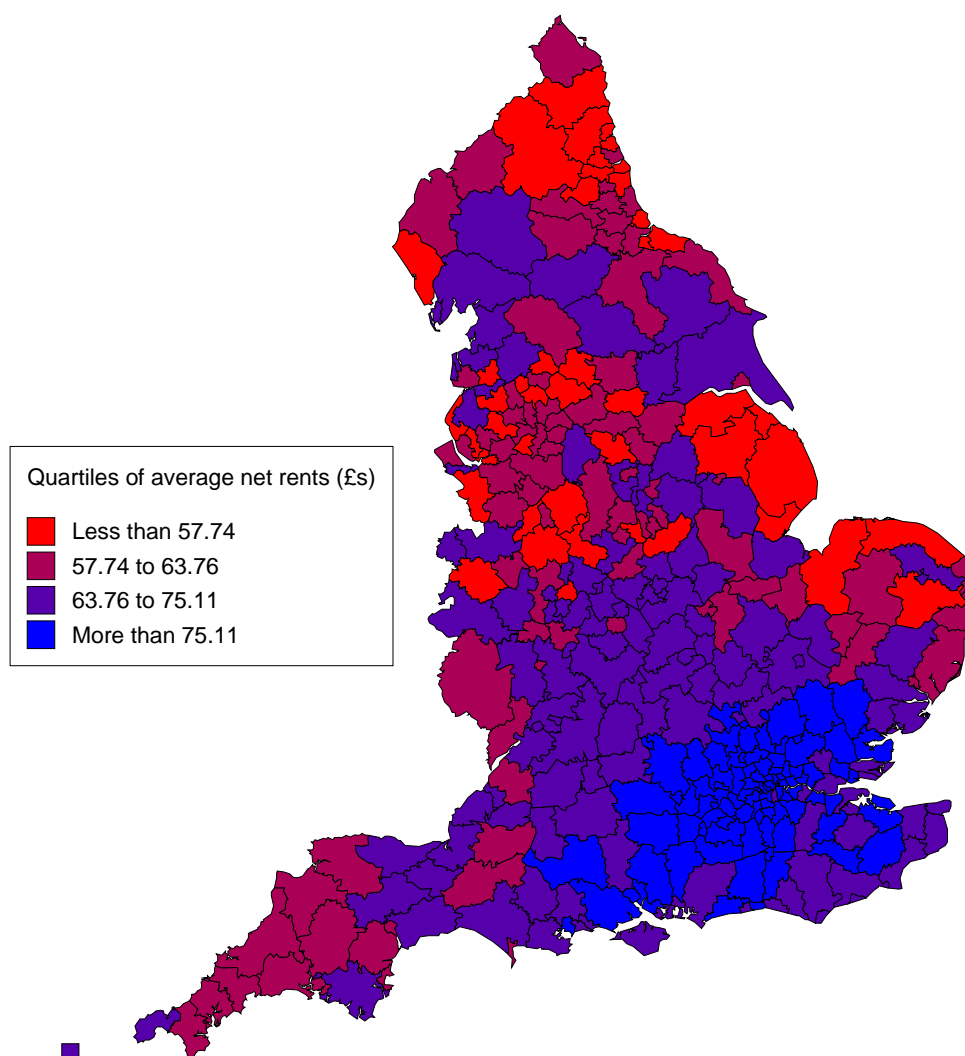
Table 2.1: Average net weekly rent by region, 2006/07 – two bedroom and all property sizes

| Region             | Two bedroom  |              | All property sizes |              |
|--------------------|--------------|--------------|--------------------|--------------|
|                    | £            | 2-bed = 1.00 | £                  | 2-bed = 1.00 |
| London             | 81.11        | 1.00         | 81.45              | 1.00         |
| South East         | 76.09        | 1.00         | 77.37              | 1.02         |
| South West         | 65.66        | 1.00         | 66.77              | 1.02         |
| East Midlands      | 61.66        | 1.00         | 61.36              | 1.00         |
| East of England    | 67.59        | 1.00         | 68.78              | 1.02         |
| West Midlands      | 60.19        | 1.00         | 60.66              | 1.01         |
| Yorkshire & Humber | 54.58        | 1.00         | 54.81              | 1.00         |
| North East         | 55.61        | 1.00         | 55.91              | 1.01         |
| North West         | 58.01        | 1.00         | 59.04              | 1.02         |
| <i>England</i>     | <i>65.97</i> | <i>1.00</i>  | <i>66.66</i>       | <i>1.01</i>  |

A second important observation is that the average rents for two-bed properties are very close to average rents for all property sizes across the country. The national average for two-bed properties was £65.97 with a range from £81.11 in London to £54.58 in Yorkshire and Humber, a difference of £26.53. Across the nine regions the difference between rents for all properties and two-bed properties are very small varying from 1.00 to 1.02. This indicates that average net rents for two-bed can be used as a guide for all stock (Table 2.1).

Finally Map 2.1 shows the pattern of average rents of two-bedroom properties across England. It clarifies the consistent regional pattern of average rents, with the highest rents in London and the South East and rents generally declining as they are located further from the capital.

Map 2.1: Average net rents of two bedrooms by quartile and region, 2006/07

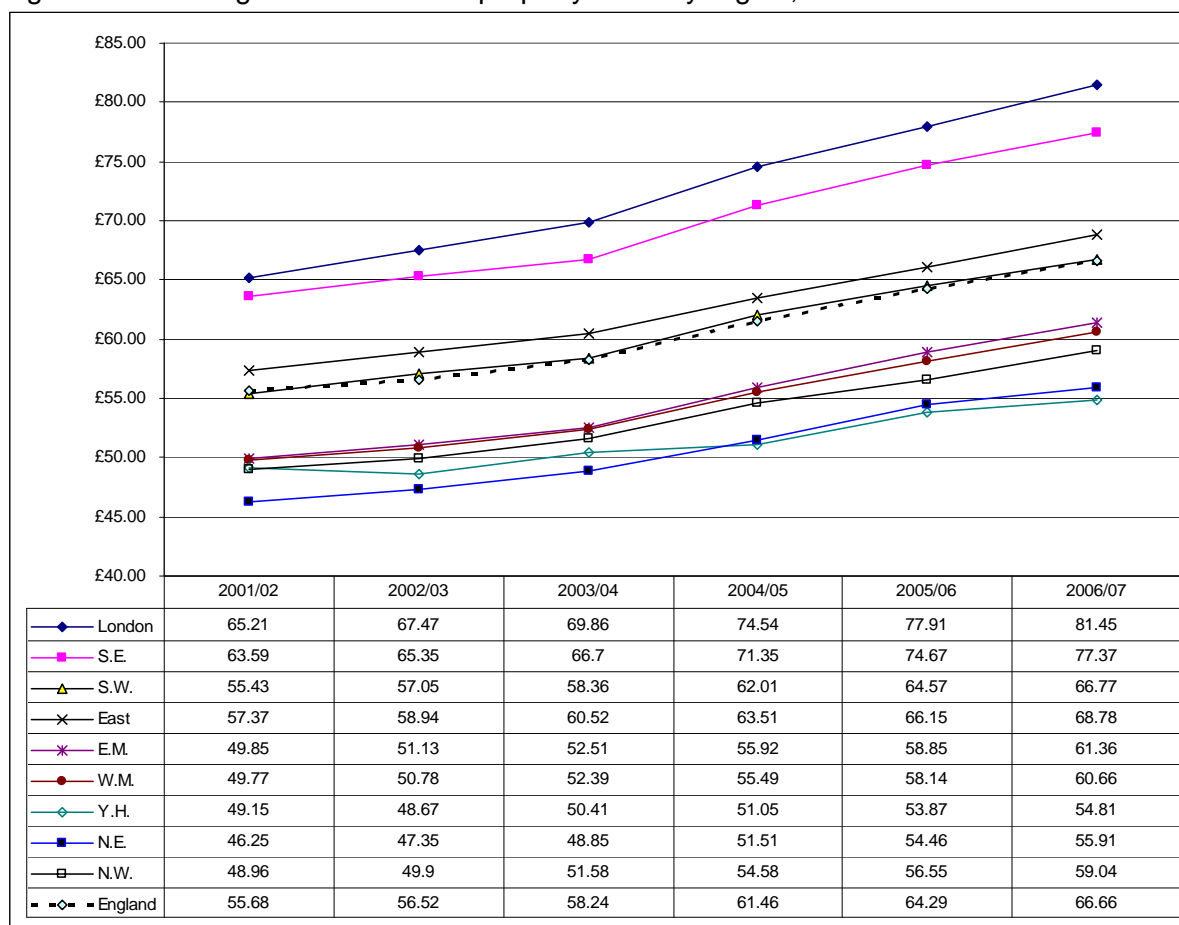


## 2.2 Developments in rents from 2001/02 to 2006/07

The national average weekly net rent for all property sizes increased from £55.68 in 2001/02 to £66.66 in 2006/07; an increase of £10.98 or 19.7%. This implies a yearly average increase of over 3.5%. The average net rents of all nine regions<sup>4</sup> also increased each year except in Yorkshire and Humber in 2002/03. London had the highest rent levels during the five-year period. The lowest were observed in the North East until 2003/04. Thereafter, Yorkshire and Humber had the lowest rents. As can be seen from Figure 2.1, the regional pattern of average rents has not changed significantly over these five years.

<sup>4</sup> Rents examined in this paper are those for general needs housing whose definition has been modified since the 2005 RSR. Previously, general needs housing included some dwellings classified as sheltered housing for older people. In the 2005 RSR, this classification was abolished, and dwellings that met certain design criteria moved to a new category, 'housing for older people'.

Figure 2.1: Average net rents for all property sizes by region, 2001/02 to 2006/07



Regional relativities have increased considerably over the period. In 2001/02, the highest average rent was in London, at £65.21 and the lowest, £46.25 in the North East, a difference of £18.96. This compares with the £26.64 difference in 2006/07 from £81.45 in London to £54.81 in Yorkshire and Humber (i.e. for all property sizes together). The growth in the inter-regional range for the five-year period was over 40%. In the case of two-bed properties, the range was £18.71 in 2001/02 (from £47.18 in the North East to £65.89 in London), comparing to £26.53 in 2006/07 (from £54.58 in Yorkshire and Humber to £81.11 in London), an increase of 42%, suggesting a very similar picture.

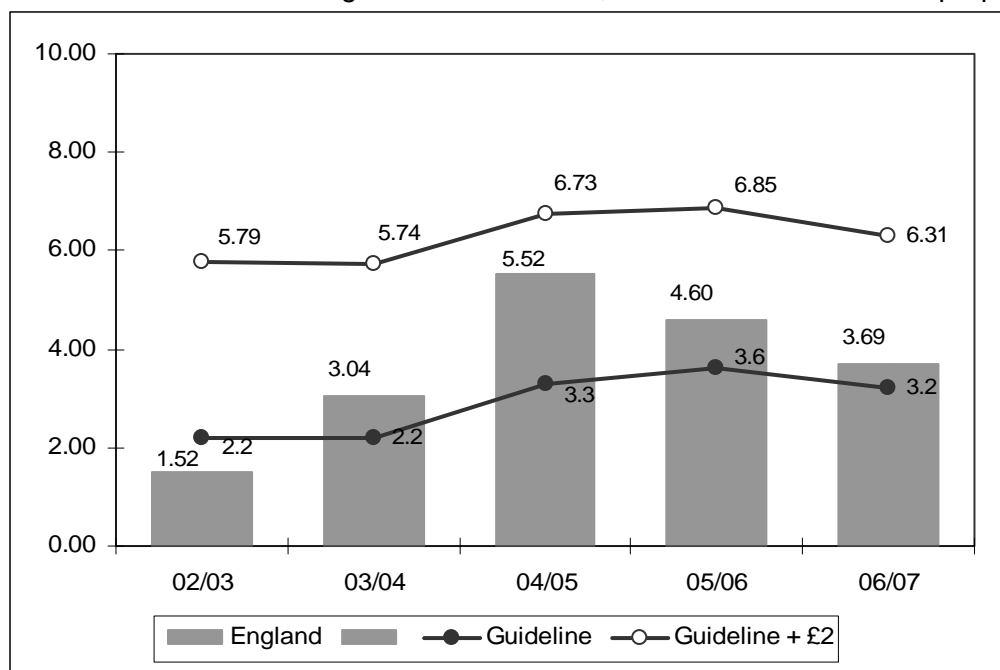
When we look at the trends in rents by property size the overall pattern is similar, although less consistent, especially for bedspaces. However, the rents for smaller properties have increased more than those in the largest categories. Over the five year period (four years for bedspaces), the increases in the national averages were, in order of small to large unit size: (i.e., bedspaces to 4+ bed) £6.11 (14.0%), £12.56 (31.0%), £9.84 (20.3%), £9.69 (17.2%), £8.80 (14.1%) and £9.97 (13.5%). Thus, property size relativities have declined.

More generally, London has maintained the highest rents throughout the period for all size categories, except bedspace rents in 2006/07. The lowest rents by property size were generally found either in Yorkshire and Humber or the North East. The former mainly has the lowest rent levels for smaller properties and the latter for larger properties. The widening differential between the highest rent region and those with the lowest rents may be attributed to the rent restructuring regime which includes a market element.



The guideline limit for the annual rate of rent increase has been RPI (all items) +0.5% since 1 April 2002. However, in order to allow gradual convergence between actual and target rents, individual property rents could vary by a further £2. Figure 2.2 shows the annual average actual rent increases for all size categories over the past five years for England. It also shows the annual increase of the guideline limits for net rent and the guideline limit plus £2. (It should be noted however that this limit of RPI +0.5% plus £2 should never be observed as only some rents should be increased in relative terms).

Figure 2.2: Average rate of net rent increase (%) in comparison with those of the guideline limits and the guideline limits + £2, 2002/03 to 2006/07 – all properties sizes



In 2002/03, the 1.52% national rate of rent increase was below the 2.20% guideline. Thereafter, it was above the RPI  $\pm 0.5\%$  level, while remaining under the 'guideline + £2 level'. The latest rate was 3.69% compared to the guideline of 3.20% and 6.31% for the guideline limit plus £2. The annual rates of rent increases for all nine regions generally followed the national trend and were kept under the guideline + £2 level. The only exceptions occurred in 2004/05 for London (6.7%) and the South East (6.97%). By 2006/07, the annual increase in these regions had declined to 4.54% for London and 3.62% for the South East, well below their respective guideline limits + £2 of 5.77% and 5.88%.

We next look at how relative rents have changed for different property sizes using the two-bed rental index (i.e., the two-bed average rent for each region = 1.00, see Table 2.2). Nationally, the rental indices for bedsits rose by 0.08 points – from 0.72 in 2001/02 to 0.80 in 2006/07, while those of one-bed properties increased by 0.02 points from 0.86 to 0.88, respectively. By contrast, the two-bed rental indices for larger properties with three or more bedrooms experienced relative declines by -0.03 points and -0.04 points, respectively. This again shows that rent differentials with respect to property sizes have narrowed during the study period. Indeed, the range of average rents from bedsits to four plus bed was £33.19 (£40.49–£73.68) in 2001/02 compared to £30.60 (£53.05–£83.65) four years later.

Table 2.2: Rental indices of average net rent using two-bed rental index (i.e., two-bed average rent for each region = 1.00), 2001/02 and 2006/07

| Region         | Bedsit      |             | 1-bed       |             | 3-bed       |             | 4+ bed      |             |
|----------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
|                | 2001/02     | 2006/07     | 2001/02     | 2006/07     | 2001/02     | 2006/07     | 2001/02     | 2006/07     |
| London         | 0.70        | 0.76        | 0.84        | 0.87        | 1.17        | 1.13        | 1.34        | 1.28        |
| S. E.          | 0.70        | 0.73        | 0.84        | 0.85        | 1.13        | 1.12        | 1.27        | 1.24        |
| S. W.          | 0.75        | 0.76        | 0.86        | 0.86        | 1.10        | 1.10        | 1.24        | 1.22        |
| E. M.          | 0.69        | 0.75        | 0.85        | 0.87        | 1.04        | 1.05        | 1.21        | 1.18        |
| East           | 0.71        | 0.73        | 0.83        | 0.86        | 1.11        | 1.10        | 1.29        | 1.24        |
| W. M.          | 0.73        | 0.80        | 0.89        | 0.90        | 1.07        | 1.06        | 1.28        | 1.24        |
| Y & H          | 0.66        | 0.76        | 0.85        | 0.87        | 1.11        | 1.08        | 1.34        | 1.31        |
| N. E.          | 0.73        | 0.81        | 0.91        | 0.90        | 1.05        | 1.06        | 1.09        | 1.13        |
| N. W.          | 0.70        | 0.78        | 0.91        | 0.89        | 1.09        | 1.08        | 1.24        | 1.19        |
| <i>England</i> | <i>0.72</i> | <i>0.80</i> | <i>0.86</i> | <i>0.88</i> | <i>1.11</i> | <i>1.08</i> | <i>1.31</i> | <i>1.27</i> |

One possible explanation for the rises in rents for smaller properties might be associated with the definitional change with respect for general needs housing in the 2005 RSR, when some dwellings for older people were transferred out of the category. Knight, Grant and Whitehead (2005) however showed that in the 2005 RSR, the effect of the categorical change was observed only in the gross rents and service charges, not in net rents.<sup>5</sup> Moreover, sheltered housing tends to have higher rents than non-sheltered housing,<sup>6</sup> suggesting that the exclusion of housing for older people would put downward pressure on the rents of smaller sized general needs properties.

At the regional level, the changes in the two-bed rental indices generally followed the national pattern with some exceptions (Table 2.2). For bedsits, all regions saw relative increases – the largest in Yorkshire and Humber by 0.1 points; from 0.66 in 2001/02 to 0.76 in 2006/07. Similarly, the indices for one-bed rose in all nine regions except the North East and the North West. London and the East of England showed the largest increases of 0.03 points for each size. By contrast, six regions experienced decreases in the three-bed category, the sharpest of which was experienced in London by 0.04 points; from 1.17 to 1.13. This also occurred with respect to properties with four or more bedrooms, for which indices decreased across all nine regions except the North East. The largest decline was observed, again, in London by 0.06 points: from 1.34 to 1.28. Overall, there has been a narrowing of rent differentials consistent with the rent restructuring regime, which in particular dampened rents for larger size properties.

### 2.3 The pattern of service charges

In 2006/07, the average service charge for all property sizes in England was £4.54 per week. At the regional level, London had the highest service charge (£6.94) and the South West the lowest (£3.43). Thus, service charges were twice as high in London as in the South West, the region with the lowest service charge. Indeed, London's average service charge was 60% above the national average.

Table 2.3 shows the service charges by all property sizes together and for the smaller sizes, where service charges are concentrated across regions. They reflect a similar pattern to the national picture and also show clearly that the highest service charges are concentrated in

<sup>5</sup> Knight, Grant and Whitehead (2005) *Impact of Changes in Definitions in Supported Housing and Housing for Older People between the RSR 2004 and 2005*. (<http://www.dataspring.org.uk/Downloads/Full%20Report%202008.05.06.pdf>).

<sup>6</sup> Findings were based on CORE's (COntinuous REcording) data on HA lettings and sales in England.

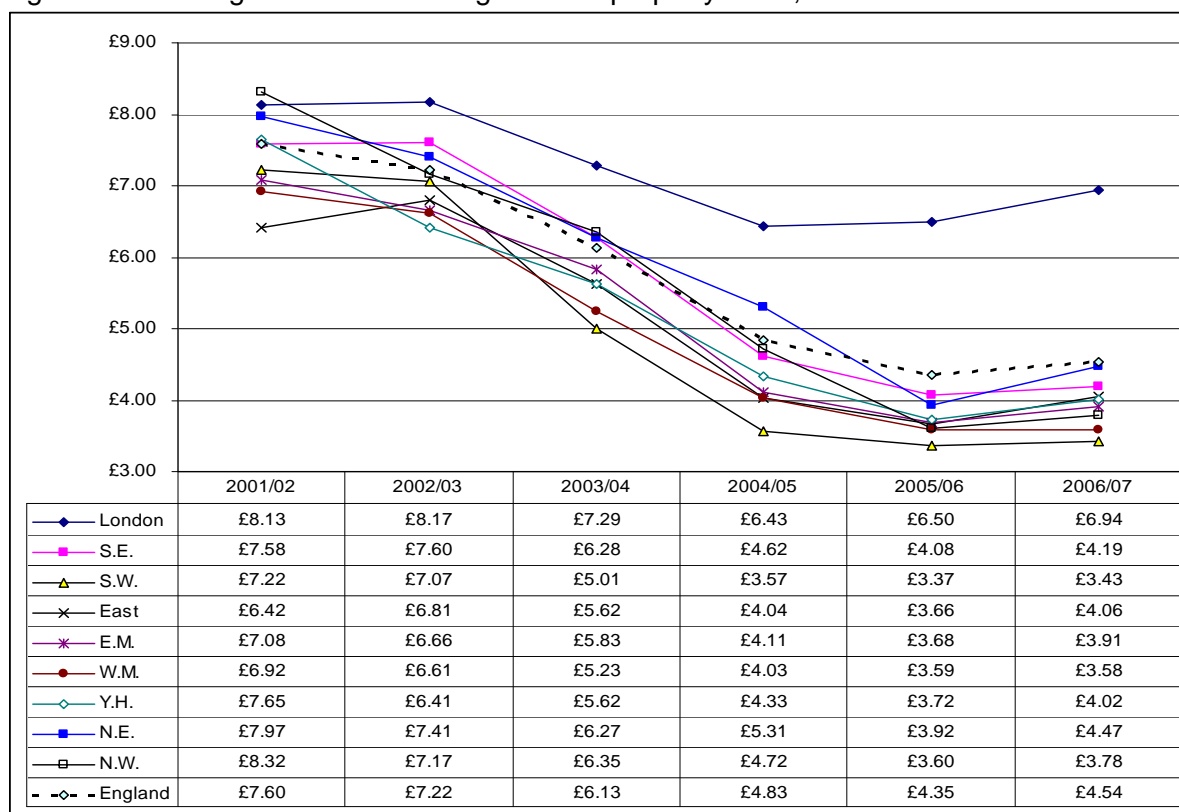
bedspaces, bedsits and one bedroom units. Thus, gross rent differentials between property sizes are smaller than those observed for net rents. London, once again, had the highest averages for all property size categories, except bedsits in the East Midlands. Across smaller sized properties, the regions with the lowest averages varied.

Table 2.3: Average weekly service charge by region, 2006/07 – smaller size properties and all property sizes

| Region             | Bedspace     | Bedsit      | 1-bed       | 2-bed       | All property sizes |
|--------------------|--------------|-------------|-------------|-------------|--------------------|
| London             | 18.11        | 7.10        | 7.41        | 7.48        | 6.94               |
| South East         | 13.31        | 6.50        | 5.18        | 4.37        | 4.19               |
| South West         | 14.21        | 5.11        | 4.89        | 3.34        | 3.43               |
| East Midlands      | n.a.         | 8.52        | 5.94        | 3.59        | 4.06               |
| East of England    | 16.24        | 8.07        | 5.20        | 3.71        | 3.91               |
| West Midlands      | 6.20         | 5.53        | 4.74        | 3.80        | 3.58               |
| Yorkshire & Humber | n.a.         | 6.82        | 5.21        | 4.09        | 4.02               |
| North East         | 15.48        | 8.11        | 5.30        | 4.58        | 4.47               |
| North West         | 6.07         | 6.54        | 4.90        | 4.10        | 3.78               |
| <i>England</i>     | <i>15.13</i> | <i>6.81</i> | <i>5.58</i> | <i>4.72</i> | <i>4.54</i>        |

Figure 2.3 shows that over time compared with net rents, service charges are less coherent across regions and size categories. This is hardly surprising as service charges relate to the specific features of dwellings rather than to capital values and local incomes. It also shows importantly that service charges have generally been falling over time from an average of £7.60 in 2001/02 to £4.54 in 2006/07, a reduction of around 30%. Again, regional patterns are not fully consistent, but generally show downward trends at least until 2005/06.

Figure 2.3: Changes of service charges for all property sizes, 2001/02 to 2006-07



## 2.4 Disparities between net rents and target rents

In 2006/07 at the national level, the disparity between average net rents and average target rents for all property sizes was 4.49% (Table 2.4a). This is calculated by subtracting an average net rent from an average target rent and is expressed as a percentage of net rent.<sup>7</sup> London, Yorkshire and Humber, and the North East fell outside the  $\pm 5\%$  range of target rent for all property sizes taken together. Table 2.4 shows these regions in shadow. In terms of property sizes, three bedroom properties showed a greater discrepancy than other bedsizes.

We can compare these disparities with those in 2002/03 (Table 2.4b). This shows that London has been consistently outside the  $\pm 5\%$  range for both years. All other regions were close to or below  $\pm 5\%$  even in 2002/03. There was a significant improvement in the progress of average net rents towards target rents, especially with respect to bedspaces and bedsits. Even in London, the gap between the actual averages and targets has become smaller over time.

Table 2.4: Disparities between net rents and target rents for each property size (%), 2002/03 and 2006/07

| a) 2006/07 |           |          |        |       |       |       |       |       |        |
|------------|-----------|----------|--------|-------|-------|-------|-------|-------|--------|
| Region     | 2006/07   |          |        |       |       |       |       |       |        |
|            | All sizes | Bedspace | Bedsit | 1-bed | 2-bed | 3-bed | 4-bed | 5-bed | 6+-bed |
| London     | 9.34      | 0.68     | 11.39  | 10.83 | 8.79  | 8.22  | 10.34 | 14.37 | 15.7   |
| S. E.      | 1.90      | -0.68    | -0.77  | 1.16  | 1.10  | 2.83  | 2.79  | 2.52  | 0.90   |
| S. W.      | 1.09      | -18.88   | 0.36   | 0.25  | -0.03 | 2.48  | 1.93  | -0.99 | -2.92  |
| E. M.      | 0.86      | n/a      | -1.52  | -1.49 | -1.28 | 3.91  | 2.79  | -1.76 | -0.60  |
| East       | 3.58      | 39.74    | 5.16   | 3.26  | 2.83  | 4.31  | 3.49  | 3.19  | 1.01   |
| W. M.      | 3.86      | -0.09    | -2.46  | -0.15 | 2.16  | 7.55  | 2.46  | 2.55  | 1.00   |
| Y & H      | 8.54      | n/a      | 7.58   | 6.59  | 7.90  | 10.80 | 3.56  | -0.36 | 2.43   |
| N. E.      | 5.19      | 6.90     | 4.60   | 1.39  | 3.42  | 8.44  | 10.92 | 15.64 | 8.70   |
| N. W.      | 3.29      | 10.56    | 1.30   | 0.43  | 1.65  | 5.57  | 4.37  | 3.03  | 2.12   |
| England    | 4.49      | -0.32    | 5.07   | 3.94  | 3.33  | 5.66  | 5.77  | 7.61  | 7.90   |

| b) 2002/03 |           |          |        |       |       |       |        |
|------------|-----------|----------|--------|-------|-------|-------|--------|
| Region     | 2002/03   |          |        |       |       |       |        |
|            | All sizes | Bedspace | Bedsit | 1-bed | 2-bed | 3-bed | 4+ bed |
| London     | 15.46     | 11.00    | 21.97  | 20.81 | 16.36 | 10.17 | 9.22   |
| S. E.      | 1.20      | 9.52     | 2.96   | 2.28  | 1.17  | 0.72  | -2.75  |
| S. W.      | -1.44     | 13.48    | -2.14  | -0.76 | -1.72 | -1.38 | -5.41  |
| E. M.      | 4.43      | 1.99     | 11.18  | 5.81  | 2.44  | 5.76  | -2.29  |
| East       | 5.04      | 7.47     | 13.10  | 7.14  | 5.53  | 3.78  | -1.06  |
| W. M.      | 5.56      | 16.66    | 6.52   | 3.57  | 5.20  | 8.02  | -2.53  |
| Y & H      | 0.89      | 13.11    | 11.43  | 2.40  | 0.60  | 0.16  | -10.76 |
| N. E.      | 4.90      | 22.79    | 8.86   | 2.74  | 5.87  | 9.13  | 10.83  |
| N. W.      | -0.46     | 37.90    | 8.69   | 0.02  | 2.16  | 2.90  | -4.29  |
| England    | 5.61      | 13.25    | 10.81  | 6.91  | 5.87  | 4.66  | 1.94   |

Note: Figures outside of a  $\pm 5\%$  range of target rent are shaded.

<sup>7</sup> Net rent stock without target rents is included in the calculation of the disparities. However, to gain an overall picture of the disparities across England, we have assumed that the bias arising from including these units is negligible. The total number of stock that had net rent reported was 1,527,383 while those with both net rent and target rent was 1,527,379.

### 3. RSL rent patterns at the local authority level

#### 3.1 The pattern of net weekly rents at local authority level in 2006/07

In 2006/07, the *median* net weekly rent for all property sizes in the 354 English local authority areas was £68.65. The range was £43.12: from £48.44 to £91.56. Table 3.1 shows that Wokingham had the highest average net rent of £91.56. The lowest, £48.44, was found in Newcastle-under-Lyme (Table 3.2). All of the 20 local authority areas that had the highest average net rents were in southern regions: 11 were in London, seven were in the South East and the remaining two were in the East of England. The lowest rents were less spatially concentrated, with half of the 20 lowest in the North East, six in Yorkshire and Humber, three in the West Midlands and the remaining one in the East Midlands.

Table 3.1: The top 20 local authority areas that had the highest average net rents for all property sizes, 2006/07

| Local authority area | Region          | £     | Stock |
|----------------------|-----------------|-------|-------|
| Wokingham            | South East      | 91.56 | 830   |
| Woking               | South East      | 89.19 | 621   |
| Mole Valley          | South East      | 88.43 | 335   |
| Croydon              | London          | 88.23 | 7,573 |
| Tandridge            | South East      | 88.17 | 555   |
| Hillingdon           | London          | 87.45 | 4,196 |
| Redbridge            | London          | 87.44 | 2,329 |
| Epping Forest        | East of England | 86.99 | 1,042 |
| Camden               | London          | 86.80 | 6,383 |
| Windsor & Maidenhead | South East      | 86.73 | 6,165 |
| Kingston-upon-Thames | London          | 86.71 | 1,399 |
| City of London       | London          | 86.48 | 174   |
| Wandsworth           | London          | 85.97 | 7,287 |
| Barnet               | London          | 85.84 | 4,290 |
| Slough               | South East      | 85.78 | 2,091 |
| Three Rivers         | East of England | 85.74 | 679   |
| Havering             | London          | 85.58 | 1,495 |
| Ealing               | London          | 85.26 | 6,819 |
| Westminster          | London          | 85.21 | 9,907 |
| Runnymede            | South East      | 85.20 | 507   |

Table 3.2: The bottom 20 local authority areas that had the lowest average net rents for all property sizes, 2006/07

| Local authority area    | Region               | £     | Stock  |
|-------------------------|----------------------|-------|--------|
| Newcastle-under-Lyme    | West Midlands        | 48.44 | 8,028  |
| Derwentside             | North East           | 49.78 | 7,372  |
| North Lincolnshire      | Yorkshire and Humber | 49.98 | 8,156  |
| Calderdale              | Yorkshire and Humber | 50.38 | 12,777 |
| Wakefield               | Yorkshire and Humber | 51.20 | 31,177 |
| North East Lincolnshire | Yorkshire and Humber | 51.58 | 8,035  |
| Wansbeck                | North East           | 51.69 | 201    |
| Bradford                | Yorkshire and Humber | 52.55 | 25,544 |
| Newcastle-upon-Tyne     | North East           | 53.04 | 4,132  |
| East Staffordshire      | West Midlands        | 53.46 | 5,019  |
| Chester-le-Street       | North East           | 53.49 | 355    |
| Pendle                  | North West           | 53.72 | 2,857  |
| Tynedale                | North East           | 53.91 | 3,535  |
| Chorley                 | North West           | 53.96 | 4,813  |
| Blyth Valley            | North East           | 54.82 | 1,179  |
| Copeland                | North West           | 54.86 | 6,029  |
| Sheffield               | Yorkshire and Humber | 54.86 | 11,975 |
| Stafford                | West Midlands        | 54.89 | 5,187  |
| Preston                 | North West           | 54.91 | 9,332  |
| West Lindsey            | East Midlands        | 54.91 | 3,666  |

Table 3.3 shows the median weekly rent and the range of average rents for each property size. Following the national pattern for all property sizes, local authority areas in London and the southern regions had the highest average rents in each property category. Except for bedspaces in the South East, the lowest levels of each property size were found outside the South and particularly in the West Midlands and Yorkshire and Humber.

Table 3.3: The median and average weekly rents, and local authority areas that had the highest and the lowest average rent of all property sizes, 2006/07

|                                   | Bedspace   | Bedsit     | 1-bed              | 2-bed                | 3-bed                | 4-bed                | 5-bed           | 6+ bed                  |
|-----------------------------------|------------|------------|--------------------|----------------------|----------------------|----------------------|-----------------|-------------------------|
| <i>Median weekly rent (£)</i>     |            |            |                    |                      |                      |                      |                 |                         |
|                                   | 50.29      | 50.66      | 58.31              | 68.06                | 75.25                | 82.19                | 88.57           | 99.55                   |
| <i>Range of average rents (£)</i> |            |            |                    |                      |                      |                      |                 |                         |
|                                   | 87.19      | 38.74      | 43.17              | 46.43                | 49.83                | 64.63                | 77.96           | 109.73                  |
| <i>Highest average rent</i>       |            |            |                    |                      |                      |                      |                 |                         |
| LA area                           | Purbeck    | Chiltern   | City of London     | City of London       | Ealing               | Fareham              | Gravesham       | Shepway                 |
| Region                            | South West | South East | London             | London               | London               | South East           | South East      | South East              |
| <i>Lowest average rent</i>        |            |            |                    |                      |                      |                      |                 |                         |
| LA area                           | Medway     | Pendle     | North Lincolnshire | Newcastle-under-Lyme | Newcastle-under-Lyme | Newcastle-under-Lyme | West Lancashire | North East Lincolnshire |
| Region                            | South East | North West | Yorkshire & Humber | West Midlands        | West Midlands        | West Midlands        | North West      | Yorkshire & Humber      |

Table 3.3 also shows that the ranges observed vary greatly between different property sizes. The largest ranges are in bedspaces and six plus bed units. In both cases, what is being provided can vary enormously so it can be expected that there would be considerable differences in rents. Equally because holdings are low, it may be more difficult for HAs to achieve consistency.

The observed ranges in rents for each size from bedsit to four bedroom properties are smaller. The rent patterns are generally very consistent, with standard deviations around the average (median) of respectively £7.70; £9.60; £11.9 and £13.90. The evidence therefore suggests that the rent restructuring regime has led to far more consistent and coherent rent structures across the vast majority of the stock.

### 3.2 The pattern of service charges

The *median* level of average service charges for all property sizes in the 354 local authority areas was £4.12 per week. The range was £10.74: from £0.89 to £11.63. Table 3.4 shows that Sefton in the North West had the highest service charge of £11.63 while the lowest average service charge, £0.89, was found in North Norfolk. Overall, there are clear regional patterns.

Table 3.4: The top and the bottom ten local authority areas that had the highest and lowest average weekly service charges for all property sizes, 2006/07

| Local authority area | Region          | £     | Stock  |
|----------------------|-----------------|-------|--------|
| <i>The highest</i>   |                 |       |        |
| Sefton               | North West      | 11.63 | 2,975  |
| Derwentside          | North East      | 10.11 | 564    |
| Kensington & Chelsea | London          | 9.92  | 5,913  |
| City of London       | London          | 9.37  | 174    |
| Lambeth              | London          | 8.49  | 10,408 |
| Newcastle-upon-Tyne  | North East      | 8.41  | 3,128  |
| Southend-on-Sea      | East of England | 8.36  | 1,827  |
| Hammersmith & Fulham | London          | 8.33  | 4,127  |
| Hackney              | London          | 8.27  | 8,634  |
| Harlow               | East of England | 8.27  | 615    |
| <i>The lowest</i>    |                 |       |        |
| North Norfolk        | East of England | 0.89  | 3,287  |
| South Shropshire     | West Midlands   | 1.29  | 980    |
| Wear Valley          | North East      | 1.34  | 326    |
| Pendle               | North West      | 1.38  | 2,435  |
| South Bucks          | South East      | 1.41  | 1,033  |
| Easington            | North East      | 1.44  | 655    |
| Restormel            | South West      | 1.50  | 2,711  |
| Test Valley          | South East      | 1.50  | 4,711  |
| Lichfield            | West Midlands   | 1.53  | 3,343  |
| St Helens            | North West      | 1.57  | 12,890 |

### 3.3 Disparities between average net rents and average target rents

Table 3.5 presents the number of local authority areas where the disparities between average net rents and average target rents were within the range of  $\pm 5\%$  of target rents in 2006/07. Across the country, average net rents in 202 local authority areas were within the benchmark range. In terms of the proportion of all reporting local authority areas, 57.3% of disparities fell within the range of  $\pm 5\%$ . The largest disparity was observed in the South West (66.7%) and the smallest in Yorkshire and Humber (42.9%). Overall, the South East had the largest number of local authority areas that had net rents lying within the  $\pm 5\%$  range (42), and London the smallest proportion within the range followed by the East Midlands.

Table 3.5: Local authority areas that had disparities within  $\pm 5\%$  range by region for all property sizes, 2006/07

| Region             | No. of LAs within $\pm 5\%$ (a) | No. of LAs reporting target (b) | a/b (%)     |
|--------------------|---------------------------------|---------------------------------|-------------|
| London             | 16                              | 33                              | 48.5        |
| South East         | 42                              | 67                              | 62.7        |
| South West         | 30                              | 45                              | 66.7        |
| East Midlands      | 21                              | 40                              | 52.5        |
| East of England    | 31                              | 48                              | 64.6        |
| West Midlands      | 15                              | 34                              | 44.1        |
| Yorkshire & Humber | 9                               | 21                              | 42.9        |
| North East         | 14                              | 23                              | 60.9        |
| North West         | 24                              | 43                              | 55.8        |
| <i>England</i>     | <i>202</i>                      | <i>354</i>                      | <i>57.1</i> |

Note: Net rent data are based on stock with target rents.

At local authority level, Exeter in the South West showed the smallest disparity of -0.02%, with, its average net rent slightly *above* the target rent level (Table 3.6). Of the top ten local authority areas with the smallest disparities, three were in the South West and two each in

London and the South East. Within the top ten local authority areas having the largest disparity in which the net rent was *above* target, the Isle of Wight in the South East had the greatest disparity of -13.33%. In the case when average net rents were *below* targets, Kensington and Chelsea in London had the largest disparity of 34.14%. Generally, the pattern of differences between target rents and average net rents mirrors the regional rent pattern discussed in Section 2.4.

Table 3.6: Disparities between target rents and average net rents for all property sizes at local authority level, 2006/07

| Local authority area  | Region             | Target rent | Net rent | Disparity |        |
|---|--------------------|-------------|----------|-----------|--------|
|   |                    | £           | £        | £         | %      |
| <i>The smallest disparity between net rent and target rent</i>  |                    |             |          |           |        |
| Exeter  | South West         | 61.96       | 61.97    | -0.01     | -0.02  |
| Three Rivers  | East of England    | 85.77       | 85.74    | 0.03      | 0.03   |
| New Forest  | South East         | 79.29       | 79.24    | 0.05      | 0.06   |
| South   |                    |             |          |           |        |
| Northamptonshire  | East Midlands      | 72.09       | 72.16    | -0.07     | -0.10  |
| Waltham Forest  | London             | 80.22       | 80.30    | -0.08     | -0.10  |
| Redbridge   | London             | 87.33       | 87.44    | -0.11     | -0.13  |
| West Wiltshire  | South West         | 69.40       | 69.30    | 0.10      | 0.14   |
| North Wiltshire   | South West         | 69.14       | 69.01    | 0.13      | 0.19   |
| Arun  | South East         | 79.91       | 79.75    | 0.16      | 0.20   |
| Kingston-upon-Hull  | Yorkshire & Humber | 58.64       | 58.52    | 0.12      | 0.21   |
| <i>The largest disparity in which net rent &gt; target rent</i> |                    |             |          |           |        |
| Isle of Wight   | South East         | 64.70       | 74.65    | -9.95     | -13.33 |
| Oadby & Wigston   | East Midlands      | 61.17       | 69.89    | -8.72     | -12.48 |
| Thanet  | South East         | 62.98       | 71.08    | -8.10     | -11.40 |
| Kerrier   | South West         | 56.71       | 63.31    | -6.60     | -10.42 |
| Mansfield   | East Midlands      | 57.77       | 63.62    | -5.85     | -9.20  |
| Dover   | South East         | 64.97       | 71.53    | -6.56     | -9.17  |
| Castle Point  | East of England    | 75.81       | 83.46    | -7.65     | -9.17  |
| Southend-on-Sea   | East of England    | 68.56       | 75.41    | -6.85     | -9.08  |
| Tamworth  | West Midlands      | 60.78       | 66.73    | -5.95     | -8.92  |
| Rochdale  | North West         | 55.82       | 61.23    | -5.41     | -8.84  |
| <i>The largest disparity in which net rent &lt; target rent</i> |                    |             |          |           |        |
| Kensington & Chelsea  | London             | 106.56      | 79.44    | 27.12     | 34.14  |
| Wakefield   | Yorkshire & Humber | 63.29       | 51.20    | 12.09     | 23.61  |
| Hammersmith & Fulham  | London             | 100.05      | 81.24    | 18.81     | 23.15  |
| Shrewsbury & Atcham   | West Midlands      | 68.97       | 56.04    | 12.93     | 23.07  |
| Isles of Scilly   | South West         | 75.64       | 62.51    | 13.13     | 21.00  |
| Islington   | London             | 96.35       | 79.92    | 16.43     | 20.56  |
| Vale Royal  | North West         | 74.41       | 62.27    | 12.14     | 19.50  |
| Mid Bedfordshire  | East of England    | 80.28       | 67.46    | 12.82     | 19.00  |
| Derbyshire Dales  | East Midlands      | 70.52       | 59.45    | 11.07     | 18.62  |
| Westminster   | London             | 100.9       | 85.21    | 15.69     | 18.41  |



#### 4. Property size effects on RSL rent patterns at the local authority level

The rent restructuring regime includes a specified relationship between rents for different property sizes which should be reflected in the patterns of rents that we observe. In this section, we examine the relationship between rents in the different size categories by local authority area. As in section 2, we use the average net rent of two-bedroom as a base.

##### 4.1 The pattern of net rents

Figure 4.1 shows that, with the exception of bedspaces, a local authority area with high (low) average net rents for two-bedroom units did always have high (low) rents for other bedsizes. The more incoherent pattern of bedspaces is consistent with the earlier findings of their rent distribution across regions. For other bedsizes, the average and median values of two-bed indices are very close to the bedsize weights used in the calculation of target rent. Thus, there is a very considerable consistency in rent structures across bedsizes, especially for properties with one to three bedrooms (Table 4.1).

Table 4.1: Average rent indices for each bedsize compared with two-bed index (i.e. average rent of two-bed = 1.00), 2006/07

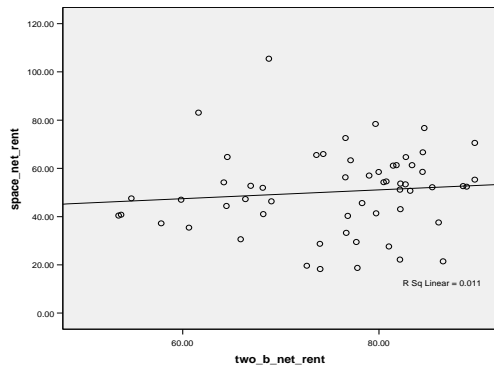
|                                    | Bedspace | Bedsit | 1-bed | 2-bed | 3-bed | 4-bed | 5-bed | 6+ bed |
|------------------------------------|----------|--------|-------|-------|-------|-------|-------|--------|
| Bedsizes weight in the target rent |          | 0.80   | 0.90  | 1.00  | 1.10  | 1.20  | 1.30  | 1.40   |
| Average 2-bed rent index           | 0.67     | 0.75   | 0.86  | 1.00  | 1.10  | 1.21  | 1.31  | 1.48   |
| Median 2-bed rent index            | 0.68     | 0.74   | 0.86  | 1.00  | 1.11  | 1.21  | 1.31  | 1.42   |
| Range of average 2-bed indices     | 1.29     | 0.58   | 0.25  |       | 0.35  | 0.54  | 1.17  | 1.34   |

To provide more detail, we look next at the local authority areas with the highest and lowest rent indices by property size as compared to two-bed units:

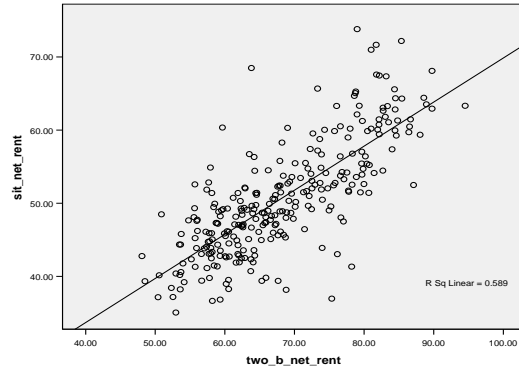
- Of the 20 local authority areas with the highest bedsits rent indices, six were in London, five were in the South West, four were in the South East and three were in the North West. Southampton showed the lowest index of 0.24. This rather incoherent pattern is consistent with earlier findings with respect to bedspaces
- Of the 20 local authority areas charging the highest rents for bedsits, five were in the North West, three in the East Midlands and three in the West Midlands. Of the 20 with the lowest rents, five were in the South East, four in the East of England and four in the North West
- Of the 20 local authority areas with the highest indices for one bed units, seven were in the North West while three each were in the South East and the West Midlands. Isles of Scilly and Test Valley shared the lowest indices of 0.74. Of the 20 lowest, seven were in the South East, five in the East of England and four in the North West
- Of the 20 local authority areas with the highest indices for three bed units, eight were in the South East and six were in London with three in the East of England. Newark and Sherwood showed the lowest index of 0.95. Of the 20 lowest, seven were in the East Midlands, three in the North East and three in the West Midlands

Figure 4.1: The relationship between average net rents for each property size and the average rents of two bedroom properties using two-bed index (i.e., average rent of two-bed = 1.00), 2006/07

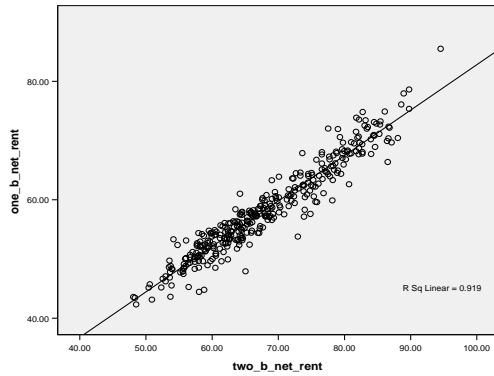
a) Bedspace



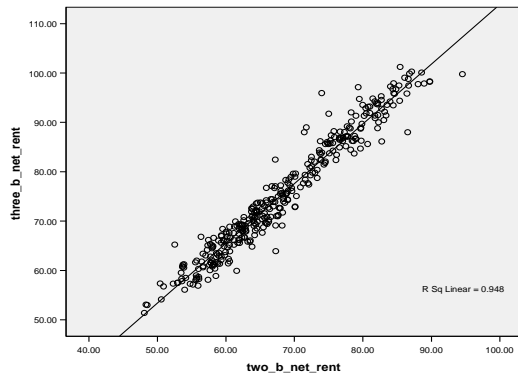
b) Bedsit



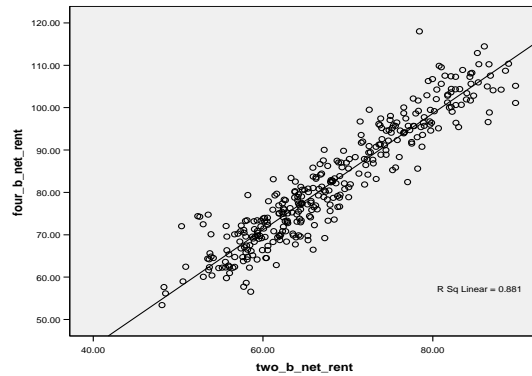
c) One-bed



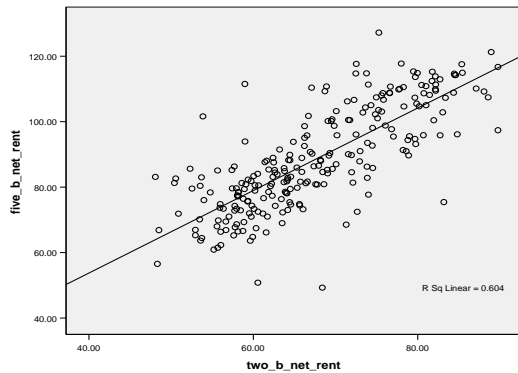
d) Three-bed



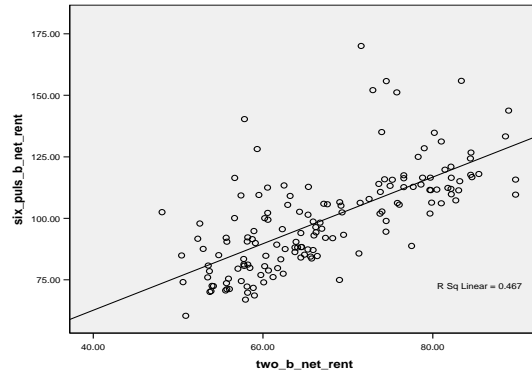
e) Four-bed



f) Five-bed



g) Six plus bed



- Of the 20 local authority areas with the highest indices for four bedroom units, eight were in the South East, three in the North West, and three in the Yorkshire and Humber. Fylde showed the lowest index of 0.97. Of the 20 lowest, eight were in the East Midlands, five in the North East and three in the North West
- Of the 20 local authority areas with the highest indices for five bedroom units, five were in the North West, five in the South East, and four in Yorkshire and Humber. There were four local authority areas where average net rents for five bedroom properties were lower than those for two bedroom properties, West Lancashire (0.72), Derby (0.84), Hammersmith and Fulham (0.91), and Worthing (0.96). Of the 20 lowest, five were in the South East, four in the North West, four in the East Midlands and three in the North East
- Of the 20 local authority areas with the highest indices for six bedroom units, five were in the North West, four in the South East, three in the South West and three in the West Midlands. Wyre had the lowest index of 1.09. Of the 20 lowest, five were in the East of England, five in the North West and three in the West Midlands

Overall there is very considerable consistency in rent structures especially for units with between one and four bedrooms. However, outliers showed no strong spatial pattern.

#### 4.2 The pattern of target rents

Not surprisingly, the pattern of target rents was more coherent than that for actual rents with the ranges much smaller than those for net rents (Table 4.2). However, there are some differences between target rent relativities and the formula.

Table 4.2: Average target rent indices for each bedsize compared with two-bed rent index, (excluding bedspaces), 2006/07

|                                       | Bedsit | 1-bed | 2-bed | 3-bed | 4-bed | 5-bed | 6+-bed |
|---------------------------------------|--------|-------|-------|-------|-------|-------|--------|
| Bedsite weight in the target rent     | 0.80   | 0.90  | 1.00  | 1.10  | 1.20  | 1.30  | 1.40   |
| Average 2-bed target rent index       | 0.75   | 0.86  | 1.00  | 1.12  | 1.24  | 1.35  | 1.47   |
| Median 2-bed target rent index        | 0.75   | 0.86  | 1.00  | 1.12  | 1.24  | 1.34  | 1.46   |
| Range of average 2-bed target indices | 0.46   | 0.27  |       | 0.40  | 0.75  | 0.97  | 0.75   |

There were also some anomalies. In particular, three local authority areas – Ashfield, Wyre and Durham – set their average bedsite target rents higher than those for two bedrooms, their indices were 1.07, 1.03 and 1.02 respectively. On the other hand, some authorities notably Guildford, had three-bed unit target rents averages below those for two-bed units. Equally, there were some outliers where rents were below two-bed units for four-bed, five-bed and six plus bed units.

Overall, relative target rents by property size at the local authority level were very consistent with the rent restructuring formula. The deviations observed were mainly related to those areas where the relevant stock is small.

## 5. Local effects on rent patterns at the local authority level

If levels of RSL rents are determined by fundamentals which are shared by neighbouring local authority areas, then a local authority area's RSL rent will be positively related to those for its surrounding area. To investigate this association, we will look at the degree of relatedness between these two variables. The neighbouring local authority areas' net rents are expressed as a weighted average RSL rent for local authority areas surrounding a given local authority area.<sup>8</sup> For example, the average net rent of two-bedroom properties of Northampton's neighbouring local authority areas is calculated as below:

Northampton is surrounded by three local authority areas – Daventry, South Northamptonshire and Wellingborough. Their average net rents for two bedrooms are:

| LA                     | Average net rent (£) | Stock |
|------------------------|----------------------|-------|
| Daventry               | 67.91                | 526   |
| South Northamptonshire | 73.00                | 203   |
| Wellingborough         | 66.00                | 184   |

Neighbouring local authority's average net rent for Northampton:

$$(\pounds 67.91 * 526) + (\pounds 73.00 * 203) + (\pounds 66.00 * 184) = \pounds 62,683.66$$

$$526 + 203 + 184 = 913$$

$\pounds 62,683.66 / 913 = \pounds 68.66 = \text{the average net rent for Northampton's neighbouring local authority areas}$

The extent of the difference between a local authority area's RSL average net rent and those of its surrounding areas is therefore calculated as below:

Northampton's average net rent for two bedrooms was  $\pounds 66.59$ , then

$$(\pounds 68.66 - \pounds 66.59) / \pounds 66.59 * 100 = 3.11\% = \text{the 'difference' for Northampton}$$

### 5.1 The pattern of local net rents

Using this approach for 2006/07, Figure 5.1 shows the relationship between average net rents for all property sizes of each local authority area and the equivalents for its neighbouring local authority areas for the 352 local authority areas in England. The X and Y axes represent the average net rent for neighbouring local authority areas and the studied local authority area respectively.

The scatter pattern shown in Figure 5.1 demonstrates a significant positive relationship between the two variables. The correlation coefficient is strong and positive at 0.879.

<sup>8</sup> This study excludes those local factors of RSL rent determinants with regard to the extent to which adjacent local authorities are in fact connected (e.g. by transportation infrastructure). Thus, local authority areas which are considered close in term of traffic links but which are not adjacent, have not been included in this study.

Figure 5.1: The relationship between average net rents and the equivalent for its neighbouring local authority areas for all property sizes, 2006/07

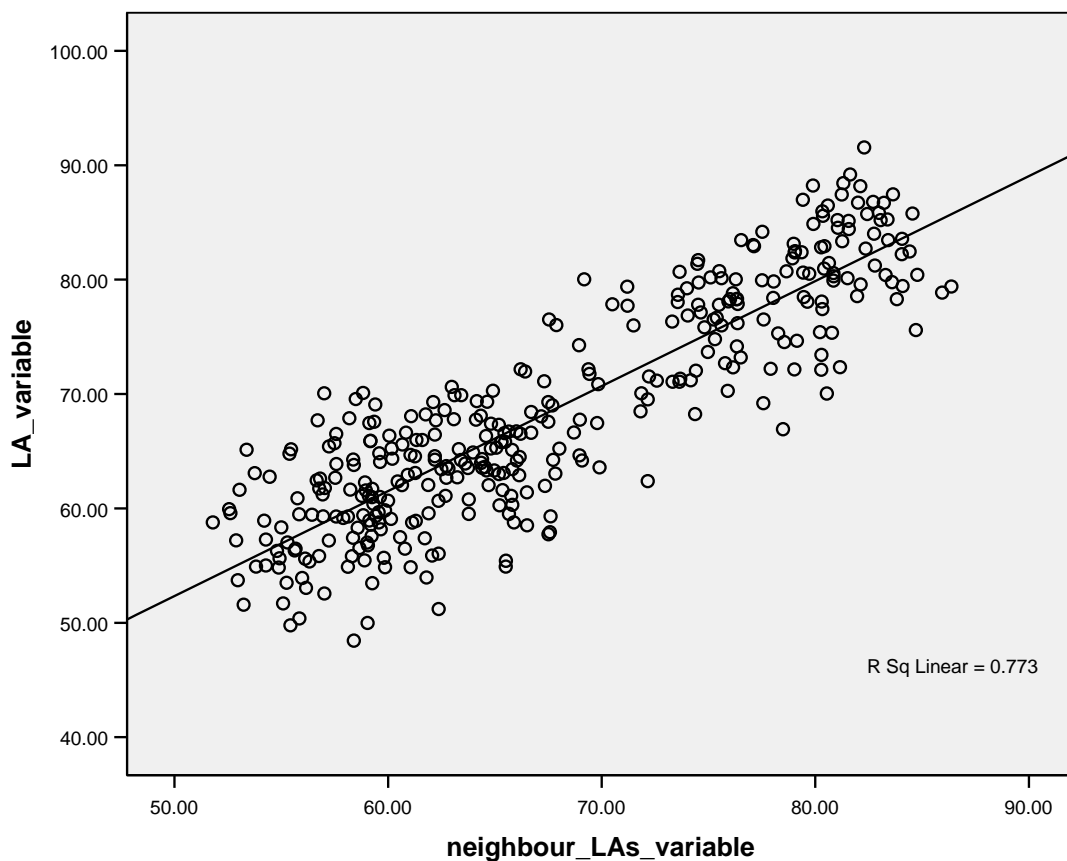
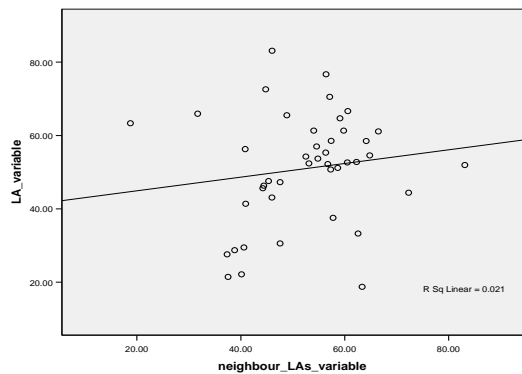


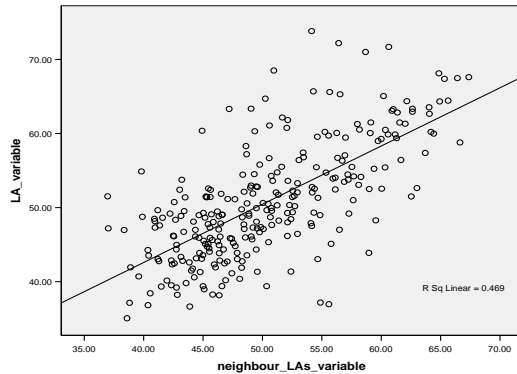
Figure 5.2 shows that this positive and significant relationship between average net rents of each local authority area and the equivalent for its neighbouring local authority areas carries across all size categories, except bedspaces where the correlation coefficient was only 0.144.

Figure 5.2: The relationship between average net rents and the equivalent of its neighbouring local authority areas for each property sizes, 2006/07

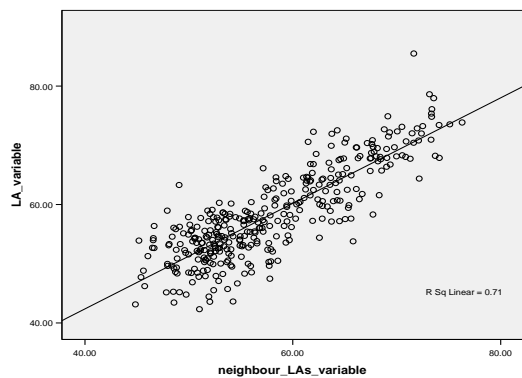
a) Bedspace



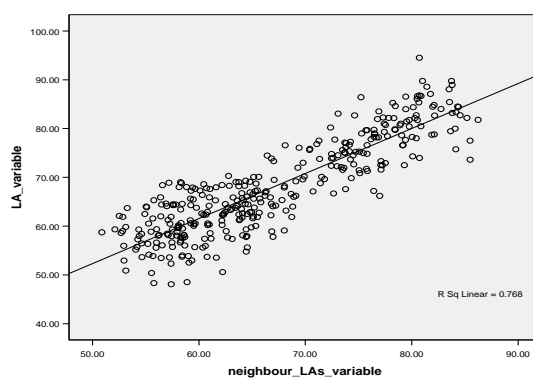
b) Bedsit



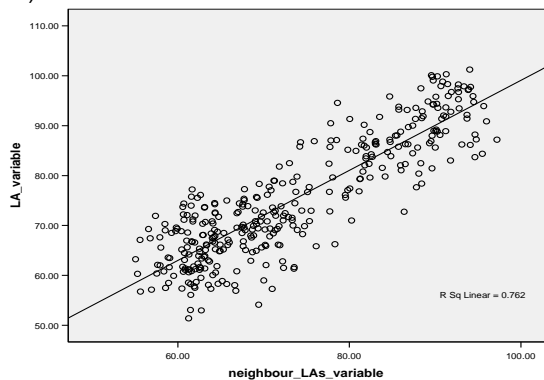
c) One-bed



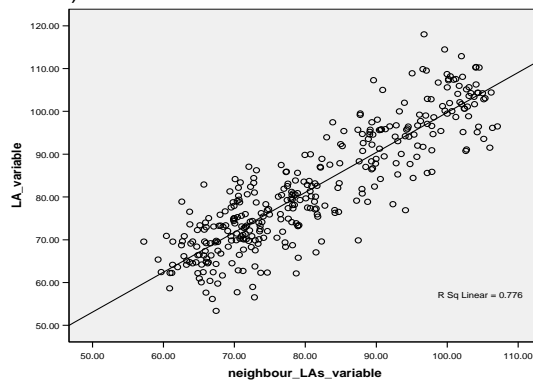
d) Two-bed



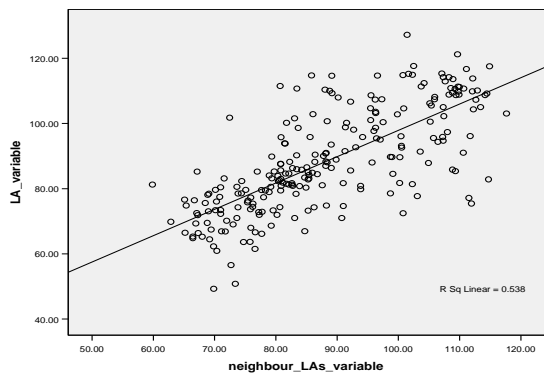
e) Three-bed



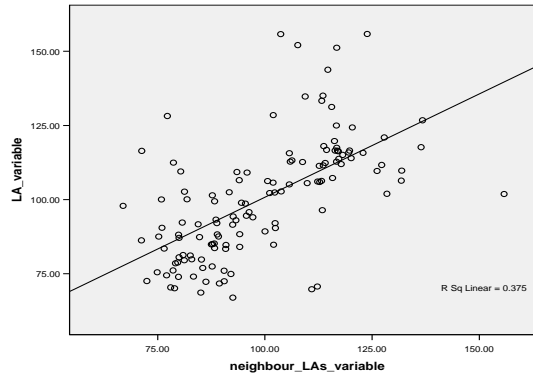
f) Four-bed



g) Five-bed



h) Six plus bed



In terms of property sizes, Table 5.1 show the three local authority areas that had relatively the highest average net rent levels compared with those of their neighbouring areas. Generally, the largest rental differences were found in bedspaces and some properties with six or more bedrooms. For other types of properties, local authority areas within Yorkshire and Humber showed the most divergent rental pattern with their neighbours. For example, Wakefield had relatively the lowest levels of average net rents for two and three bedrooms compared to its surrounding local authority areas. However, the adjacent town of Kirklees had the relatively higher rental levels than its neighbouring areas.

Overall, the relationship between local authorities in the same general area is clearly strong, as would be expected given the use of county incomes and capital values in setting target rents. Where local authority areas do not fit this pattern, it is often because the size of the stock in these areas is small. Thus, rent patterns are generally coherent at local level for all property sizes together and for individual property sizes, except for the smallest units and to a lesser extent the six plus bed units.

Table 5.1: The three local authority areas with average net rents *higher* than those of their neighbouring local authority areas for each property sizes, 2006/07

| LA               | Region             | Difference (%) | LA's rent (£) | Neighbouring LAs' rent (£) | Stock in the LA | Stock in neighbouring LAs |
|------------------|--------------------|----------------|---------------|----------------------------|-----------------|---------------------------|
| <i>Bedspace</i>  |                    |                |               |                            |                 |                           |
| New Forest       | South East         | -70.42         | 63.35         | 18.74                      | 8               | 14                        |
| Sevenoaks        | South East         | -51.96         | 65.94         | 31.68                      | 30              | 28                        |
| Mendip           | South West         | -44.63         | 83.10         | 46.01                      | 24              | 35                        |
| <i>Bedsit</i>    |                    |                |               |                            |                 |                           |
| Worthing         | South East         | -28.24         | 51.52         | 36.97                      | 143             | 10                        |
| Vale Royal       | North West         | -27.44         | 54.88         | 39.82                      | 16              | 100                       |
| Chiltern         | South East         | -26.65         | 73.81         | 54.14                      | 35              | 207                       |
| <i>1-bed</i>     |                    |                |               |                            |                 |                           |
| Wyre             | North West         | -22.48         | 63.29         | 49.06                      | 619             | 3,567                     |
| Harrogate        | Yorkshire & Humber | -18.72         | 58.96         | 47.92                      | 496             | 11,793                    |
| Kirklees         | Yorkshire & Humber | -17.24         | 56.37         | 46.65                      | 935             | 22,701                    |
| <i>2-bed</i>     |                    |                |               |                            |                 |                           |
| West Lancashire  | North West         | -17.28         | 68.39         | 56.57                      | 182             | 17,805                    |
| Harrogate        | Yorkshire & Humber | -17.01         | 68.90         | 57.18                      | 579             | 14,604                    |
| Kirklees         | Yorkshire & Humber | -16.42         | 63.72         | 53.26                      | 1,087           | 31,020                    |
| <i>3-bed</i>     |                    |                |               |                            |                 |                           |
| Kirklees         | Yorkshire & Humber | -20.21         | 71.93         | 57.39                      | 749             | 27,617                    |
| High Peak        | East Midlands      | -20.15         | 77.23         | 61.67                      | 238             | 16,919                    |
| Harrogate        | Yorkshire & Humber | -18.72         | 75.76         | 61.58                      | 444             | 13,988                    |
| <i>4-bed</i>     |                    |                |               |                            |                 |                           |
| Eden             | North West         | -20.75         | 82.89         | 65.69                      | 8               | 389                       |
| Oswestry         | West Midlands      | -20.67         | 78.89         | 62.58                      | 6               | 144                       |
| Fareham          | South East         | -18.02         | 118.01        | 96.74                      | 6               | 247                       |
| <i>5-bed</i>     |                    |                |               |                            |                 |                           |
| Hastings         | South East         | -28.81         | 101.78        | 72.46                      | 17              | 2                         |
| Forest of Dean   | South West         | -27.63         | 111.52        | 80.71                      | 1               | 16                        |
| Wear Valley      | North East         | -26.33         | 81.25         | 59.86                      | 2               | 6                         |
| <i>6+ bed</i>    |                    |                |               |                            |                 |                           |
| Telford & Wrekin | West Midlands      | -39.73         | 128.17        | 77.25                      | 3               | 3                         |
| Knowsley         | North West         | -38.78         | 116.41        | 71.27                      | 5               | 35                        |
| Colchester       | East of England    | -33.44         | 155.78        | 103.69                     | 1               | 2                         |

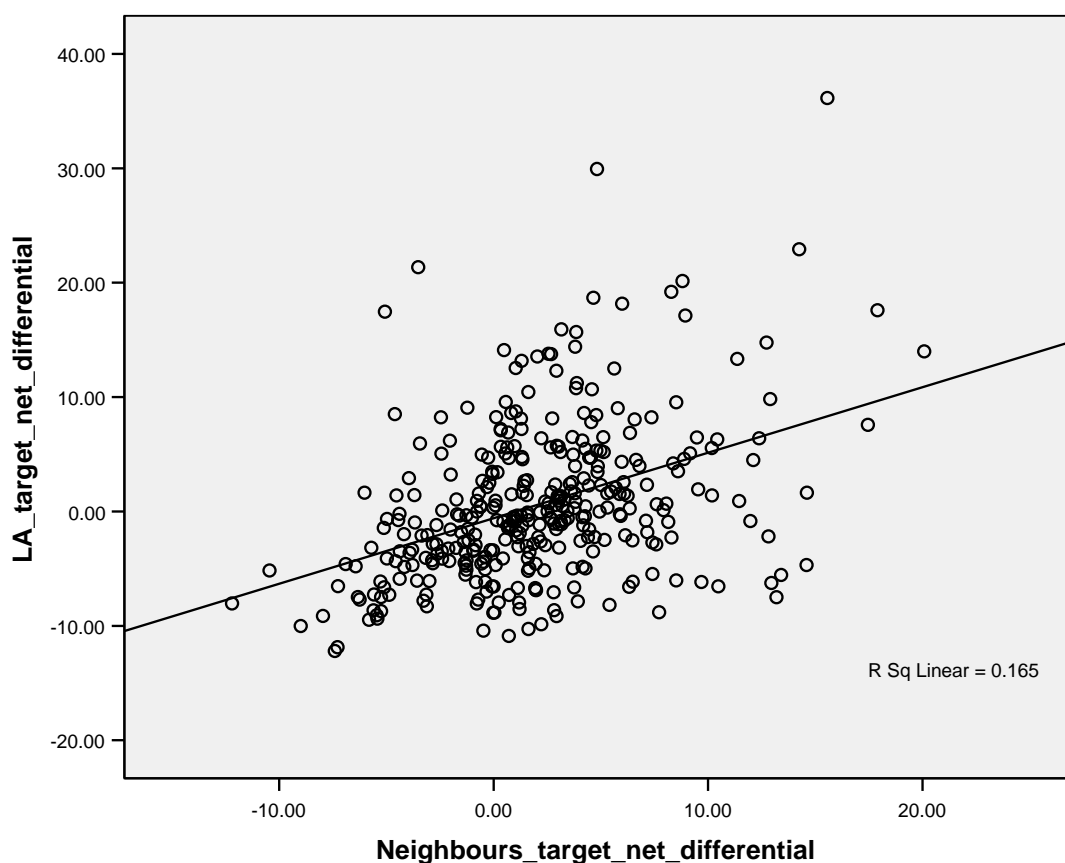
## 5.2 Disparities between average net rents and average target rents

Finally we compare the disparities between a local authority area's average net rent and its average target rent with their equivalents of its neighbouring local authority areas. The

disparity is calculated as in Section 2.<sup>9</sup> As the disparity is measured by a percentage, the difference between the disparities is explained by subtracting a target local authority area's disparity from its neighbouring local authority areas' disparities, and is expressed by a percentage point. Only the differences of these two disparities for two bedroom properties are analysed.

The scatter diagram for the differences in disparities in the 352 local authority areas is shown in Figure 5.3. It shows a positive but weak relationship between the two disparity variables. The correlation coefficient appeared reasonably high (0.406), but this is much smaller than the equivalent for average net rents of this size category. This implies that when the surrounding areas has a wide (narrow) disparity between average net rents and average targets, a local authority area's disparity may also be wide (narrow) but this pattern was not consistently observed across England.

Figure 5.3: Differences between a target local authority area disparity and its neighbouring areas' disparities (%) for two-bed properties, 2006/07



<sup>9</sup> Note that to create a neighbouring local authorities' disparity, first the relevant neighbour's average net rent and target rent are calculated (e.g. as in Section 5.1), and then by using the two variables the disparity will be measured. Thus, the result is different from a case-weighted average of disparities for each local authority in the neighbouring area.



Table 5.2: Differences of a local authority area's disparity between the average net rent and average target rent with their equivalents of its neighbouring local authority areas, two-bedroom properties, 2006/07

| Local authority area   | Region             | Difference (%) | LA's disparity (%) | Neighbouring LAs' disparities (%) |
|--|--------------------|----------------|--------------------|-----------------------------------|
| <i>The smallest differences between LA's disparity and the neighbouring LAs' disparities</i> |                    |                |                    |                                   |
| Teignbridge  | South West         | 0.01           | -2.84              | -2.84                             |
| East Cambridgeshire  | East of England    | -0.06          | 5.19               | 5.13                              |
| Bromsgrove   | West Midlands      | 0.12           | 1.42               | 1.54                              |
| South Shropshire   | West Midlands      | -0.17          | 3.97               | 3.80                              |
| St. Edmundsbury  | East of England    | -0.18          | 4.71               | 4.53                              |
| Eden   | North West         | 0.20           | -2.87              | -2.67                             |
| Cambridge  | East of England    | -0.21          | 4.72               | 4.51                              |
| Hinckley & Bosworth  | East Midlands      | -0.22          | -4.35              | -4.57                             |
| West Lindsey   | East Midlands      | -0.25          | 4.71               | 4.46                              |
| Amber Valley   | East Midlands      | -0.30          | 1.64               | 1.34                              |
| <i>The largest differences when LA's disparity &gt; neighbouring LAs' disparities</i>        |                    |                |                    |                                   |
| Guildford  | South East         | -25.12         | 29.94              | 4.82                              |
| Wakefield  | Yorkshire & Humber | -24.88         | 21.36              | -3.52                             |
| Shrewsbury & Atcham  | West Midlands      | -22.54         | 17.47              | -5.07                             |
| Kensington & Chelsea   | London             | -20.58         | 36.15              | 15.56                             |
| West Oxfordshire   | South East         | -14.04         | 18.69              | 4.65                              |
| Calderdale   | Yorkshire & Humber | -13.62         | 14.11              | 0.49                              |
| Chorley  | North West         | -13.12         | 8.51               | -4.61                             |
| Forest Heath   | East of England    | -12.76         | 15.92              | 3.16                              |
| Vale Royal   | North West         | -12.17         | 18.16              | 5.99                              |
| Hertsmere  | East of England    | -11.87         | 13.17              | 1.30                              |
| <i>The largest differences when LA's disparity &lt; neighbouring LAs' disparities</i>        |                    |                |                    |                                   |
| Barnsley   | Yorkshire & Humber | 20.69          | -7.50              | 13.19                             |
| Doncaster  | Yorkshire & Humber | 19.27          | -4.69              | 14.59                             |
| Oswestry   | West Midlands      | 19.21          | -6.26              | 12.95                             |
| Stoke-on-Trent   | West Midlands      | 18.96          | -5.55              | 13.41                             |
| Kirklees   | Yorkshire & Humber | 17.02          | -6.54              | 10.48                             |
| Cannock Chase  | West Midlands      | 16.53          | -8.82              | 7.71                              |
| Telford & Wrekin   | West Midlands      | 15.86          | -6.17              | 9.69                              |
| Leeds  | Yorkshire & Humber | 15.01          | -2.19              | 12.82                             |
| Ellesmere Port & Neston  | North West         | 14.54          | -6.02              | 8.51                              |
| Wolverhampton  | West Midlands      | 13.58          | -8.18              | 5.40                              |

Teignbridge in the South West showed the smallest difference of 0.01 points (Table 5.2) – the local authority area's disparity between net rent and its target rent was almost equal to its neighbouring authority areas' equivalent. Of the top ten local authority areas with the smallest differences, only East Cambridgeshire in the East of England had both disparities outside the benchmark range of  $\pm 5\%$ . Within the top ten local authority areas with the largest differences in *negative* terms, where authorities' disparities were beyond the benchmark range but their neighbouring areas' were not. By contrast, for the top ten local authority areas with the largest *positive* differences, it is the neighbouring areas' disparities that exceed the range of  $\pm 5\%$ .

Overall, the evidence shows that there are consistencies between neighbouring areas in terms of the relationship between the actual and target rents. However, it is also clear that there are other factors helping to determine the adjustment process.

## 6. Summary and conclusion

This paper details the current pattern of the registered social landlord rents using the latest RSR 2006/07 data. It also examines how net rents have developed over the past five years, particularly in the context of the rent restructuring regime, introduced from 1 April 2002.

Size and locality are obviously critical to the adjustment required by the restructuring regime, the key objectives of which are to 1) bring greater coherence to rent structures across the whole social sector and 2) relate rents more closely to fundamentals.

The evidence on current net rents shows very considerable consistency at national, regional and local levels both in spatial terms and over time. The smallest and, to a lesser extent, the largest properties show the least consistency across regions and local authority areas.

In terms of size effects, the analysis shows coherence in net rents across England with a few exceptions. Generally, actual net rents increased with size in a regular and consistent manner. The pattern for service charges was much less clear. This is partly because smaller properties tend to have more communal facilities requiring service charges which are also likely to be influenced by an individual property's attributes.

In terms of local effects on net rents, locality appeared strong for all property sizes, except bedspaces and to a lesser extent, units with six or more bedrooms. This implies that the social rental markets are influenced by similar factors at least across neighbouring local authority areas. Rents for bedspaces are more associated with individual properties, so that the impact of locality may be less.

Generally, the movement of average net rents appears to be following the regulatory framework. As national and regional averages rose towards targets, only rarely did annual rates of rent increase exceed the guideline +£2.

The most apparent impact of rent restructuring over the past five years has been widening rental differentials between higher-valued regions and lower-valued regions. However, in the context of property sizes, the impact has been the opposite with relative increases in rents for smaller units as compared to two bedroom properties, while those for three or more bedrooms decreased.

Overall, there is a very consistent pattern of movement towards target rents, with the very few exceptions concentrated among bedspaces. There is no clear regional differentiation, except perhaps in the North East. Differences at the local authority level appear generally idiosyncratic rather than following any clear regional patterns.

Thus, over the five year period since rent restructuring was introduced, rent coherence has undoubtedly increased across the RSL sector. Moreover, rent patterns relate more closely to regional relativities in capital values (although not in absolute levels). They also, to some extent, take local factors into account. To determine the extent to which they relate to market fundamentals would need far more detailed analyses, relating rents to the data held in the local markets database.