

# Cross Tenure Rents and Affordability, 2008/09 Update

## Summary

### 1. Objectives

This paper provides an update to the analyses provided in *Cross Tenure Rents and Affordability, 2007/08 Update*<sup>1</sup> by considering developments in 2008/09. It looks at the regional pattern of rents and housing costs over the period 2002/03 to 2008/09 in the local authority (LA), housing association (HA), private rented and owner occupier (OO) sectors. It also provides an update on the local pattern of these rents for the latest year. It then examines the regional distribution of affordability measured by rent/income and rent/earnings ratios across the four rent tenures for the same time frame.

### 2. Methodology

HA rent and income data were taken from the COntinuous REcording (CORE) system. LA rents data were taken from CLG, with LA CORE rents and incomes used in the affordability section of this paper.

Private rents up to 2007/08 were taken from the Valuation Office Agency Rent Officer Statistics<sup>2</sup>. Regional and national private rents for 2008/09 were imputations based on two bedroom Hometrack<sup>3</sup> lower quartile rents along with rent and stock relativities from VOA 2007/08 data. Equivalent costs of owner-occupation were calculated by Dataspring using lower quartile house price data supplied by the Land Registry along with other relevant measures (e.g. from the Council of Mortgage Lenders and AA Building Premium Index).

Lower quartile earnings data were taken from the residence based Annual Survey of Hours and Earnings (ASHE).

For more details on dataset definitions please see Annex 3.

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### 3. Key Findings

#### Rents

- The LA sector continued to offer the lowest rents and potentially the highest levels of affordability. At the national level the average rent was £64.38 in 2008/09, which was an increase of 30.1% since 2002/03

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<sup>1</sup> Banks D and Whitehead C, 2009. *Cross Tenure Rents and Affordability, 2007/08 Update*. Dataspring

<sup>2</sup> The functions of The Rent Service transferred to the Valuation Office Agency as of 1<sup>st</sup> April 2009

<sup>3</sup> Hometrack is a private provider of housing data

- The average HA rent in England was £77.76 in 2008/09, 26.7% higher than in 2002/03. Across most of the country rents in the HA sector rose more slowly than rents in the LA sector, which resulted in some convergence. However, increased HA rents in London combined with a more static rent pattern in the LA sector had led to increasingly marked rent divergence between the two social sectors.
- The average private rent in England was £139.80 in 2008/09, 41.8% higher than in 2002/03. By far the highest private rents were found in London (£154.26 in 2002/03, £194.10 in 2007/08 and £221.89 in 2008/09), with the lowest in the East Midlands in 2002/03 and the North East in 2007/08 and 2008/09.
- Average owner-occupation costs were £99.50 in 2002/03, £223.23 in 2007/08 (an increase of 124.5%) and £170.44 in 2008/09 (a fall of 23.7% from the peak in 2007/08). Therefore, despite the effect of falling house prices in the last year, owner occupation continued to be by far the least affordable tenure.
- At the local authority level, all tenures showed some evidence of a north-south divide. The pattern was particularly strong for private rents and OO costs, which were clearly dominated by proximity to London with only a few exceptions.

### ***Affordability***

- HA rents generally increased at a similar rate to tenant incomes. Thus affordability on this measure – with rents on average around 37-38% of tenant incomes in England - remained fairly static over time. There was, however, a slight trend towards decreased affordability in rents in the South.
- London had the worst affordability ratios for HA rents compared to HA incomes. This differential was slightly reduced once HB was included in income, which reflected the relatively high levels of benefit available to HA tenants in London.
- The picture was somewhat different when HA rents were compared to LQ earnings. Because earnings were higher, the ratio of HA rents to earnings for London was only a little over the national average of 32%. Surprisingly, at the national level and for six out of nine regions the rents to earnings ratios were slightly worse when compared to the ratios for HA rents to actual HA tenant incomes including HB.
- Private rents increased faster than lower quartile earnings leading to worsened affordability in every region. National average ratios rose from 49% in 2002/03 to 58% in 2008/09. These increases implied much greater problems of affordability among private tenants on lower incomes especially those not eligible for full HB.
- In 2008/09 London had the worst affordability ratio for private sector rents compared to LQ earnings (at 72%) despite relatively high levels of earnings.

The affordability ratio worsened in London because increases in earnings were slower than average.

- The equivalent user cost of owner occupation (based on lower quartile house prices) compared to LQ earnings ratio was highest in London for all years. More generally, with a national average ratio of 71% in 2008/09 (albeit a considerable reduction from the previous year) this tenure was not affordable for those on lower earned incomes in the south of England.
- At the local authority level, both private rent and equivalent user cost of owner occupation ratios exhibited a fairly strong north-south divide. In the context of social rents, the divide was less clear with higher ratios more evenly spread with concentrations in and around London and in southern coastal areas.

#### **4. Conclusion**

HA rents were well below private sector rents in all regions. However HA tenant incomes were also considerably lower than lower quartile earnings. If HB is included as income however, the ratio is comparable to that for HA rent / LQ earnings. Lower quartile house prices increased at a far higher rate than incomes and earnings over the period 2002/03 – 2008/09. This had a marked effect on the affordability of owner occupation. This effect was partly mitigated by a considerable decrease in the latest year. The recent fall in OO costs has brought this tenure more in line with the private rented sector (only 22% higher at the national level). Although, private rents remain far lower than OO costs in the south of England.

London stood out as particularly different both in terms of rents and the pattern of affordability.

Overall incomes increased more or less in line with HA rents across the country outside some southern regions, which led to no substantial change in affordability in the HA sector. Private rents rose faster than lower quartile earnings especially in the south resulting in some worsening of affordability. But the major impact on affordability was concentrated in the lower end owner-occupied sector which, despite recent decreases in house prices and costs, remained unaffordable for lower income households in the south of the country.