

## Comparing rents and user costs

A Dataspring Briefing Paper on behalf of the  
Tenant Services Authority

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## Summary and key findings

### Objectives

- The objective of this paper is to examine how housing association (HA) rents compare with rents and housing costs at national, regional and local authority (LA) level.
- The paper concentrates on the current picture (2006/07); how this compares with 2001/02 – the year before the introduction of target rents; and the trends in differentials over the period.

### Trends

- At the national level, HA rents have risen more slowly than rents and costs in all the other tenures. As a result, HA and LA rents are now more closely related to one another, but the gap between HA rents and private rents and particularly owner-occupation (OO) costs have grown.
- At the regional level, the differentials between HA and market rents in London are far higher than anywhere else in the country. The lowest differentials throughout the period have been in the East Midlands. However, the observed regional differentials have become more consistent with the market over the period.
- The big increase in the differentials between HA and private rents happened before 2003/04. Thereafter, private rents grew relatively slowly and the differentials even declined in some areas – notably in London.
- The very much larger increase in the differentials between HA rents and OO costs continued throughout the period and is mainly the outcome of house price increases.

### More detailed comparison between 2006/07 and 2001/02

- In 2006/07, private sector rents were on average nearly 70% above HA rents; up from 47% in 2001/02.
- Among property sizes that can be compared over the period between 2001/02 and 2006/07, three bed properties showed the largest difference between private sector rents and HA rents and bedsits the smallest. In 2001/02, these differences were 72% for three bedroom units but only 27% for bedsits. In 2006/07, the difference in three bed properties was 103% and in bedsits 56%. Thus, while the differences increased for all property sizes, the pattern has stayed the same; and the variation between property sizes has narrowed.
- Private rents were less than 30% above HA rents in 2001/02 in two regions – the East Midlands and Yorkshire and the Humber. By 2005/06, only three regions – the East Midlands, the North East and the North West had differences of less than 50%.
- London had consistently the highest differences between private and HA rents on average but these have only risen from 100% to 109% over the period.
- In 2001/02, 153 LAs had negative differences (i.e. HA rents above private sector rents) for bedsit properties and eight LAs for one bedroom units. In 2006/07, the numbers of such LAs had decreased to 29 for bedsits and just one for one bedroom units. Across the other property sizes, there were only a tiny number of examples.
- Of the 20 LAs where the differences were lowest in 2006/07 (i.e. HA rents were the closest to market levels), six were in the North West, five were in the East Midlands and

four were in Yorkshire and the Humber. There were some changes between the two years but the small differences (and therefore low economic subsidies) were all in low demand areas. This implies less spatial variation in HA sector rents as compared to the private rented sector.

- The extent to which OO costs were above HA rents in 2001/02 was on average only 10 percentage points greater than for private rents in the same year. By 2005/06, the difference with HA rents had risen from 57% to 202% in the owner-occupied sector as against 47% to 68% in the private rented sector.
- Regionally, the differences between OO costs and HA rents were lower than for private rents in three regions: the North East, the North West and Yorkshire and the Humber. By 2006/07, even in the North East, the difference between OO costs and HA rents was more than 100%, and in London, it was 275%.
- The pattern of OO costs as compared to HA rents is basically more consistent than between HA rents and those in the private rented sector. There is a clear North/South divide, and it is more closely linked to market pressure – with the lowest ratios in the three Northern regions for both years. The LAs with the lowest ratios are concentrated particularly in low demand areas of the North West and the North East; and the largest increases in the ratios are in pressure regions, notably London.
- The differential between HA and, the generally lower, LA rents has decreased from 16% in 2001/02 to 9% in 2006/07. The extent of consistency at the regional and LA levels has somewhat increased, notably in Yorkshire and the Humber where the differences decreased from 22% in 2001/02 to 8% in 2006/07.
- The three most important findings from this analysis are therefore:
  1. Spatially, HA rents have become more consistent over the period and are somewhat more closely related to market pressures.
  2. Market rents and costs have pulled away from HA rents over the period, but OO costs have grown far more rapidly than private sector rents, especially in London.
  3. The patterns of HA and LA rents are moving more closely together mainly as a result of changes in LA rents – but there is still considerable spatial variation.

## 1. The question

The objective of this paper is to examine the comparative costs between tenures at national, regional and local levels. It also examines how these relative costs have changed over the period since target rents were introduced by looking particularly at the pattern in 2006/07 as compared to 2001/02.

The context for this analysis is on the one hand the government's rent policy for housing associations (HAs) and on the other the market pressures of the last few years, and how this pattern has changed over time.

The government's rent policy for HAs has two major objectives: first, to ensure the provision of affordable housing at sub-market rents and second, to ensure consistent rent setting between social sector homes – whether they be in the HA or the local authority (LA) sector.

Traditionally, rental outcomes were the result of past subsidy and financing regimes, i.e. the requirement upon the Registered Social Landlord (RSL) to break even and indeed build surpluses to improve their borrowing capacity and to ensure financial viability and sustainability, and RSL determined policy with respect to individual properties. Rents were thus mainly cost driven.

Over the last few years, government policy has more directly shaped the pattern of RSL rents first by setting a constraint on average rent increases in the form of  $RPI + x\%$  (where the 'x' has varied between 1% and 1/2 %), and second by specifying a rent restructuring framework by which the rents of individual properties are set in relation to the estimated capital value of the property and local earnings.

This rent increase and restructuring regime can be expected to have two main consequences:

- The differential between market based rents and expenditure on the one hand and HA rents on the other can be expected to have increased because rent increases in the HA sector have been constrained, while the market takes into account changing demand and costs.
- The spatial pattern of HA rents across the country should have become more consistent both with respect to market rents and expenditures (because of the inclusion of capital values in the formula) and to LA rents (because both sectors are subject to the same regime).

An important objective of this paper is therefore to examine these two hypotheses by assessing how far HA rents differ from the payments required in other tenures either in the form of rents or user costs.

In addition, the more fundamental issue of how economic subsidy varies across the country can be addressed by the same analysis using the hypothesis most lately suggested in the Hills report: that the difference between HA and market rents and user costs and owner-occupation gives an indication of the extent of assistance being provided to HA tenants.

To answer these questions, this paper compares HA gross rents, HA net rents, LA rents, private sector rents and owner-occupation user costs to clarify the trends and relationships between housing expenditures across tenures. The comparison is carried out using the datasets for the years 2001/02 and 2006/07 at different spatial levels (i.e. national, regional and LA levels) and for different property types (i.e. bedspace, bedsits, one to six or more bedrooms and all sizes taken together). These two years are chosen because 2001/02 is the last year before the new rent restructuring framework was introduced and 2006/07 is the latest year for which data are available.

## 2. Data sources and definitions

The datasets used for the comparison come from different sources. HA gross rents and HA net rents come from the Regulatory and Statistical Return (RSR), private sector rents come from Rent Officer Service, and LA rents from central government. Each year the Cambridge Centre for Housing and Planning Research, University of Cambridge, produces the *Guide to Local Rents* for the Tenant Services Authority (TSA) which covers HA, LA and private sector rents, encompassing these three sectors. This analysis is validated and published by the TSA. We have therefore used the results from the *Guide to Local Rents* for the years 2001/02 and 2006/07 as a basis for our comparison. Owner-occupation user costs are not published in the guide but are a relevant comparator in the assessment of the extent to which HA rents are below market costs. They also enable assessment of the extent to which HA rent patterns are consistent across areas. We therefore include owner-occupier user costs in the analysis.

### 2.1 Rents data

In order to ensure appropriate comparisons, we use general needs data for HA rents, average LA rents and referred private rents. The definitions used in the analysis are as follows:

#### Housing association (HA) rents

Two distinct rent series are available: net and gross rent. **Net rent** is the average rent charged before any service charges are applied. HAs calculate average weekly net rents for each property size within a given LA area by adding together all of the weekly net rents at 31 March and then dividing this total by the total number of units owned.

The **gross rent** is the net rent plus any service charges eligible for Housing Benefit (HB). Average weekly gross rents for each property size within a given LA area are calculated by adding together all of the weekly net rents and all of the weekly service charges eligible for HB at 31 March, and then dividing this total by the total number of units owned.

#### Local authority (LA) rents

The LA rent data are derived from the returns made annually to the Department for Communities and Local Government (CLG), and show rents across the stock at 1 April of each year. Up to 2004, the data are a snapshot of the average rents of all LA housing stock in England, with the exception of hostels and a small number of other dwellings such as council tied accommodation as at 1 April of each year. However, from 2005, LA average rents are estimates (made by each LA) for the period 1 April to 31 March (i.e. the next financial year).

LAs, unlike HAs, do not classify their dwellings as general needs or supported housing. Thus, sheltered and supported housing are included in the rents reported.

#### Private sector rents

Private sector rents come from the Rent Service Valuation Report, which provides a range of data about the various HB related determinations carried out by rent officers. The valuation report is available from the Rent Service website at [www.therentservice.org.uk](http://www.therentservice.org.uk).

The 'referred rent' is the contractual rent (including service charges eligible for HB) proposed by the landlord and referred by the LA to the Rent Service. The data include cases where the referred rent was not the rent returned to the LA for subsidy purposes (i.e. HB was not payable for the full amount of the referred rent).

The data relate to the referrals made over the period from 1 April of one year to 31 March of the next. They refer to lettings of unfurnished and furnished assured short-hold tenancies and secure tenancies.

More details of the sources and definitions are provided in the Annex.

## 2.2 Equivalent user costs of owner-occupation

The most relevant comparator in the owner-occupied sector is the expenditure that owner-occupiers at the lower end of the market have to make in order to occupy their home. This is the direct equivalent of rent and is normally called the user cost of owner-occupation. The measure excludes any change in capital value and therefore does not measure the overall rate of return achieved by the owner. It concentrates instead on weekly outgoings which equate to the rental element of overall returns. As such, the user cost of owner-occupation provides a direct comparison with rents from the point of view of affordability.

The equivalent user cost of owner-occupation is measured by calculating the weekly cost of repaying an average loan together with estimates of the cost of building insurance, mortgage payment protection insurance and the imputed loss of interest on the deposit.

Owner-occupied (OO) user costs reflect the weekly costs of owner-occupation for purchasers of lower quartile housing in a given year. They thus assess the costs faced by households who have moved into the bottom quarter of dwellings in that year. The OO user costs in the cross tenure rents comparison are presented for all dwelling sizes combined because detailed house price data are not available by property size. The details of how the equivalent user costs of owner-occupation are measured are shown in the Annex.

## 2.3 Comparing rents and user costs

The relevant comparator with HA rents depends on the specifics of the indices for the other tenures. Private rents are gross of service charges while LA rents and owner-occupation costs are net of these charges.

We have therefore carried out the following three comparisons with the corresponding formulas in our report.

- **Private rent vs. HA gross rent**

Difference (£) = Private Rent – HA Gross Rent

Difference (%) = (Private Rent – HA Gross Rent)/HA Gross Rent\*100

- **OO cost vs. HA net rent**

Difference (£) = OO Cost – HA Net Rent

Difference (%) = (OO Cost – HA Net Rent)/HA Net Rent\*100

- **HA net rent vs. LA net rent**

Difference (£) = HA Net Rent – LA Net Rent

Difference (%) = (HA Net Rent – LA Net Rent)/LA Net Rent\*100

In the majority of the analysis, we have used the proportional difference between the HA rent and the comparator tenure. This allows the reader to see at a glance how the rent patterns differ and how these differences have changed between the two years 2001/02 and 2006/07. As already noted, these years were chosen because 2001/02 is the last year before the rent

restructuring framework was introduced and 2006/07 is the latest year for which data are available.

### 3. Overall trends in rents and user costs

Table 1 and Figure 1 show the pattern of rents in the three main rental sectors and of user costs in the owner-occupied sector over the five year period from 2001/02 to 2006/07.

**Table 1 National average rents per week 2001/02 to 2006/07**

Financial year	HA net rent	HA gross rent	LA rent	Private rent	OO user cost
2001/02	55.68	59.22	47.94	86.82	87.39
2002/03	56.52	59.99	49.48	98.58	99.50
2003/04	58.24	61.19	51.04	101.07	128.38
2004/05	61.46	63.46	55.48	103.30	159.07
2005/06	64.29	66.20	57.97	111.47	172.87
2006/07	66.66	68.74	61.20	115.55	201.06
5 year increase (£)	10.98	9.52	13.26	28.73	113.67
5 year increase (%)	19.7	16.1	27.7	33.1	130.0

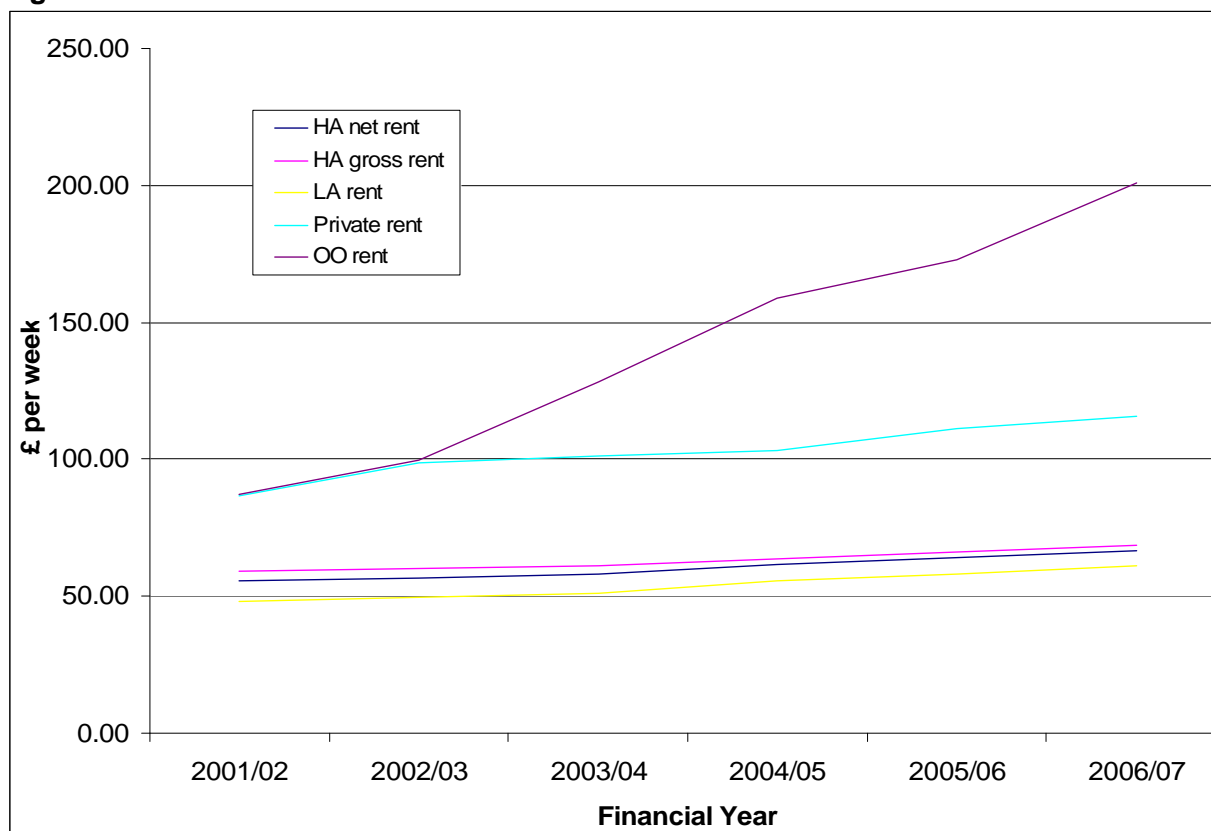
It shows that average HA gross rents have risen the least, by around £9.50 or less than £2.00 per year. HA net rents have risen slightly faster at almost £11 per week – i.e. by almost 20%, implying that service charges have risen more slowly. It should be remembered however that the make-up of the stock has also changes significantly over this period.

LA rents have risen more rapidly over the period, by almost 28% to £13.26 or £2.65 per week. As a result, the gap between LA and HA rents is narrowing.

Private rents in 2001/02 were £27.60 per week higher than the relevant HA comparator of £59.22. They also rose significantly more rapidly by £28.73, i.e. £5.75 per year. However, this increase was very much smaller than that for the lower quartile of owner-occupied housing where the weekly increase in user costs was £113.67, i.e. almost £22.75 per year.

By 2006/07 therefore the difference between HA rents and the market tenures had increased significantly and this was especially true for lower cost home ownership.



**Figure 1 Trends in rents and user costs**

Looking at the most important comparison – between HA and private sector rents, Table 2 shows that on average across the country in 2001/02 private rents were almost 50% higher than HA rents. By 2006/07, the differential had increased to almost 70%: a rise of 22 percentage points in this differential over five years. Thus, HA rents have indeed been rising considerably more slowly than private rents.

**Table 2 Difference between private sector rents and HA gross rents (%)**

	2001/02		2006/07		Difference (a-b)/b	Increase in difference
	Private (£s) a	HA (£s) b	Private (£) a	HA (£) b		
Bedspace			81.35	58.35	39.4	---
Bedsit	68.1	53.51	90.84	58.38	55.6	28.3
One bed	78.6	55.83	104.12	62.01	67.9	27.1
Two bed	95.83	58.17	127.71	68.24	87.1	22.4
Three bed	108.27	63.02	146.27	72.06	103.0	32.2
Four bed			160.70	84.01	91.3	---
Four+ bed	119.34	74.67	169.99	85.00	100.0	40.2
Five+ bed			215.79	93.97	129.6	---
All	86.82	59.22	115.55	68.74	68.1	21.5
All excluding bedspace	86.82	59.22	119.78	68.75	74.23	27.63

Looking at the overall pattern, in 2001/02 the differences for bedsits and one bedroom units were below the overall average and the largest difference was for three bedroom units. In 2006/07, the pattern was very similar. However, it was now possible to distinguish among larger units. The differences for five plus beds was particularly large and those for three and four beds were fairly similar, but over 100%. The largest increases in the difference were

among four bedroom plus units. In proportional terms, however, the increases are the largest for bedsits and to a lesser extent, for four plus bed units.

#### 4. Comparison between HA gross rents and private sector rents

##### 4.1 Regional analyses

The pattern at the regional level (Figure 3) shows that, not surprisingly, the differential is the highest in London (100.4% in 2001/02 and 108.8% in 2006/07). At the other end of the scale, the differences are as low as 25.47% in 2001/02 and 42.19% in 2006/07.

**Table 3 Rank order of difference between private rents and HA gross rents by region**

	2001/02	2006/07
London	1	1
South East	2	4
West Midlands	3	5
East	4	2
North West	5	7
North East	6	8
South West	7	3
Yorkshire and Humberside	8	6
East Midlands	9	9

Looking at the data over time, the rank order did change between the two years although the regions with the highest and lowest differences – London and the East Midlands – remained the same in both years (Table 3 and Figure 3).

What is more significant is that the biggest increases were in the East of England (27.1 points), the South West and Yorkshire and the Humber (22.5 points for each). On the other hand, London (regarded as the particularly pressured area) experienced a rise of only 8.4 points while the North East and the North West also observed modest increases – 8.9 points and 9 points respectively.

**Figure 2 Trends in the rates of private rents to HA gross rents**

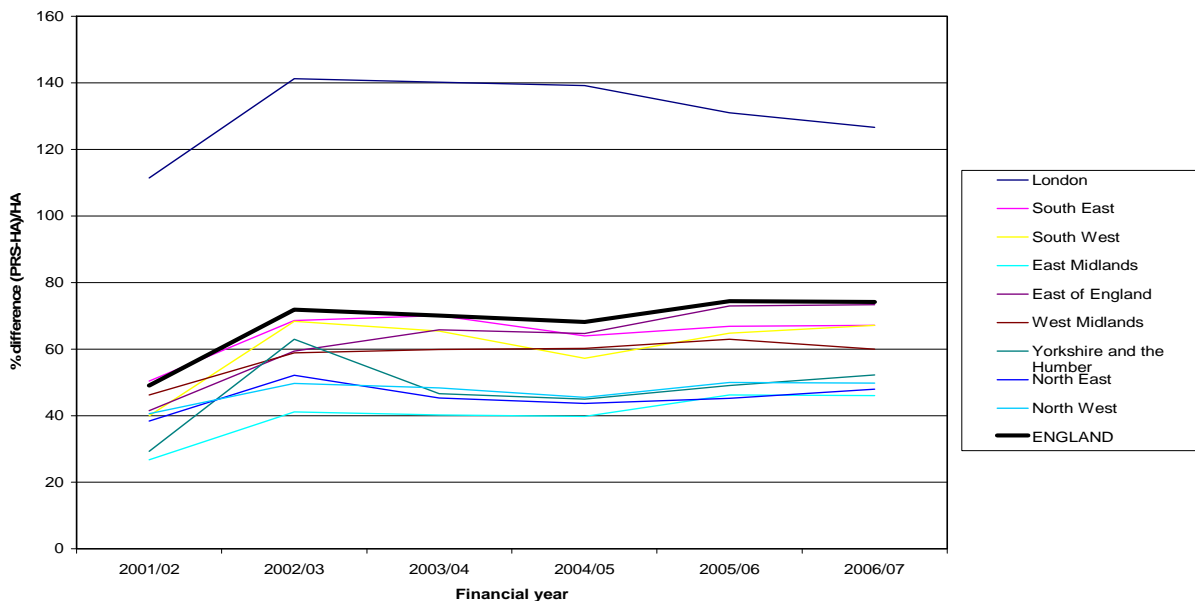
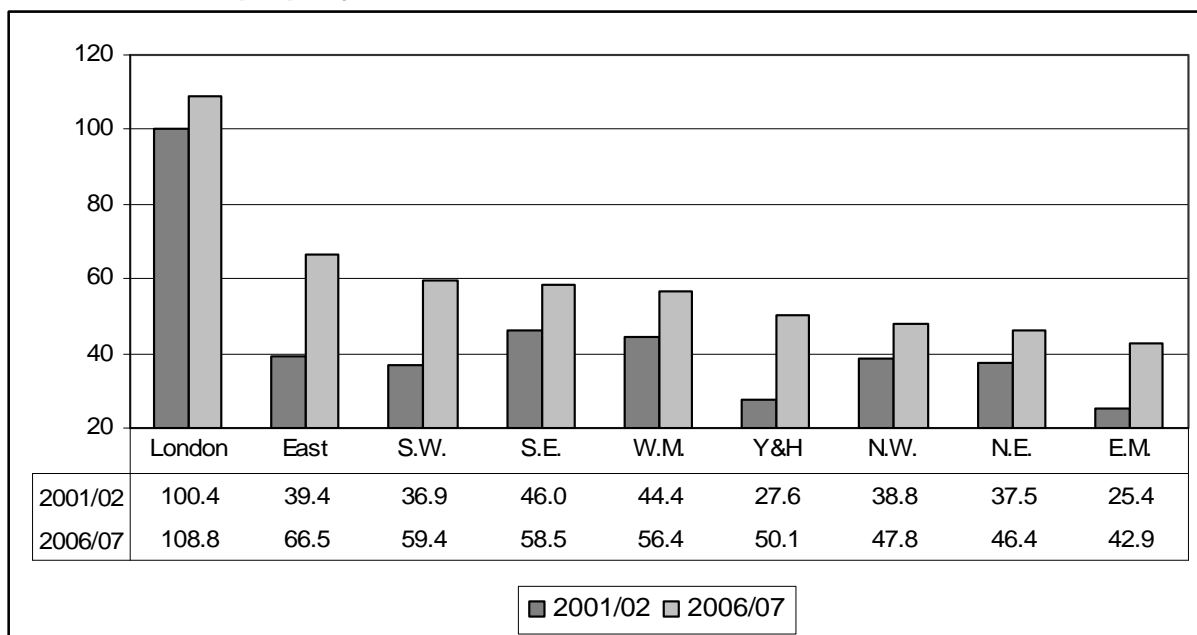


Figure 2 shows the trends in the ratio of private rents to HA rents at the regional level. There was a significant increase in the differential in all regions between 2001/02 and 2002/03. However after 2002/03, the differential stabilised or even fell in some regions – notably in London but also in the West Midlands and to a lesser extent the East Midlands.

The figure makes it very clear that the situation in London is very different from all the regions but also that market pressures have generally been holding increases down in the private rented sector over the last four years.

**Figure 3 Difference between private sector rents and HA gross rents by region (%): all property sizes**



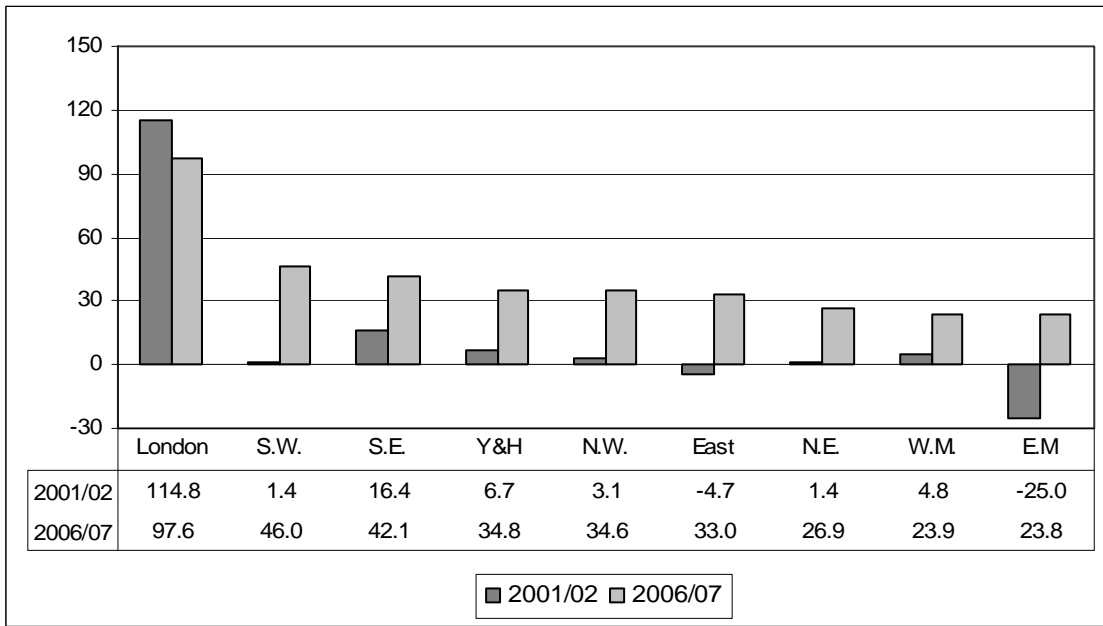
Figures 4 to 8 identify the regions with the highest to lowest differences by size of property.<sup>1</sup> It shows that London has the highest ratio for every size of property in both years. However, with respect to the lowest ratio the East Midlands dominates for smaller units, and Yorkshire and the Humber, for larger in 2001/02. By 2006/07, the North East has particularly low ratios for two and three bed properties.

It should also be noted that once the data are disaggregated by region, and looking at the lowest difference ratios, the largest rises are among bedsits (i.e. 48.8 points for the East Midlands and 44.6 points for the South West) where private rent increases were on average significantly above those for HA rents. The largest increases for other areas have been in the South West for one bedroom category (35.1 points) and in the East of England for the largest three categories (32.3, 35.5 and 44.1 points respectively).

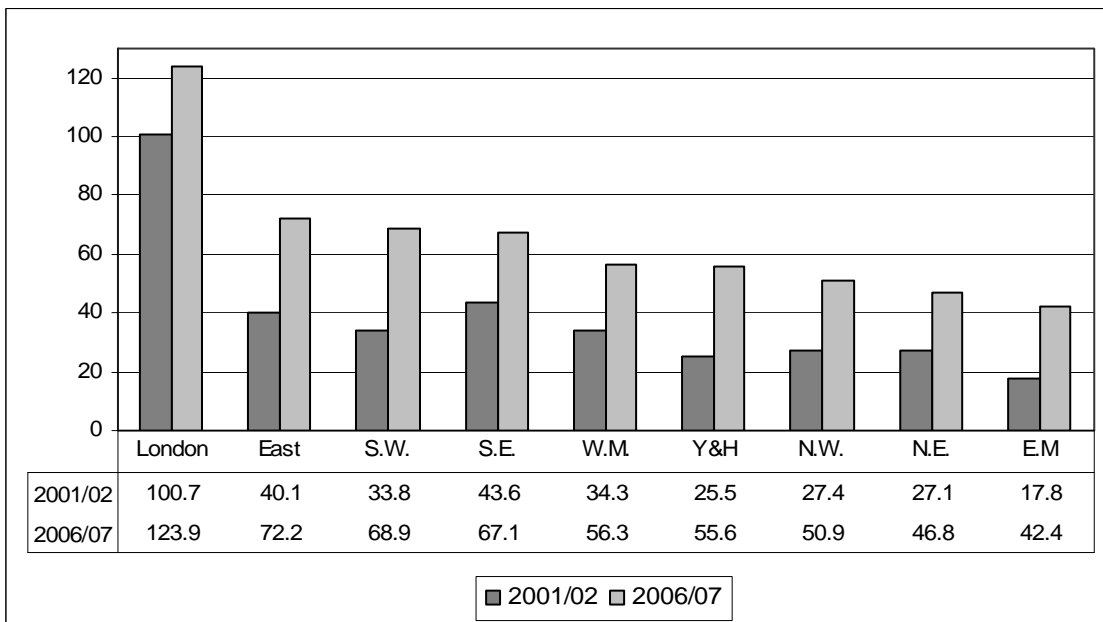
London, which observed a sharp rise in the four plus bedroom category (38.8 points), experienced falls for bedsit and two bed categories (-17.2 and -1.4 points respectively). These are the only two categories for which decreases in the differential were observed. The smallest rises for the remaining three size categories were seen in the West Midlands (2.2 points for one bedroom properties) and the North East (3.5 and 9.8 points for three bedrooms and four or more bedrooms respectively).

<sup>1</sup> The equivalent figures for property sizes, which were not introduced in the 2001/02 survey (i.e. bedsit and five or more bedroom properties).

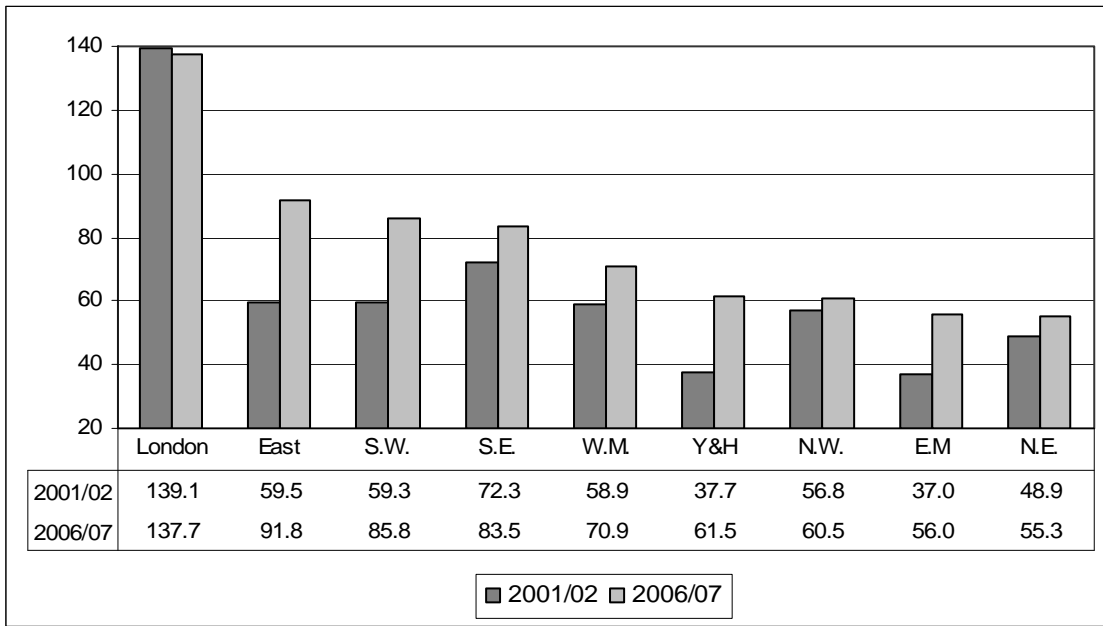
**Figure 4 Difference between private sector rents and HA gross rents by region (%):  
bedsit**



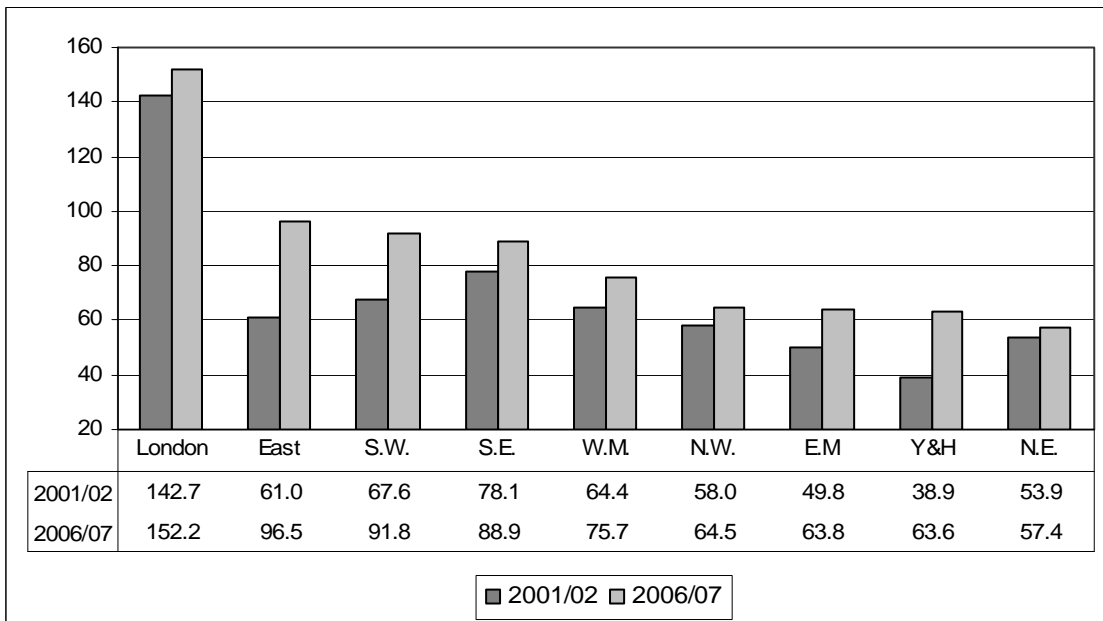
**Figure 5 Difference between private sector rents and HA gross rents by region (%):  
one bedroom property**



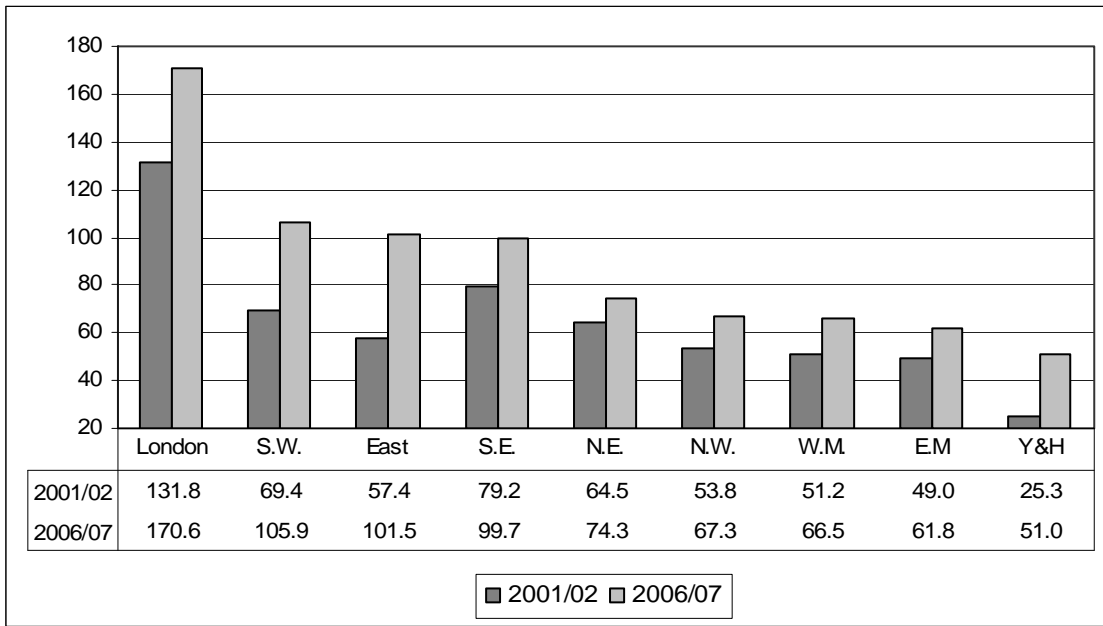
**Figure 6 Difference between private sector rents and HA gross rents by region (%): two bedroom property**



**Figure 7 Difference between private sector rents and HA gross rents by region (%): three bedroom property**



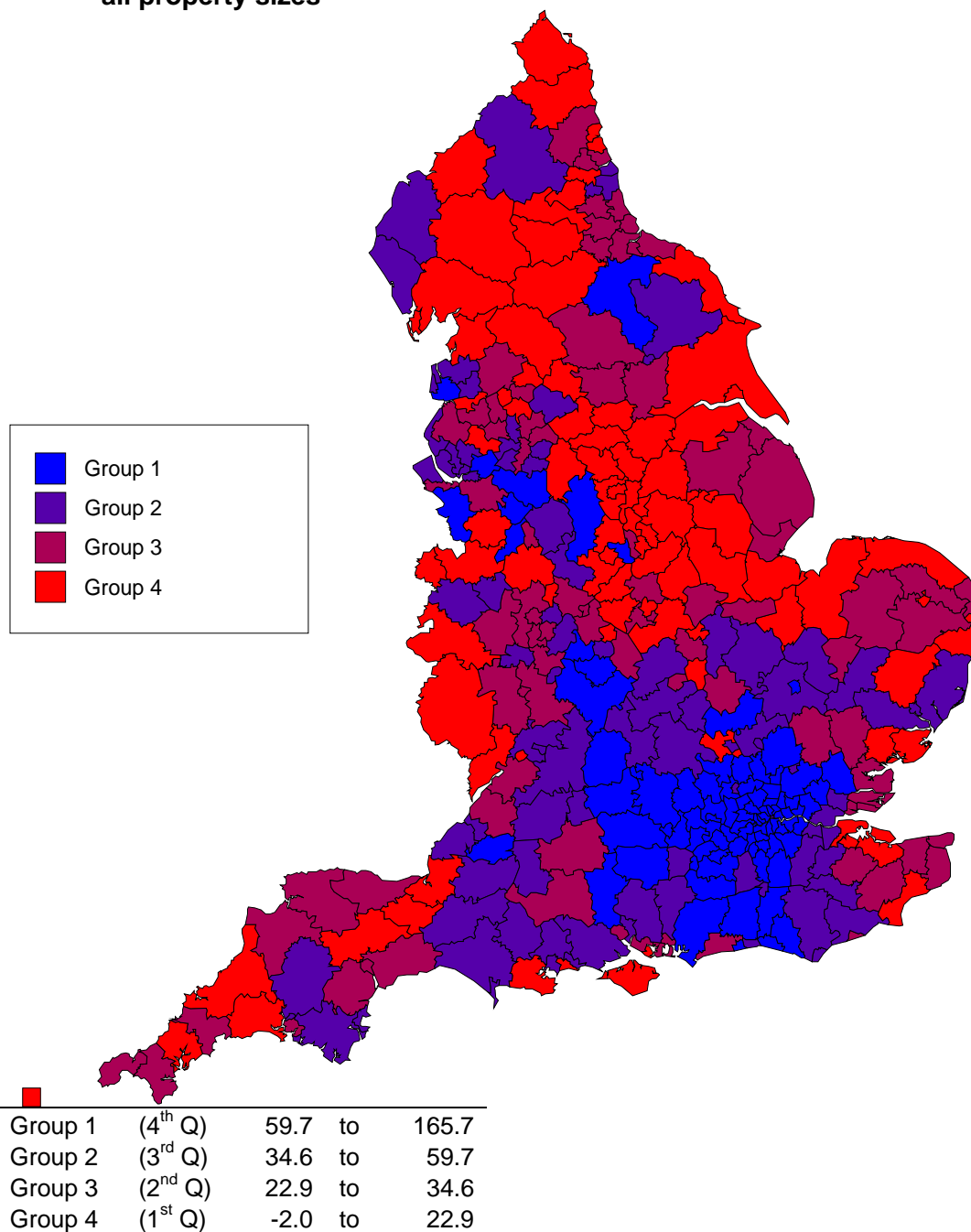
**Figure 8 Difference between private sector rents and HA gross rents by region (%): four or more bedroom property**



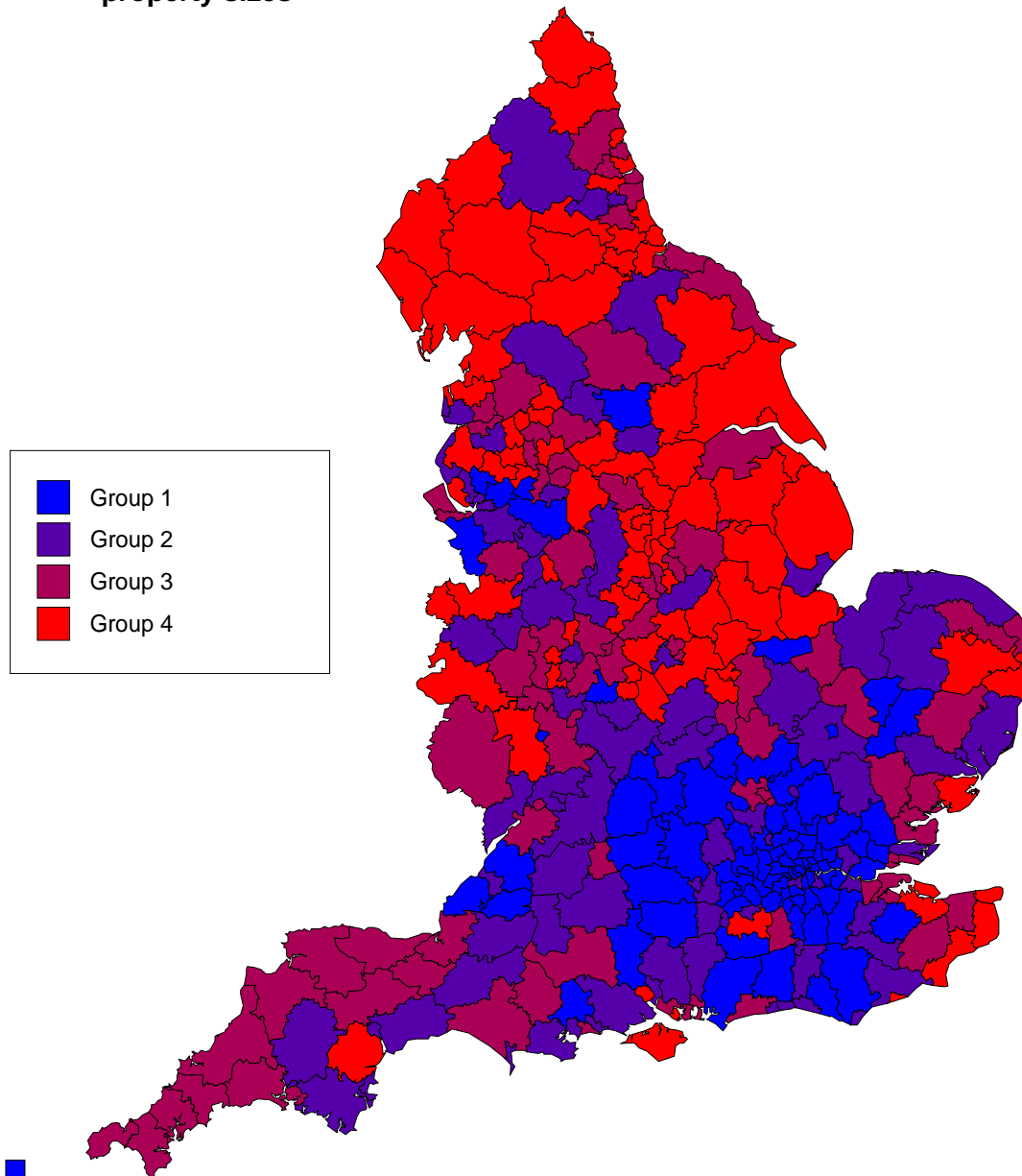
**4.2 Analyses at the LA level**

Turning now to the LA level, Maps 1 and 2 show the overall pattern based on all sizes taken together. Map 1 shows that in 2001/02, the lowest ratios are to be found in the northern and eastern parts of the country, as well as in some coastal areas. The highest ratios are mainly in or close to London, except for a few high pressure areas. By 2006/07 (Map 2), the lowest ratios are more concentrated in the northern part of the country and high ratios have spread out from London and the South East.

**Map 1 2001/02 Differences between private sector rents and HA gross rents by quartile:  
all property sizes**



**Map 2 2006/07 Differences between private rents and HA gross rents by quartile: all property sizes**



Group 1	(4 <sup>th</sup> Q)	70.6	to	198.7
Group 2	(3 <sup>rd</sup> Q)	55.6	to	70.6
Group 3	(2 <sup>nd</sup> Q)	42.5	to	55.6
Group 4	(1 <sup>st</sup> Q)	-13.2	to	42.5

Table 4 looks specifically at the numbers of LA areas where there have been negative ratios. The vast majority (153 out of 161) cases in 2001/02 were bedsits. Only for two areas, one in the East Midlands and one in the North East, did the figure translate into negative values for all properties taken together in 2001/02.

By 2006/07, the numbers had declined to 33 (plus seven including bedspaces), 29 of which were among bedsits. Only in one area in the East of England was there transition into a negative value for all properties.

It shows that over 150 LA areas had negative ratios for bedsits in 2001/02 and 29 LAs had negative ratios for one bed properties in 2006/07. For the other size categories, the latest numbers of LAs with the negative differences were seven for bedspaces, two for two



bedrooms and one each for one bedroom and three bedroom properties. Above three bedroom size, there were none for both observation years.

**Table 4 The number of LAs with negative differences by property size**

	All sizes		Bedspace	Bedsit		One bed		Two bed		Three bed	
	01/02	06/07	06/07	01/02	06/07	01/02	06/07	01/02	06/07	01/02	06/07
London											
S.E.			4	17	3					1	
S.W.			3	23	1					1	1
E.M.	1			30	5	3					
East		1		25	8			1			
W.M.				18	4						
Y&H				8	4	1					
N.E.	1			12	1	2					
N.W.				20	3	2					
England	2	1	7	153	29	8	1	0	2	0	1

Note: No data on bedspaces for 2001/02 were available. No LAs had negative differences for four bedrooms or larger.

Table 5 shows the 20 LA areas with the smallest differences for all properties taken together and therefore where HA rents are closest to market levels in 2006/07. Of the 20 LAs on the list, six were in the North West, five were in the East Midlands and four in Yorkshire and the Humber. Almost half of the LAs from the 2001/02 list of 20 LAs with the lowest differences remained in the 2006/07 list. What the table also shows, unsurprisingly, is that these LAs are mainly concentrated in low demand areas where rents in the private market are also low. It is in these areas that the economic subsidy to those living in the HA sector is the lowest. Whether or not these are the areas with the least affordability problems depends on the incomes of both HA and private tenants.

Finally, Table 6 sets out the 20 LA areas with the largest differences. As expected, almost all the LAs in the table are in London. Thirteen LAs were in the list of the 20 LAs with the largest gaps in 2001/02.

**Table 5 The smallest differences between private sector rents and HA gross rents: all property sizes**

Rank 06/07	LA (01/02)	Region	Difference (%)		Private (£)	HA (£)	
			06/07	(01/02)			
1	(127)	South Norfolk	East	<b>-13.2</b>	(27.7)	52.03	59.91
2	(316)	Guildford	S.E.	<b>8.2</b>	(82.0)	95.42	88.20
3	(8)	Barrow-in-Furness	N.W.	<b>8.8</b>	(5.5)	72.31	66.45
4	(121)	Teignbridge	S.W.	<b>9.2</b>	(26.9)	71.23	65.24
5	(20)	East Riding	Y&H	<b>10.1</b>	(12.3)	74.97	68.09
6	(24)	Bolsover	E.M.	<b>14.4</b>	(12.9)	77.07	67.35
7	(3)	Berwick-upon-Tweed	N.E.	<b>16.5</b>	(1.6)	70.18	60.25
8	(19)	Eden	N.W.	<b>16.7</b>	(11.6)	82.65	70.80
9	(15)	Kingston-upon-Hull	Y&H	<b>17.7</b>	(8.8)	71.98	61.13
10	(7)	Barnsley	Y&H	<b>20.5</b>	(5.5)	78.26	64.94
11	(4)	Mansfield	E.M.	<b>22.0</b>	(1.9)	79.66	65.30
12	(16)	Teesdale	N.E.	<b>24.4</b>	(9.5)	77.60	62.36
13	(204)	Allerdale	N.W.	<b>24.8</b>	(38.7)	74.76	59.88
14	(6)	Ashfield	E.M.	<b>24.9</b>	(5.4)	81.02	64.85
15	(59)	Chesterfield	E.M.	<b>25.3</b>	(18.6)	82.25	65.63
16	(210)	Salford	N.W.	<b>25.5</b>	(39.8)	79.69	63.52
17	(53)	South Lakeland	N.W.	<b>25.6</b>	(18.2)	89.79	71.47
18	(44)	Kirklees	Y&H	<b>27.0</b>	(16.8)	85.84	67.60
19	(94)	Burnley	N.W.	<b>27.2</b>	(23.5)	78.34	61.58
20	(21)	Melton	E.M.	<b>27.3</b>	(12.4)	89.32	70.18

**Table 6 The largest differences between private sector rents and HA gross rents: all property sizes**

Rank 06/07	LA (01/02)	Region	Difference (%)		Private (£)	HA (£)	
			06/07	(01/02)			
1	(1)	Kensington and Chelsea	London	<b>198.7</b>	(165.7)	254.27	85.13
2	(2)	Westminster	London	<b>162.1</b>	(151.8)	238.14	90.87
3	(165)	City of London	London	<b>145.5</b>	(36.7)	235.29	95.85
4	(136)	St.Helens	N.W.	<b>142.2</b>	(41.3)	146.96	60.68
5	(3)	Hammersmith and Fulham	London	<b>138.1</b>	(142.9)	201.52	84.62
6	(4)	Richmond-upon-Thames	London	<b>137.0</b>	(138.4)	194.54	82.08
7	(6)	Tower Hamlets	London	<b>129.0</b>	(127.4)	193.91	84.69
8	(12)	Hackney	London	<b>128.0</b>	(111.3)	190.39	83.52
9	(13)	Camden	London	<b>123.8</b>	(108.6)	206.30	92.20
10	(298)	Isles of Scilly	S.W.	<b>123.1</b>	(18.6)	142.29	63.78
11	(10)	Barnet	London	<b>122.3</b>	(113.1)	201.05	90.43
12	(5)	Elmbridge	S.E.	<b>119.1</b>	(129.0)	183.10	83.58
13	(14)	Islington	London	<b>118.5</b>	(107.8)	184.36	84.37
14	(11)	Brent	London	<b>114.6</b>	(112.2)	188.31	87.73
15	(20)	Harrow	London	<b>114.5</b>	(96.9)	187.27	87.31
16	(19)	Ealing	London	<b>109.1</b>	(97.9)	185.78	88.86
17	(34)	Newham	London	<b>108.2</b>	(86.0)	172.77	83.00
18	(29)	Merton	London	<b>107.5</b>	(88.9)	181.98	87.69
19	(23)	Haringey	London	<b>103.2</b>	(94.0)	170.23	83.78
20	(26)	Lambeth	London	<b>103.1</b>	(90.3)	165.17	81.34

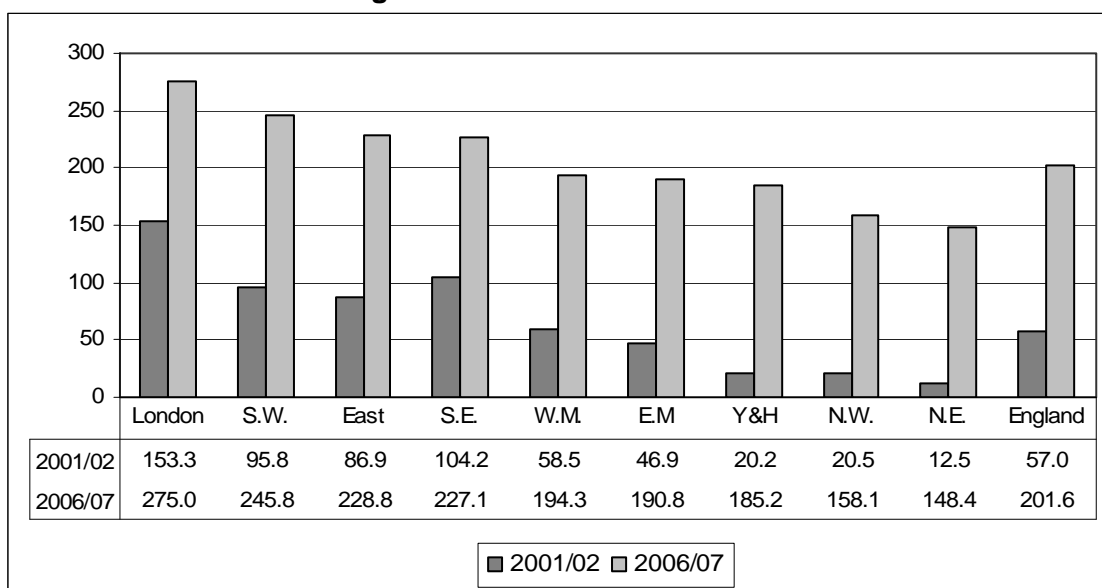
## 5. Comparisons between HA net rents and OO costs

The only analysis possible with respect to the owner-occupied market is for all properties taken together as there are no data on OO user costs by property size. For this reason alone, even using lower quartile prices as a basis for comparison, one might expect significant differences between HA rents and user costs of owner-occupation because the average size, if not the quality, will be larger in the owner-occupied sector.

Figure 9 shows the differences between OO user costs and HA net rents at national and regional level. At the national level in 2001/02, the ratio between OO costs and HA rents were fairly close to that for private rents (57% higher as opposed to 47%, see Table 2). This reflects the fact that for much of the previous 20 years, OO costs had been lower than private rents, although this had started to change in the late 1990s (see e.g. Freeman, Holmans and Whitehead 1996, *Is the UK Different?* Council of Mortgage Lenders).

By 2006/07 however, the divergence had increased to over 200% and was by then far above that for private rents in almost all areas. This is mainly the result of house price increases, as interest rates have generally fallen over the period.

**Figure 9 Differences between OO user costs and HA net rents for England and the nine regions**



Note: Difference = (OO Cost – HA Net Rent)/HA Net Rent\*100

Looking now at the regional pattern, it is important to note that the relativities between regions are very much more coherent than for the private rents, with low ratios in the North and to a lesser extent, in the Midlands and high ratios in the pressure areas of the South. The only significant change in rank order is between the South East (second in 2001/02 and fourth in 2006/07).

It is also important to note that by 2006/07, the differential between regions had narrowed and only in the North East was the difference below 150%.

It is also worth pointing out that in 2001/02, the difference ratios with owner-occupation were lower than those for private rents in the North East, Yorkshire and the Humber, and the North West but by 2006/07, all owner-occupation ratios were far above those for private rents.

Turning to the analysis at LA level in 2001/02, there were 25 LAs with negative difference ratios, 19 of which were in these three regions (the others being in the East Midlands).<sup>2</sup> By 2006/07, there were no LAs with negative values.

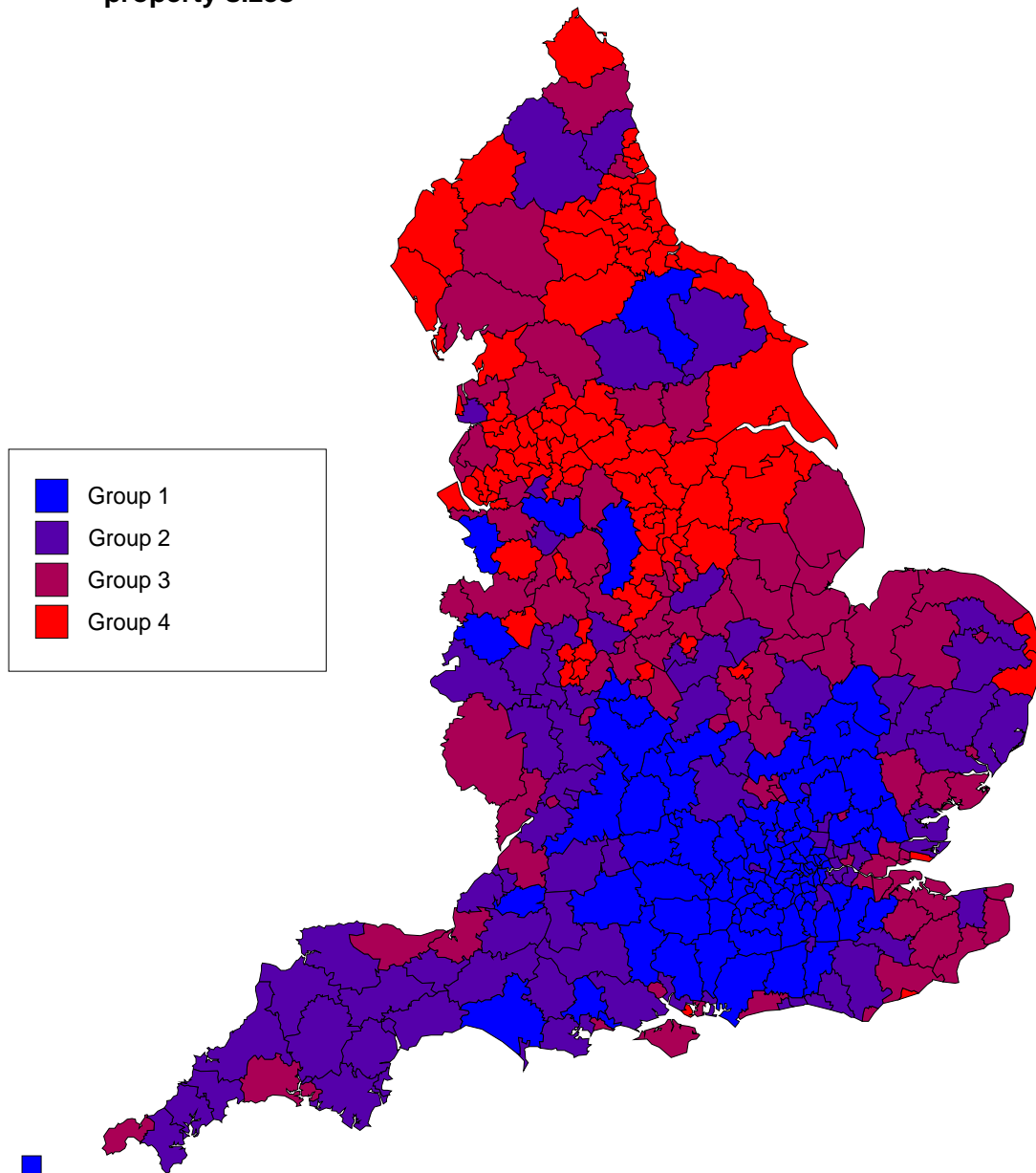
Maps 3 and 4 show the pattern of ratios between HA rents and OO user costs by LA. In 2001/02, there is a very clear and consistent pattern with high ratios concentrated in the South and a few 'high pressure' areas further north. Some of the ratios are very low indeed,

<sup>2</sup> See C. Whitehead and B. Cao (2007), *Comparing Rents and User Costs: 2005/06*.

suggesting that the objective of providing sub market rented housing in the RSL sector was at risk in these areas.

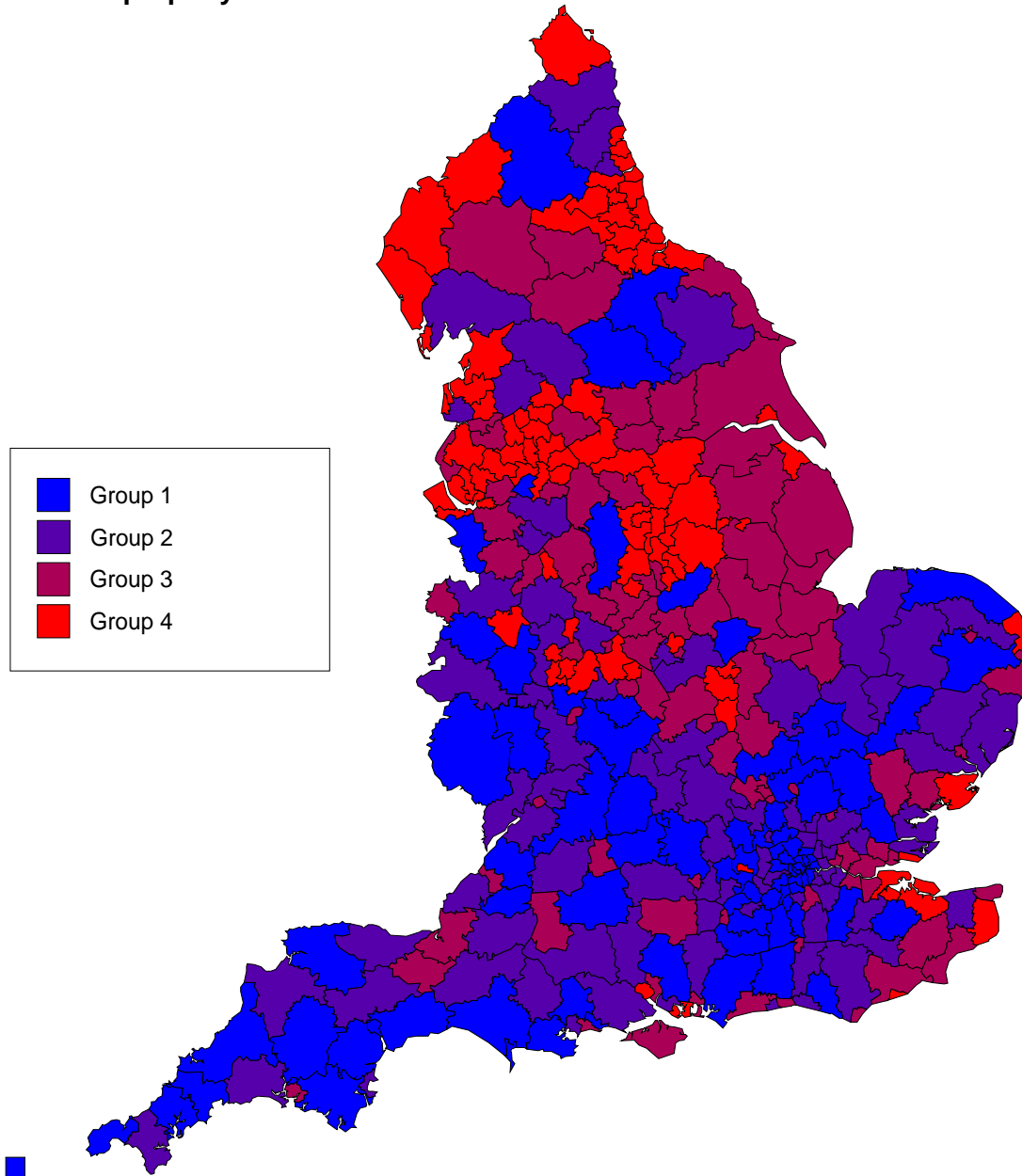
By 2006/07, the concentration in the South and with the addition of parts of the South West had, if anything, increased, and there are hardly any areas where ratios are close enough to imply that the owner-occupied sector could provide significant numbers of units at costs near those in the HA rented sector.

**Map 3 2001/02 Differences between OO user costs and HA net rents by quartile: all property sizes**



Group 1	(4 <sup>th</sup> Q)	124.1	to	486.4
Group 2	(3 <sup>rd</sup> Q)	80.1	to	124.1
Group 3	(2 <sup>nd</sup> Q)	38.5	to	80.1
Group 4	(1 <sup>st</sup> Q)	-50.8	to	38.5

**Map 4 2006/07 Differences between OO user costs and HA net rents by quartile: all property sizes**



Group 1	(4 <sup>th</sup> Q)	268.4	to	624.0
Group 2	(3 <sup>rd</sup> Q)	224.3	to	268.4
Group 3	(2 <sup>nd</sup> Q)	178.8	to	224.3
Group 4	(1 <sup>st</sup> Q)	31.2	to	178.8

Table 7 shows the 20 LAs with the smallest differences between OO user costs and HA rents, i.e. where HA rents are closest to market prices as measured by the equivalent costs incurred by owner-occupiers. The pattern is similar with that for private rents in that the great majority of the LAs in the list are in the northern areas – eight LAs are in the North West, five in the North East and four in the East Midlands. Seven LAs, which are shown in bold in table, were also in the list of the 20 LAs with the smallest differences from private rents (Table 5). Fifteen LAs appeared in the list in both 2001/02 and 2006/07.

Table 8 sets out the 20 LAs with the large differences – i.e. areas where market prices most significantly outperform HA rents. As expected, the majority are in the South and the pattern is fairly consistent with the largest differences between HA and private rents. Of the 20 LAs,

nine are in London and six are in the South East. Half were in the list of 20 for private rents (Table 6). Fifteen LAs were in the list of 20 with the highest differences in 2001/02.

**Table 7** Twenty LAs with small differences between owner-occupation user costs and HA net rents

Rank 06/07	(01/02)	LA	Region	Difference (%)		OO cost (£)	HA (£)
				06/07	(01/02)		
1	(1)	<b>Burnley</b>	N.W.	31.2	(-50.8)	78.61	59.93
2	(6)	<b>Barrow-in-Furness</b>	N.W.	65.7	(-24.4)	106.37	64.19
3	(2)	Pendle	N.W.	78.8	(-41.3)	96.06	53.72
4	(7)	<b>Kingston-upon-Hull</b>	Y&H	80.4	(-23.8)	105.58	58.52
5	(4)	Blackburn with Darwen	N.W.	85.8	(-26.8)	113.51	61.09
6	(13)	Stoke-on-Trent	W.M.	87.7	(-14.9)	110.33	58.78
7	(3)	Hyndburn	N.W.	89.6	(-33.6)	105.58	55.68
8	(20)	Sedgefield	N.E.	92.9	(-7.1)	110.33	57.19
9	(10)	Hartlepool	N.E.	93.2	(-18.7)	107.16	55.46
10	(9)	<b>Bolsover</b>	E.M.	96.1	(-21.1)	129.37	65.98
11	(8)	Easington	N.E.	102.1	(-22.1)	111.86	55.36
12	(5)	Middlesbrough	N.E.	103.6	(-24.5)	115.09	56.53
13	(11)	<b>Mansfield</b>	E.M.	105.9	(-16.6)	130.96	63.62
14	(12)	<b>Barnsley</b>	Y&H	107.6	(-16.1)	130.95	63.08
15	(16)	Wear Valley	N.E.	108.7	(-12.0)	123.02	58.93
16	(25)	<b>Ashfield</b>	E.M.	119.0	(-3.3)	138.89	63.43
17	(27)	Rochdale	N.W.	119.1	(1.4)	134.13	61.23
18	(21)	Oldham	N.W.	121.4	(-6.9)	130.96	59.16
19	(24)	Bolton	N.W.	123.0	(-4.8)	137.30	61.57
20	(32)	Nottingham	E.M.	124.5	(3.9)	141.27	62.93

Note: LAs in Table 5 are in bold.

**Table 8** Twenty LAs with large differences between OO user costs and HA net rents

Rank 06/07	(01/02)	LA	Region	Difference (%)		OO cost (£)	HA (£)
				06/07	(01/02)		
1	(1)	<b>Kensington &amp; Chelsea</b>	London	624.0	(486.4)	575.09	79.44
2	(13)	<b>Isles of Scilly</b>	S.W.	598.0	(223.1)	436.30	62.51
3	(2)	<b>Westminster</b>	London	449.0	(341.5)	467.82	85.21
4	(4)	<b>Hammersmith &amp; Fulham</b>	London	424.4	(325.6)	425.99	81.24
5	(3)	<b>City of London</b>	London	399.9	(336.3)	432.33	86.48
6	(6)	<b>Richmond-upon-Thames</b>	London	398.1	(274.9)	400.53	80.41
7	(11)	South Bucks	S.E.	394.5	(228.4)	392.60	79.40
8	(5)	<b>Camden</b>	London	379.8	(281.0)	416.45	86.80
9	(9)	Chiltern	S.E.	370.2	(238.2)	376.81	80.13
10	(7)	<b>Islington</b>	London	369.5	(262.4)	375.23	79.92
11	(8)	<b>Elmbridge</b>	S.E.	365.2	(257.8)	384.75	82.71
12	(12)	Wandsworth	London	356.7	(228.1)	392.68	85.97
13	(14)	St Albans	East	341.8	(220.0)	360.95	81.70
14	(26)	East Dorset	S.W.	337.7	(195.6)	318.13	72.69
15	(49)	Chichester	S.E.	323.5	(165.4)	305.44	72.12
16	(20)	<b>Tower Hamlets</b>	London	321.7	(201.4)	329.23	78.07
17	(53)	Derbyshire Dales	E.M.	320.4	(160.5)	249.92	59.45
18	(130)	Carrick	S.W.	318.7	(102.4)	268.95	64.23
19	(25)	Waverley	S.E.	316.4	(197.1)	343.50	82.49
20	(16)	Windsor & Maidenhead	S.E.	316.2	(209.5)	360.95	86.73

Note: LAs in Table 6 are in bold.

## 6. Comparisons between HA net and LA rents

The situation with respect to LA rents is very different. Dwellings in the HA sector have generally been built later; been maintained to higher standards; and are less likely to be in large estates than LA properties. In addition, the financing regime is different and has necessitated higher rents. As a result, we expect to find that HA rents are above LA rents in all but a few instances. What is more important from the point of view of our analysis is whether both sets of rents have become more coherent as a result of the rent restructuring framework and whether rents are becoming more closely aligned across the social sector.

The first thing to note with respect to the comparisons between HA and LA rents is how patchy the LA sector data are. This is mainly because of the large numbers of LAs that have sold off their stock, but it is also because LA data are far less complete than those for HAs and owner-occupation.

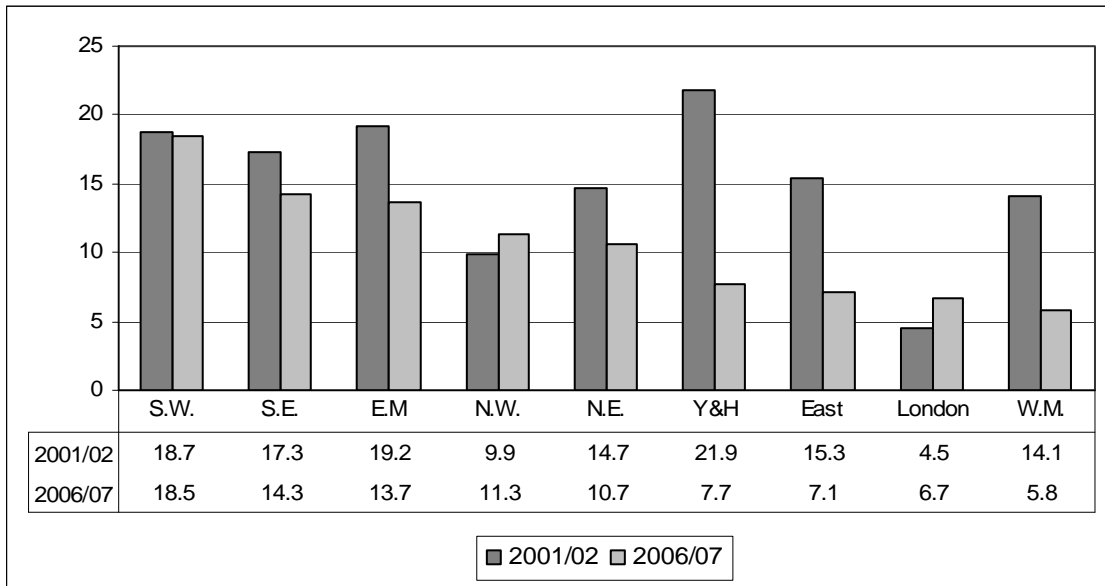
Table 9 shows the proportional differences by property size and for all dwellings at the national level. It shows that the differences in average rents have declined very considerably between 2001/02 and 2006/07. It further shows that while the four or more bedroom category showed had the largest differential in 2001/02, core size categories (i.e. one to three bedrooms) did so in 2006/07. However, it must be remembered that Large Scale Voluntary Transfers (LSVTs) have continued during this period so the base has changed significantly.

**Table 9** Difference between HA net rents and LA rents (%)

	2001/02			2006/07		
	HA (£) a	LA (£) b	Difference (a-b)/b	HA (£) a	LA (£) b	Difference (a-b)/b
Bedsit			n/a	53.05	50.60	<b>4.8</b>
One bed	48.52	42.98	<b>12.9</b>	58.36	53.90	<b>8.3</b>
Two bed	56.28	47.52	<b>18.4</b>	65.97	60.72	<b>8.6</b>
Three bed	62.36	50.84	<b>22.7</b>	71.16	66.66	<b>6.8</b>
Four bed			n/a	82.69	78.98	<b>4.7</b>
Four+ bed	73.68	59.53	<b>23.8</b>	83.64	80.06	<b>4.5</b>
Five bed			n/a	90.62	89.49	<b>1.3</b>
Six+ bed			n/a	99.99	99.70	<b>0.3</b>
All	55.68	47.94	<b>16.1</b>	66.66	61.20	<b>8.9</b>

Figure 10 shows the differences across regions and suggests a rather unstable spatial pattern with significant changes in ranking between 2001/02 and 2006/07. It is however important to note that in 2001/02 in all regions have the differences declined sometimes considerably. Only two regions had average rents in both sectors within 10% of one another, while by 2006/07, this had increased to four regions. Further analyses on the equivalent figures by property size show similar inconsistent the spatial patterns, both over time and between property sizes. They also show that differences have declined over the period.

**Figure 10**      **Difference between HA net rents and LA rents by region (%): all property sizes**



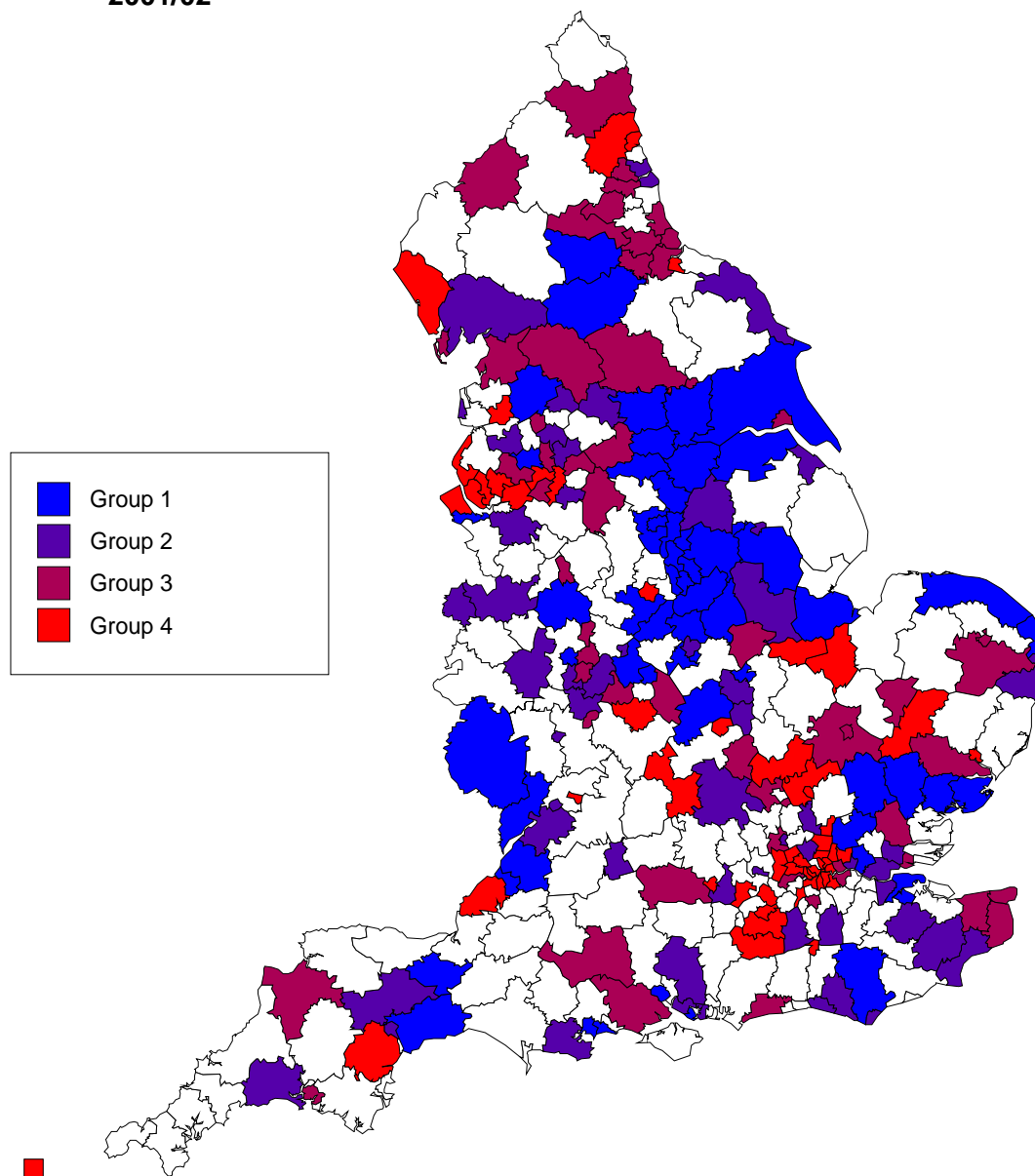
Note: Difference = (HA Net Rent – LA Net Rent)/LA Net Rent\*100)

Maps 5 and 6 show the LA picture across the country. The main concentration of higher ratios is in the North of the country, but the pattern is not strong. By 2006/07, there are fewer observations and the pattern is slightly more consistent.

The overall evidence suggests a closer but considerably less coherent relationship between HA rents and LA rents than between HA and market rents. It also shows that while HA rents are consistently higher than LA rents at regional level, the differential between the two sectors has declined across the country.



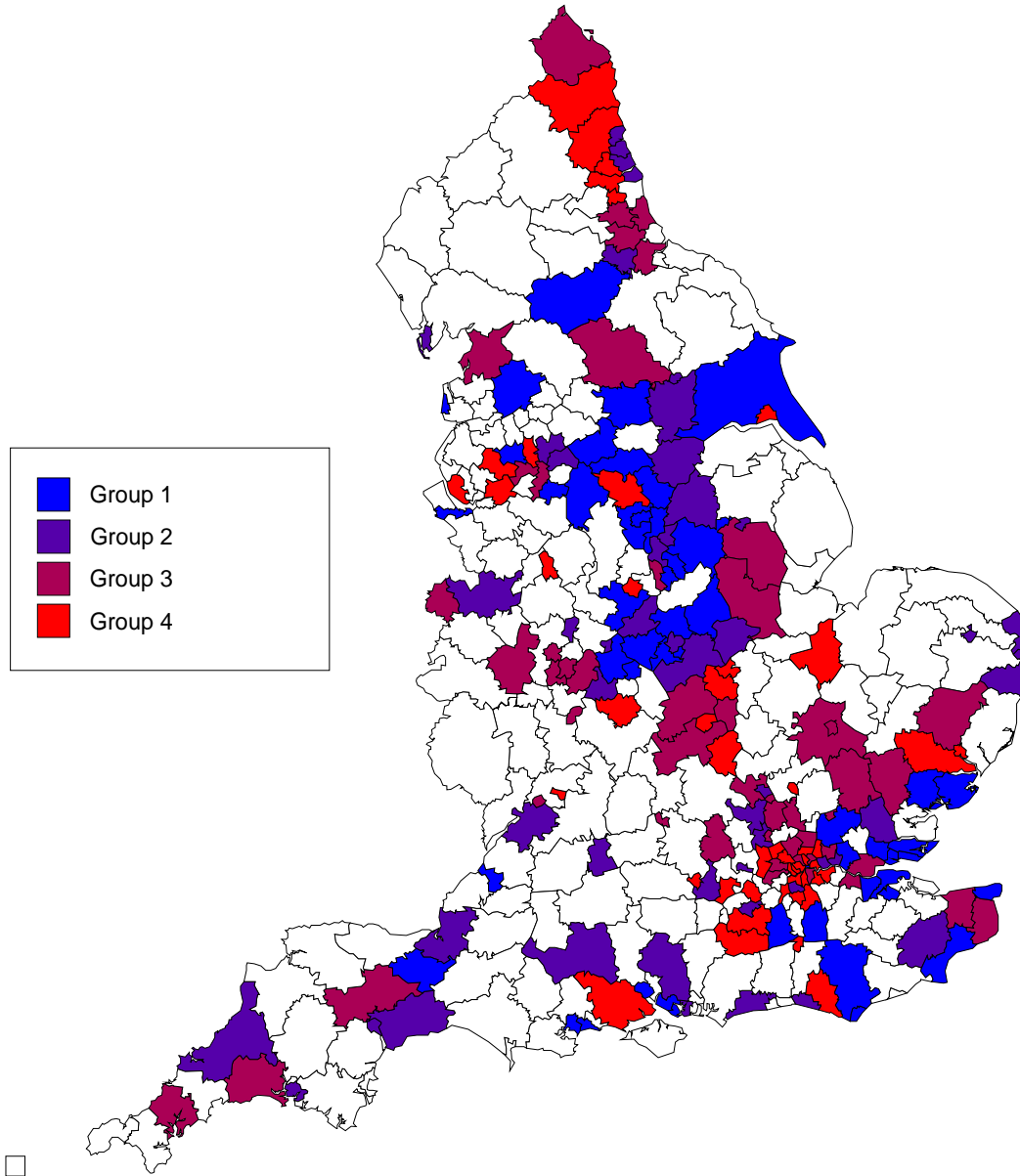
**Map 5 Differences between HA net rents and LA rents by quartile: all property sizes, 2001/02**



Group 1	(4 <sup>th</sup> Q)	29.6	to	60.5
Group 2	(3 <sup>rd</sup> Q)	19.9	to	29.6
Group 3	(2 <sup>nd</sup> Q)	10.2	to	19.9
Group 4	(1 <sup>st</sup> Q)	-21.0	to	10.2

Note: LAs with no data are blank.

**Map 6 Differences between HA net rents and LA rents by quartile: all property sizes, 2006/07**



Group 1	(4 <sup>th</sup> Q)	21.9	to	39.1
Group 2	(3 <sup>rd</sup> Q)	15.8	to	21.9
Group 3	(2 <sup>nd</sup> Q)	9.4	to	15.8
Group 4	(1 <sup>st</sup> Q)	-15.4	to	9.4

Note: LAs with no data are blank.

Table 10 shows the 20 LAs with the smallest (including negative) differences between HA net rents and LA rents, i.e. where HA rents are below or closest to LA rents. The pattern is generally different to those in the comparisons with private rents or with OO costs. Half of the LAs were in London while three were in the North East. Eight LAs appeared in the list in both 2001/02 and 2006/07.

Table 11 sets out the 20 LAs with the large differences, i.e. areas where HA rents most significantly outperform LA rents. Of those LAs, six were in the East Midlands, five were in the South East and three each in the East of England and the South West. Nine LAs were already in the top twenty list for 2001/02.

**Table 10** Twenty LAs with negative or small differences between HA net rents and LA rents: all property sizes

Rank 06/07	LA (01/02)	Region	Difference (%)		HA (£)	LA (£)	
			06/07	(01/02)			
1	(4)	Wandsworth	London	<b>-15.4</b>	(-7.4)	85.97	101.67
2	(2)	Westminster	London	<b>-9.3</b>	(-18.7)	85.21	93.97
3	(49)	Ipswich	East	<b>-6.3</b>	(8.3)	62.03	66.20
4	(28)	Warrington	N.W.	<b>-2.8</b>	(2.3)	58.58	60.24
5	(20)	Lambeth	London	<b>-2.4</b>	(0.3)	75.59	77.47
6	(45)	Waverley	S.E.	<b>-2.3</b>	(7.1)	82.49	84.43
7	(35)	Reading	S.E.	<b>-0.7</b>	(5.2)	82.83	83.43
8	(1)	Kensington & Chelsea	London	<b>0.4</b>	(-21.0)	79.44	79.13
9	(7)	Tower Hamlets	London	<b>0.8</b>	(-7.0)	78.07	77.48
10	(3)	Brent	London	<b>1.9</b>	(-8.0)	83.46	81.90
11	(12)	Islington	London	<b>2.9</b>	(-3.1)	79.92	77.68
12	(79)	Gateshead	N.E.	<b>2.9</b>	(14.2)	55.63	54.06
13	(96)	Alnwick	N.E.	<b>3.0</b>	(17.5)	55.00	53.41
14	(123)	Kettering	E.M.	<b>3.2</b>	(21.8)	65.23	63.22
15	(30)	Waltham Forest	London	<b>3.7</b>	(3.5)	80.30	77.45
16	(73)	Newcastle-upon-Tyne	N.E.	<b>3.7</b>	(12.8)	53.04	51.15
17	(19)	Hammersmith & Fulham	London	<b>3.7</b>	(0.2)	81.24	78.33
18	(26)	Northampton	E.M.	<b>3.9</b>	(1.8)	65.22	62.80
19	(9)	Hillingdon	London	<b>4.1</b>	(-4.3)	87.45	84.05
20	(81)	Babergh	East	<b>4.4</b>	(15.4)	66.61	63.82

Note: Difference = (HA Net Rent – LA Net Rent)/LA Net Rent\*100. N=197 for 2006/07 and 225 for 2001/02.

**Table 11** Twenty LAs with large differences between HA net rents and LA rents: all property sizes

Rank 06/07	LA (01/02)	Region	Difference (%)		HA (£)	LA (£)	
			06/07	(01/02)			
1	(32)	Havering	London	<b>39.1</b>	(34.0)	85.58	61.53
2	(9)	Tendring	East	<b>36.0</b>	(40.4)	77.81	57.20
3	(49)	Gosport	S.E.	<b>34.0</b>	(32.4)	76.51	57.12
4	(2)	Ellesmere Port & Neston	N.W.	<b>33.7</b>	(47.7)	65.89	49.30
5	(7)	Oadby & Wigston	E.M.	<b>33.0</b>	(40.8)	69.89	52.55
6	(39)	Southampton	S.E.	<b>30.7</b>	(33.2)	76.19	58.29
7	(1)	Bolsover	E.M.	<b>30.6</b>	(60.5)	65.98	50.52
8	(72)	Tandridge	S.E.	<b>30.3</b>	(27.2)	88.17	67.69
9	(3)	Barnsley	Y&H	<b>30.0</b>	(47.5)	63.08	48.52
10	(26)	Bournemouth	S.W.	<b>29.8</b>	(35.1)	76.86	59.20
11	(18)	Colchester	East	<b>29.2</b>	(36.3)	78.10	60.44
12	(4)	Melton	E.M.	<b>28.6</b>	(45.2)	68.59	53.32
13	(25)	Epping Forest	East	<b>28.3</b>	(35.3)	86.99	67.82
14	(51)	Poole	S.W.	<b>27.6</b>	(31.9)	78.04	61.16
15	(40)	Charnwood	E.M.	<b>27.5</b>	(33.2)	63.69	49.95
16	(11)	Gedling	E.M.	<b>27.4</b>	(39.9)	64.26	50.44
17	(73)	Eastbourne	S.E.	<b>27.1</b>	(27.2)	74.80	58.85
18	(141)	High Peak	E.M.	<b>26.8</b>	(16.0)	69.56	54.87
19	(5)	Wealden	S.E.	<b>26.7</b>	(43.1)	75.30	59.44
20	(41)	Bristol	S.W.	<b>26.6</b>	(33.0)	68.11	53.82

Note: As the previous table.

## 7. Conclusions

*Are HA rents at sub-market levels?* In almost all areas and for almost all types of dwellings, the answer to this is yes. In 2001/02, there were significant pockets of the smallest units where rents were almost certainly above or very close to market, mainly in low demand areas. These were as often in comparison with the owner-occupied sector as with the private rented sector. By 2006/07, changes in rents and prices in the private rented sector and particularly in

the owner-occupied sector, as well as HA rent restructuring, notably with respect to bedsits, meant there were almost no such low ratios.

*How has the differential changed?* In 2001/02, there were two regions (the East Midlands and Yorkshire and the Humber) where average HA rents were within 30% of private sector rents although not necessarily for the same size and quality of property. In 2001/02, the differentials between the HA and the owner-occupied sector were also quite similar to those for private rents although with greater regional differentiation. The lowest ratios (around and below 20%) were concentrated in the three northern regions.

By 2006/07, the differentials between private sector and HA rents had grown significantly in all regions to an average of around 70%. Moreover, they were more spread across the country and across dwelling sizes. Areas with relatively low ratios were concentrated particularly in the East Midlands and Yorkshire and the Humber.

The relationship between HA rents and OO costs has changed far more than that between HA and private rented sector rents. By 2006/07, OO user costs were more than double HA costs in all regions. Unlike the comparison with private rents, the regions with the smallest differences (i.e. where HA rents were the closest to OO costs) were all in the North, as compared to the east of the country for the private rented sector.

Some of the reasons for these changes can be traced to policy both with respect to rent increases and rent coherence. They also reflect changes in the availability of private sector properties, particularly in terms of the growth in smaller units in London where rents have not risen as might have been expected. The major reason for increasing differentials though, is undoubtedly the rising house prices, which are only very partially, reflected in HA rents.

*Are rents more coherent?* Yes. The problems at the lower end of the property spectrum have almost disappeared although it is still greater variation in the smaller and largest property sizes.

The relationship between HA rents and market rents and prices shows increasingly clear spatial consistency, reflecting in part the movement towards target rents related to capital values as well as local incomes.

The differentials between HA and LA rents have become smaller. However, the spatial pattern is much less consistent than with the market, mainly because of the greater variation in LA rents.

The trends identified here are significantly the outcome of market pressures. These mean that the administered system of rent determination is increasingly out of line with market rents. It also means that the extent of economic subsidy for those in the HA sector has increased across the country. Whether HA rents have become more affordable depends on what has been happening to incomes.

## **Annex: Data sources and definitions**

The data sources used in this paper are also available in the Guide to Local Rents which is produced on behalf of the Tenant Services Authority by Dataspring, a team of researchers based in the Cambridge Centre for Housing and Planning Research, University of Cambridge. Rent data from 1990 onwards are held on the Dataspring database.

From 1997 to 2001, the Guide to Local Rents was published in printed format. From 2002 onwards, it has been published on the web and can be downloaded from the Tenant Services Authority's Regulatory and Statistical Return (RSR) Survey website at [www.rsrsurvey.co.uk](http://www.rsrsurvey.co.uk) (Documents – Statistics) and from the Dataspring website at [www.dataspring.org.uk](http://www.dataspring.org.uk) (Rent Guides).

The published rent data are generally presented in five tables – Tables A1 and A2 in Part I: Cross Tenure Rents and Tables B1, B2 and B3 in Part II: Social Landlord Rents. The aim of Part I: Cross Tenure Rents is to give housing associations (HAs) a full picture of the local housing markets in which they operate. It allows comparisons to be made at the local authority level between the average rents charged by HAs with the average rents charged by local authorities (LAs) and with average weekly rents in the private rented sector (Housing Benefit cases referred to the Rent Service). Part II: Social Landlord Rents focuses specifically on HA rents, providing data at the individual HA as well as LA area level. These data allow HAs to compare their relative position within a given district or region to that of their peers.

The data sources and definitions used are detailed below.

Every year all HAs registered with the Tenant Services Authority complete the RSR, an annual census of the sector as at 31 March. There are two versions of the RSR: in general 'large' HAs that owned and/or managed more than 250 homes completed the 'long' version (up to 2006) and smaller HAs completed the 'short', less detailed version.<sup>3</sup>

The RSR is divided into several parts. From 2002 the rent data are collected in Parts H and I. Part I requires HAs to report average net rents, service charges and target rent (for each bedsize) by every English LA in which they own general needs stock. (Details of rents for supported housing are included in Part III of the Guide to Local Rents from 2005). Any spatial analysis of rents therefore relies on data collected in this part. Part I is only included in the long version of the RSR.

### Definitions

- The data are a snapshot of the average rents and service charges for all general needs stock owned in England as at the 31 March of each year.
- Up to 2006, HAs that owned or managed fewer than 250 homes did not report data in Part I.
- All figures in Parts I and II are for general needs assured and secure tenancies combined.
- Estate Renewal Challenge Fund stock is included.
- From 2005, all housing for older people is excluded from general needs stock.

<sup>3</sup> From 2007, HAs with 1,000+ units in ownership or management complete the Long Return, while those with 999 units or less complete the Short Return.

- Rents and service charges are attributed to void stock where possible.
- All rents and service charges are expressed in £ per week.
- General needs housing that is sheltered is included up to 2004. From 2005, the sheltered housing classification was no longer used.

### HA net rents

Net rent is the average rent charged before any service charges are applied. HAs calculate average weekly net rents for each property size within a given LA area by adding together all of the weekly net rents at 31 March and then dividing this total by the total number of units owned.

### HA gross rents

The gross rent is the net rent plus any service charges eligible for HB. The number of units owned is also given. Average weekly gross rents for each property size within a given LA area are calculated by adding together all of the weekly net rents and all of the weekly service charges eligible for HB at 31 March and then dividing this total by the total number of units owned.

It should be noted that in the published data the gross rent figure does not always equal the net rent column figure plus the service charge column figure. This is because the net rent reported is the average for all units; whereas the service charge is the average for all units that have a service charge (i.e. units without service charges eligible for HB are excluded).

## **LA Rents**

The LA rent data are derived from the returns made annually to the Department for the Communities and Local Government (CLG) in the second housing subsidy and grant form and show rents across the stock at 1 April of each year. Most LAs change their rents on the 1 April, and they then remain constant throughout the year, so that the LA rent recorded (or estimated for 2006/07 onwards) at 1 April will apply on 31 March of the following year. In contrast, HAs set or change rents at any time of the year.

### Definitions

- Up to 2004, the data are a snapshot of the average rents of all LA housing stock in England, with the exception of hostels and a small number of other dwellings such as council tied accommodation, as at the 1 April of each year. However, from 2005, LA average rents are estimates (made by each LA) for the period 1 April to 31 March (i.e. the next financial year).
- LAs, unlike HAs, do not classify their dwellings as general needs or supported housing. Thus, sheltered and supported housing are included in the rents reported.
- Rents are attributed to void units.
- All rents are expressed in £ per week.

### LA average rents

The definition of average rent in the CLG survey is of standard rent, excluding service charges for e.g. water rates, central heating, hot water and laundry services. Average weekly rents for

each property size within a given LA area are calculated by adding together all of the weekly standard rents as at 1 April and then dividing this total by the total number of units owned.

LA rent data are not provided for every local area. In some cases, this is because the LA has transferred much or all of its housing stock to several HAs under the Large Scale Voluntary Transfer (LSVT) programme.

### Private Sector Rents (Housing Benefit cases)

The data are taken from the Rent Service *Valuation Report*, which provides a range of data about the various Housing Benefit related determinations carried out by rent officers. The valuation report is available from the Rent Service website at [www.therentservice.org.uk](http://www.therentservice.org.uk).

#### Definitions

- The 'referred rent' is the contractual rent (including service charges eligible for Housing Benefit) proposed by the landlord and referred by the LA to the Rent Service. The data include cases where the referred rent was not the rent returned to the LA for subsidy purposes (i.e. Housing Benefit was not payable for the full amount of the referred rent).
- The data relate to the referrals made over the period from 1 April of one year to 31 March of the next.
- The data refer to lettings of unfurnished and furnished assured short-hold tenancies and secure tenancies.

#### Private sector rents

The average referred rent is calculated by adding together all of the referred rents reported by the Rent Service for a given LA area over the period from 1 April of one year to 31 March of the next, and dividing this figure by the number of cases referred.

Dataspring calculates the average referred rent for NUTS3 areas, regions, and England.

Rent Service statistics categorise lettings by number of habitable rooms rather than number of bedrooms, therefore the following assumptions have been made about the relationship between the number of rooms and the number of bedrooms in a property.

#### **Relationship between the number of rooms and the number of bedrooms in a property**

<b>Property type / Number of habitable rooms in the <i>Valuation Report</i></b>	<b>Property size assumed for the <i>Guide to Local Rents Part I</i></b>
1 room non self-contained	Bedspace
1 room self-contained	Bedsit
2 habitable rooms	1 bedroom
3 habitable rooms	2 bedroom
4 habitable rooms	3 bedroom
5+ habitable rooms	4+ bedroom

'Habitable rooms' include bedrooms and 'rooms suitable for living' – typically, lounges and dining rooms. It does not include bathrooms, WCs or kitchens.

The private rents published in the *Guide to Local Rents Part I* from 2005 onwards are not directly comparable to the private rents published previously (up to and including 2002). The rent data previously published included the property specific rent (the market level rent for the property determined by the Rent Service if the referred rent is considered to be significantly above the market level) and the local reference rent.

### **Equivalent user cost of owner-occupation**

The equivalent user cost of owner-occupation is measured by calculating the weekly cost of repaying an average loan together with estimates of the cost of building insurance, mortgage payment protection insurance and the imputed loss of interest on the deposit.

#### Average size of loan

The size of the loan is calculated by multiplying the lower quartile house price for each LA area by the (UK) average percentage advance for first-time buyers.

Example:

Lower quartile house price for Southampton in 2006/07 = £124,000

UK average percentage advance for first-time buyers in 2006/07 = 90%

Size of loan for Southampton = £111,600

The lower quartile house price is used to reflect the assumption that first-time buyers enter the lower end of the housing market. Source: CLG/Land Registry.

The average percentage advance for first-time buyers is the unweighted 12-month average of percentage advance medians for UK given in CML Statistics, First-time buyers, lending and affordability, Table ML2 (Council of Mortgage Lenders website at [www.cml.org.uk](http://www.cml.org.uk)). The definition of 'first-time buyer' is based on the applicant's last tenure and covers any type of tenure other than owner-occupier.

#### Weekly repayment of loan

The weekly cost of repaying the loan is based on a repayment mortgage (covering interest and capital) spread over 25 years.

The rate of interest used (6.46%) is the unweighted four-quarter average of CML, 'Building society & bank basic mortgage rate'.

Thus, the annual repayment on a loan of £111,600 is £9,115.30 i.e. the weekly equivalent is £175.29.

This figure provides a guideline only: an owner-occupier has to bear other costs, such as repairs and renovations, and the risk of property prices falling. On the other hand, as the loan is repaid the owner-occupier gains an asset and, if house prices rise, makes a capital gain.

This particular rate of interest was selected because it is derived from data for both building societies and banks. However, there are other interest rates that could have been used, for example, the building society average mortgage rate (e.g. CML, 'Building society average mortgage rate'). This is important to note because the weekly repayment is sensitive to changes in the rate of interest. If the average building society rate (5.17%) is used then the weekly repayment on a loan of £111,600 would be £154.88, a difference of £20.41 per week.



Buildings insurance premium

The average premium across all regions and for all property sizes is £205.72 per annum – the unweighted average of four quarters ending in April 2006, according to the AA building premium index. Therefore, the weekly cost included in the weekly cost of owner-occupation is £3.96. This is likely to be a slight over estimate because of the size of property purchased by first time buyers.

Mortgage payment protection insurance (MPPI)

This cost has been included in the calculation to cover the costs of the mortgage repayment in the event of loss of earnings arising from accident, sickness or unemployment. An owner-occupier does not have entitlement to Housing Benefit, as an LA or HA tenant would, nor is income support for mortgage interest (ISMI) payable straightaway. To achieve a reasonable safety net to cover mortgage costs the insurance premium included in the calculation (based on twelve months' benefit) is £5.15 per £100 of monthly mortgage payment at the end of 2005, according to CML Statistics, First-time buyers, lending and affordability, Table PPI3. Thus, on a weekly repayment of £175.29 the MPPI premium is £9.03.

Imputed lost interest on the deposit

The average size of the deposit is 10% (derived from the average percentage advance of 90%). If the money used as the deposit for house purchase had been lodged in a savings account instead, then it would have accrued interest. The loss of interest is thus included as a cost in the calculation. The rate of interest used (4.17%) is the unweighted four-quarter average of CML, 'Building society gross savings rate'. It is assumed that interest is paid net of the basic rate of income tax of 22%.

Example:

Lower quartile house price for Southampton in 2006/07 = £124,000

Average percentage deposit for first-time buyers in 2006/07 = 10%

Average size of deposit for Southampton = £12,400

Weekly loss of interest (net of income tax) on the deposit (3.25%) = £7.75

**Total weekly costs**

Using Southampton as an example, the average weekly costs of owner-occupation are:

Repayment of loan	<u>£175.29</u>
Building insurance	<u>£ 3.96</u>
Mortgage payment protection insurance	<u>£ 9.03</u>
Loss of interest on the deposit	<u>£ 7.75</u>
<b>Total</b>	<b><u>£196.03</u></b>

Note: Detailed breakdowns by property size of the tables, graphs and maps in this report are available from Dataspring on request.