

Cross Tenure Rents and Affordability, 2008/09 Update



Cross Tenure Rents and Affordability, 2008/09 Update

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Summary

1. Objectives

This paper provides an update to the analyses provided in *Cross Tenure Rents and Affordability, 2007/08 Update*¹ 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 (VOA) Rent Officer Statistics². Regional and national private rents for 2008/09 were imputations based on two bedroom Hometrack³ 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 (LQ) 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
- 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

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

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

³ Hometrack is a private provider of housing data

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 Housing Benefit (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.

1. Introduction

This paper looks at the regional pattern of rents over the period 2002/03 to 2008/09 in the local authority, housing association, private rented and owner occupier 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. Housing Association rents - comparison of CORE and RSR

Table 1: CORE / RSR comparison 2008/09

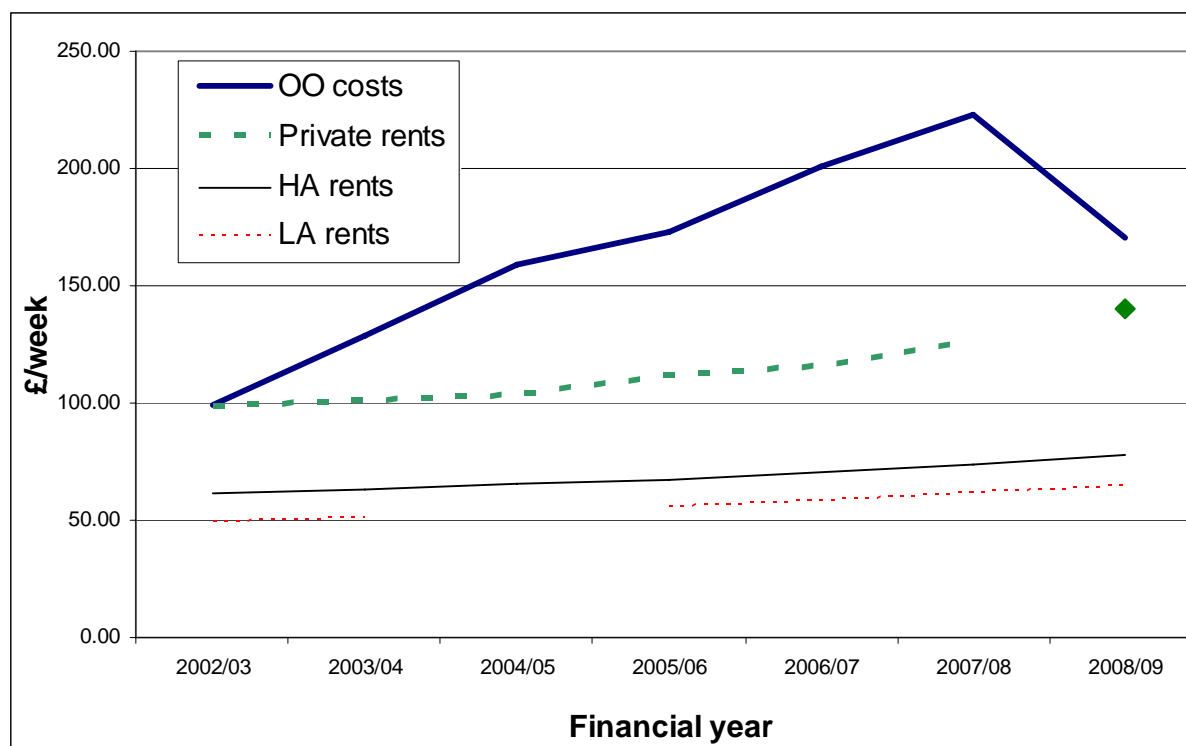
Region	RSR		CORE						Differential (RSR/CORE)
	HA-all stock (RSR)		HA-new lettings		HA-relettings		HA-all lets		
	gross rent	N	gross rent	n	gross rent	n	gross rent	n	
East Midlands	£69.05	84,937	£78.18	1,189	£69.85	4,464	£71.60	5,653	0.96
East of England	£77.80	179,484	£83.91	2,154	£77.68	5,761	£79.37	7,915	0.98
London	£95.45	267,530	£110.83	3,903	£95.78	6,885	£101.23	10,788	0.94
North East	£63.11	114,636	£73.28	907	£65.15	5,786	£66.26	6,693	0.95
North West	£66.29	336,880	£74.50	1,258	£68.28	10,190	£68.96	11,448	0.96
South East	£87.00	235,566	£94.06	3,236	£85.68	7,724	£88.16	10,960	0.99
South West	£75.16	141,149	£81.98	1,547	£74.81	4,077	£76.78	5,624	0.98
West Midlands	£70.10	187,276	£83.21	1,458	£72.03	9,756	£73.48	11,214	0.95
Yorkshire and the Humber	£63.91	140,714	£74.34	1,358	£65.64	8,998	£66.78	10,356	0.96
National average/total	£75.91	1,688,172	£89.35	17,010	£74.66	63,641	£77.76	80,651	0.98

Within the CORE general needs dataset housing association new lettings had the highest rents with relettings on average 16% lower. CORE relettings were comparable to the RSR all stock figures; with relet rents on average just 2% lower. This suggests that there is not a substantial issue with higher turnover rates among smaller or less desirable units. New lettings rents, which have a key part to play in tenant choice between tenures, are generally higher than both relettings and the average for current tenants.

For the purposes of cross tenure comparison this paper uses CORE general needs housing association all lets rents, which include new lettings and relettings. The alternative all stock rents from the RSR provide a census of housing association rent levels as at 31 March of a given year and include all tenancies whether tenants have moved or not. This is not comparable with data from the private sector. Because the CORE data are based on flow of housing association tenancies they provide a more appropriate comparison against the private sector and a better measure of current choice within the rental sector.

3. Cross Tenure Rents, National level

Figure 1: National average rents by tenure (2002/03 to 2008/09)⁴



At the national level, the most striking development over the seven years has been the massive rise and then recent fall in the user cost of owner occupation. Where costs of owner occupation were almost identical to the cost of private renting in 2002/03 by 2007/08 average costs of owner occupation had increased rapidly to be 77% above average private rents. This was largely down to rapid increases in house prices, the effects of which had comparatively very little impact on the other three tenures. In the latest year the picture has changed somewhat, with average user costs of owner occupation contracting in line with reduced house prices and interest rates. Private rents have continued to rise, resulting in a marked narrowing of the gap between the OO costs and private rents.

Average private rents have continued to move away from social sector rents. Private rents were 61% higher than housing association rents in 2002/03 and this had increased to 80% by 2008/09. A similar increase was seen when compared against local authority rents (99% in 2002/03 rising to 117% by 2008/09).

Housing association rents were 24% above local authority rents in 2002/03. This had reduced to 21% by 2008/09, showing some signs of convergence.

⁴ From 2007/08 OO costs were calculated using quarterly lower quartiles, whereas in previous years the financial year lower quartile was used. This may lead to a slight inflation of the OO costs. 2008/09 private rents are imputed based on historic data from VOA and 2008/09 Hometrack LQ rents.

4. Cross Tenure Rents, by region

4.1. Housing association (HA) rents

HA rents data were taken from CORE and are average general needs rents for all assured lets (new lets and re-lets), excluding sheltered housing. CORE is a summary of the flow over the period 1st April to 31st March of each year.

Table 2: HA rents by region (CORE)

Region	2002/03	2007/08	2008/09	Increase (2002/03 to 2007/08)	Increase (2002/03 to 2008/09)	Increase (2007/08 to 2008/09)
East Midlands	£56.72	£67.96	£71.60	19.8%	26.2%	5.4%
Eastern	£62.45	£74.38	£79.37	19.1%	27.1%	6.7%
London	£73.57	£94.49	£101.23	28.4%	37.6%	7.1%
North East	£52.17	£62.62	£66.26	20.0%	27.0%	5.8%
North West	£55.69	£66.40	£68.96	19.2%	23.8%	3.9%
South East	£69.99	£83.19	£88.16	18.9%	26.0%	6.0%
South West	£62.03	£72.99	£76.78	17.7%	23.8%	5.2%
West Midlands	£57.20	£68.65	£73.48	20.0%	28.5%	7.0%
Yorkshire and the Humber	£56.30	£63.12	£66.78	12.1%	18.6%	5.8%
ENGLAND	£61.36	£73.57	£77.76	19.9%	26.7%	5.7%

The average HA rent in England was £61.36 in 2002/03, increasing by 19.9% up to 2007/08 and a further 5.7% to £77.76 by 2008/09. Therefore, the increase over the seven years (26.7%) was above the level of inflation (20.4%⁵ - ONS, 2010).

At the regional level, the highest HA rents were found in London for all years (£73.57 in 2002/03, £94.49 in 2007/08 and £101.23 in 2008/09), with the lowest in the North East (£52.17 in 2002/03, £62.62 in 2007/08 and £66.26 in 2008/09). There was a clear north-south divide in all years, with higher rents concentrated in the south. The South West stands out as having one of the smallest increases resulting in below average rents by 2008/09.

The largest increase over the seven years was found in London (37.6%), compounding already comparatively high rents. The second highest increase was found in the West Midlands (28.5%). The lowest increase was found in Yorkshire and the Humber (18.6%). The average increase in England was 26.7%.

At the local authority level (see Annex Two, Fig. 2.1), the highest HA rents were found in the south of England in 2008/09, concentrated particularly around London. The lowest rents were found in the North East, the Midlands and some parts of the South West and Eastern regions.

⁵ Inflation rates used in this paper are taken from the Retail Price Index, all items (percentage changes over 12 months to April). Office for National Statistics, Table RP04, available at: <http://www.statistics.gov.uk/StatBase/Product.asp?vlnk=9413>, ONS, Newport. Inflation over the reporting period has been reduced by a negative value for the most recent year (April 2009: -1.2%)

4.2. Local authority (LA) rents

Two different sources were used for LA rents:

- (1) LA rents derived by the Department for the Communities and Local Government (CLG) from the returns made annually in the Second Housing Subsidy and Grant form that provide estimated rents (made by each local authority) for the period 1 April to 31 March.
- (2) CORE LA rents data are average rents for general needs starter tenancies, excluding sheltered housing. LA CORE is a summary of the flow over the period 1st April to 31st March.

Table 3: LA rents by region (CLG)

Region	2002/03	2007/08	2008/09	Increase (2002/03 to 2007/08)	Increase (2002/03 to 2008/09)	Increase (2007/08 to 2008/09)
East Midlands	£43.51	£53.99	£56.02	24.1%	28.8%	3.8%
Eastern	£51.37	£64.20	£67.04	25.0%	30.5%	4.4%
London	£63.66	£76.32	£79.72	19.9%	25.2%	4.5%
North East	£41.18	£50.52	£53.78	22.7%	30.6%	6.5%
North West	£45.49	£53.03	£56.58	16.6%	24.4%	6.7%
South East	£55.67	£67.69	£71.01	21.6%	27.6%	4.9%
South West	£47.65	£56.35	£59.73	18.3%	25.4%	6.0%
West Midlands	£44.90	£57.32	£60.58	27.7%	34.9%	5.7%
Yorkshire and the Humber	£40.93	£50.87	£53.85	24.3%	31.6%	5.9%
ENGLAND	£49.48	£61.20	£64.38	23.7%	30.1%	5.2%

The average LA rent in England was £49.48 in 2002/03, increasing by 23.7% up to 2007/08 and a further 5.2% to £64.38 by 2008/09. At the regional level, the highest LA rents were found in London for all years (£63.66 in 2002/03, £76.32 in 2007/08 and £79.72 in 2008/09), with the lowest in the North East and Yorkshire and the Humber. There was a clear north-south divide in all years, with higher rents concentrated in the south. The South West stands out as having below average rents in all years; well below the levels found in other southern regions.

The largest increase over the seven years was found in the West Midlands (34.9%). The second highest increase was found in Yorkshire and the Humber (31.6%). The lowest increases were found in the North West (24.4%) and London (25.2%). The average increase in England was 30.1%; considerably more than the level of inflation (20.4%).

At the local authority level (see Annex Two, Fig. 2.2), the highest LA rents were found in the south of England in 2008/09, concentrated particularly around London. The lowest rents were mainly found in the north and midlands.

Table 4: LA rents by region (LA CORE)

Region	2007/08	2008/09	Increase
East Midlands	£52.96	£55.23	4.3%
Eastern	£62.40	£66.88	7.2%
London	£78.51	£82.24	4.8%
North East	£49.71	£52.45	5.5%
North West	£52.54	£55.12	4.9%
South East	£63.44	£67.82	6.9%
South West	£54.66	£57.88	5.9%
West Midlands	£55.78	£59.82	7.2%
Yorkshire and the Humber	£50.73	£54.69	7.8%
ENGLAND	£55.10	£58.97	7.0%

Based on LA CORE, the average LA rent in England was £55.10 in 2007/08, increasing by 7.0% to £58.97 by 2008/09. At the regional level, by far the highest LA rents were found in London in 2007/08 and 2008/09, with the lowest in the North East in both years.

The largest annual increase was found in Yorkshire and the Humber (7.8%). The joint second highest increases were found in the Eastern region and West Midlands (7.2%). The lowest increases were found in the East Midlands (4.3%) and London (4.8%). The average increase in England was 7.0%.

The LA rents from LA CORE were similar to the estimated rents from CLG, but generally a bit lower. Where the LA CORE national average was £58.97 in 2008/09 the CLG estimate was 9% higher at £64.38.

4.3. Local Authority compared to Housing Association rents

Table 5: Average CLG LA rents / average HA CORE rents, by region

Region	2002/03	2007/08	2008/09
East Midlands	0.77	0.79	0.78
Eastern	0.82	0.86	0.84
London	0.87	0.81	0.79
North East	0.79	0.81	0.81
North West	0.82	0.80	0.82
South East	0.80	0.81	0.81
South West	0.77	0.77	0.78
West Midlands	0.78	0.83	0.82
Yorkshire and the Humber	0.73	0.81	0.81
ENGLAND	0.81	0.83	0.83

Average CLG LA rents were 0.81 of average HA rents in 2002/03. This had increased by 2007/08 to 0.83, with no further increase in 2008/09. This shows gradual progression towards rent convergence.

In 2002/03 Yorkshire and the Humber, East Midlands and South West had the largest differentials between average HA and LA rents, with London, Eastern and the North West at the other end of the scale with the smallest differentials between average HA and LA rents. By 2007/08, South West, East Midlands and North West had the largest differentials, with again Eastern, West Midlands and South East at the other end of the scale with the smallest differentials between average LA and HA rents. By 2008/09, South West, East Midlands and London had the largest differentials, with Eastern, West Midlands and North West at the other end of the scale with the smallest differentials between average LA and HA rents.

The largest changes over the seven years were seen in Yorkshire and the Humber (0.73 to 0.81) and West Midlands (0.78 to 0.82). London was the only region to experience a marked divergence in HA and LA rents (0.87 to 0.79).

4.4. Private rents

Private rents up to 2007/08 were taken from the Valuation Office Agency Rent Officer Statistics which give private rent determinations for lettings of unfurnished and furnished assured shorthold tenancies and secure tenancies for HB purposes. 2008/09 private rents are imputations based on 2 bedroom Hometrack lower quartile rents along with rent and stock relativities from VOA 2007/08 data. Hometrack private rents include all service charges irrespective of HB eligibility and this could lead to a slight inflation of rent levels for 2008/09.

Table 6: Private rents by region (Valuation Office Agency and Hometrack)

Region	2002/03	2007/08	2008/09	Increase (2002/03 to 2007/08)	Increase (2002/03 to 2008/09)
East Midlands	£75.07	£97.97	£104.13	30.5%	38.7%
Eastern	£93.78	£126.51	£126.64	34.9%	35.0%
London	£154.26	£194.10	£221.89	25.8%	43.8%
North East	£76.07	£90.25	£100.85	18.6%	32.6%
North West	£78.63	£96.08	£110.67	22.2%	40.7%
South East	£109.21	£134.70	£147.32	23.3%	34.9%
South West	£95.72	£116.68	£126.94	21.9%	32.6%
West Midlands	£82.47	£104.54	£112.73	26.8%	36.7%
Yorkshire and the Humber	£82.89	£90.44	£109.92	9.1%	32.6%
ENGLAND	£98.58	£125.90	£139.80	27.7%	41.8%

The average private rent in England was £98.58 in 2002/03, increasing by 27.7% up to 2007/08 and a further 11% to £139.80 by 2008/09. At the regional level, 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. There was a clear north-south divide in all years, with higher rents concentrated in the south.

The largest increase over the seven years was found in London (43.8%). The second highest increase was found in the North West (40.7%). The lowest increases were found in the North East, South West and Yorkshire and the Humber (all 32.6%). The average increase in England was 41.8% compared to inflation at 20.4%.

At the local authority level⁶ (see Annex Two, Fig. 2.3), the highest private rents were found in and around London. There was a clear north-south divide that had intensified by 2008/09. Over the seven years private rent levels had become more clearly dominated by proximity to London with only a few exceptions.

Figure 2.13 (Annex Two) shows the local pattern of average private rents compared to average CORE HA rents. Again, there was a clear north-south divide with larger differences between average HA and private rents in London and surrounding areas; where average HA rents were as low as a third of average private rents. Average HA and private rents were most similar in the midlands.

4.5. Equivalent cost of owner occupation

The equivalent costs of owner occupation are calculated by Dataspring using data from CLG/Land Registry, the Council of Mortgage Lenders, the Association of British Insurers, HM Revenue and Customs, the Bank of England and the AA Building Premium Index. Because the calculation uses full house prices the costs generated are most relevant to new entrants into owner occupation.

Table 7: Equivalent cost of owner occupation⁷ by region (Dataspring)

Region	2002/03	2007/08	2008/09	Increase (2002/03 to 2007/08)	Increase (2002/03 to 2008/09)	Increase (2007/08 to 2008/09)
East Midlands	£84.82	£199.18	£147.51	134.8%	73.9%	-25.9%
Eastern	£123.20	£257.43	£194.15	109.0%	57.6%	-24.6%
London	£184.90	£365.35	£287.25	97.6%	55.4%	-21.4%
North East	£52.42	£156.20	£120.72	198.0%	130.3%	-22.7%
North West	£60.21	£174.15	£132.70	189.2%	120.4%	-23.8%
South East	£151.13	£290.57	£221.49	92.3%	46.6%	-23.8%
South West	£123.20	£262.98	£196.85	113.5%	59.8%	-25.1%
West Midlands	£87.48	£199.38	£150.94	127.9%	72.5%	-24.3%
Yorkshire and the Humber	£62.16	£180.51	£134.61	190.4%	116.6%	-25.4%
ENGLAND	£99.50	£223.34	£170.44	124.5%	71.3%	-23.7%

The average equivalent user cost of owner occupation (OO cost) in England was £99.50 in 2002/03, increasing by a massive 124.5% up to 2007/08 and then decreasing by 23.7% to £170.44 by 2008/09. Despite the recent fall in house prices and associated costs, the increase from 2002/03 to 2008/09 is still substantial

⁶ A slightly different methodology is used for LA level private rents – they are weighted average lower quartiles without any imputation

⁷ From 2007/08 OO costs were calculated using quarterly lower quartiles, whereas in previous years the financial year lower quartile was used. This may lead to a slight inflation of the 2007/08 and 2008/09 OO costs. These estimates reflect actual average outgoings. They do not relate to the traditional economists user cost which includes capital gains.

(71.3%). Owner occupation costs which on average were very close to private rents in 2002/03 had pulled completely away and by 2007/08, were 77% higher. By 2008/09 this differential had decreased to 23%.

At the regional level, by far the highest OO costs were found in London for all years (£184.90 in 2002/03, £365.35 in 2007/08 and £287.25 in 2008/09), with the lowest in the North East (£52.42 in 2002/03, £156.20 in 2007/08 and £120.72 in 2008/09). There was a clear north-south divide in all years, with higher OO costs concentrated in the south.

The largest increase over the seven years was found in the North East (130.3%), with the second highest increase in the North West (120.4%). The lowest increase was found in the South East (46.6%). The average increase in England was 71.3%; over 3 times the level of inflation (20.4%).

The pattern of OO cost increases at the regional level, with no southern regions in the top five, has resulted in a slight narrowing of the north-south divide. However, recent decreases indicate a slight reversal of this trend – e.g. the biggest 2007/08 to 2008/09 decreases were found in the East Midlands (25.9%) and Yorkshire and the Humber (25.4%).

At the local authority level (see Annex Two, Fig. 2.4), the highest OO costs were found in and around London in 2008/09, with the lowest levels found in the north and midlands.

5. Average regional rents by tenure (2002/03 to 2008/09)

Table 8: Average rents for London compared to the rest of England

Financial year	LA rents		HA rents		Private rents ⁸		OO costs	
	London	Rest of England	London	Rest of England	London	Rest of England	London	Rest of England
2002/03	£63.66	£45.98	£73.57	£59.46	£154.26	£88.20	£184.90	£100.71
2003/04	£64.54	£47.57	£77.58	£60.62	£161.39	£89.55	£223.41	£129.84
2004/05	n/a	n/a	£81.46	£62.88	£168.10	£91.03	£263.88	£155.86
2005/06	£69.78	£51.48	£85.96	£64.87	£172.47	£98.37	£278.23	£169.28
2006/07	£72.85	£53.68	£89.58	£67.42	£178.87	£102.06	£305.44	£198.67
2007/08	£76.32	£56.66	£94.49	£70.45	£194.10	£109.92	£365.35	£225.47
2008/09	£79.72	£59.65	£101.23	£74.14	£221.89	£120.58	£287.25	£170.91

Table 8 shows the disparity between London and the rest of England when it comes to average rents in the different tenures. Throughout the seven year period and in each of the tenures rent levels in London were considerably higher than those in the rest of the country.

Across the seven years the differential between LA rents had reduced slightly from 38% in 2002/03 to 34% in 2008/09. Whereas, in the HA sector the differential

⁸ Up to 2007/08 VOA referred rents are used. 2008/09 private rents are imputations based on 2008/09 2 bedroom Hometrack rent data and rent/stock relativities from VOA 2007/08 data.

increased markedly from 24% to 37%, indicating that HA rents have risen faster in London than in the rest of the country.

In the private sector the differential between rents had increased from 75% in 2002/03 to 84% by 2008/09. Whereas, the OO cost differential had decreased considerably from 84% in 2002/03 to 68% by 2008/09, showing that London OO costs had increased at a slower rate when compared with the rest of the country.

For a more detailed analysis of regional average rents please see Annex one.

6. Incomes and Earnings

To assess affordability across the rental sectors it is necessary to compare rents against various measures of tenant income. In the case of the social sector LA and HA CORE provide appropriate measures for tenant incomes. Lower end private sector rents and user costs of owner occupation can be usefully compared to lower quartile earnings from the Annual Survey of Hours and Earnings (ASHE).

Incomes data from HA CORE are average general needs net weekly household incomes. CORE is a summary of flow over the period 1st April to 31st March. Incomes relate only to tenants in new let and relet tenancies in the HA sector and excludes sheltered and warden assisted units.

Two income measures were used in this analysis: one measuring income before Housing Benefit (HB) and one measuring income plus HB.

Table 9: HA CORE Incomes, by region

Region	2002/03	2007/08	2008/09	Increase (2002/03 to 2007/08)	Increase (2002/03 to 2008/09)	Increase (2007/08 to 2008/09)
East Midlands	£158.70	£198.03	£206.89	24.8%	30.4%	4.5%
Eastern	£180.37	£215.76	£218.43	19.6%	21.1%	1.2%
London	£168.13	£189.69	£207.59	12.8%	23.5%	9.4%
North East	£149.12	£187.69	£201.67	25.9%	35.2%	7.4%
North West	£153.18	£186.88	£193.03	22.0%	26.0%	3.3%
South East	£189.47	£217.51	£229.40	14.8%	21.1%	5.5%
South West	£173.51	£214.39	£221.31	23.6%	27.5%	3.2%
West Midlands	£157.05	£188.66	£191.36	20.1%	21.8%	1.4%
Yorkshire and the Humber	£159.16	£189.58	£196.41	19.1%	23.4%	3.6%
ENGLAND	£165.38	£197.62	£205.92	19.5%	24.5%	4.2%

Table 10: HA CORE Incomes + HB, by region

Region	2002/03	2007/08	2008/09	Increase (2002/03 to 2007/08)	Increase (2002/03 to 2008/09)	Increase (2007/08 to 2008/09)
East Midlands	£188.66	£235.20	£245.74	24.7%	30.3%	4.5%
Eastern	£209.78	£252.93	£258.88	20.6%	23.4%	2.4%
London	£212.68	£251.03	£272.08	18.0%	27.9%	8.4%
North East	£174.92	£217.88	£232.72	24.6%	33.0%	6.8%
North West	£181.11	£220.35	£228.35	21.7%	26.1%	3.6%
South East	£222.70	£261.26	£275.47	17.3%	23.7%	5.4%
South West	£203.09	£250.77	£259.90	23.5%	28.0%	3.6%
West Midlands	£187.38	£226.33	£232.11	20.8%	23.9%	2.6%
Yorkshire and the Humber	£187.54	£220.32	£229.81	17.5%	22.5%	4.3%
ENGLAND	£196.78	£236.60	£247.36	20.2%	25.7%	4.5%

The highest incomes were found in the South East for all years including and excluding HB. London had the second highest income in 2008/09 when HB was included. The lowest incomes were found in the North West, Yorkshire and the Humber and West Midlands. For all years there was a very clear north-south divide, with the highest incomes concentrated in the south.

The largest percentage increases over the seven years were found in the North East and East Midlands. The South East and Eastern regions had the lowest increase for incomes excluding HB (21.1%). London, which had a relatively low regional increase to 2007/08, had by far the largest increase between 2007/08 and 2008/09 (9.4% for incomes without HB). The national average was 24.5% (or 25.7% with HB) compared to inflation at 20.4%.

At the local authority level (see Annex Two, Figs. 2.5 and 2.6), the highest incomes were found in the south of England in 2008/09, concentrated particularly around London and the South East. Comparison of the map including HB (Annex Two, Fig. 2.6) against the map excluding HB (Annex Two, Fig. 2.5) shows how HB counteracts low incomes in London.

LA CORE Incomes data are average net weekly household incomes for general needs tenancies. LA CORE is a summary of flow over the period 1st April to 31st March.

Two income measures were used in this analysis: one measuring income before Housing Benefit (HB) and one measuring income plus HB.

Table 11: LA CORE Incomes, by region

Region	2007/08	2008/09	Increase
East Midlands	£175.42	£176.25	0.47%
Eastern	£184.85	£189.89	2.73%
London	£178.08	£181.87	2.13%
North East	£177.73	£178.41	0.38%
North West	£171.70	£176.27	2.66%
South East	£206.99	£208.95	0.95%
South West	£181.33	£188.96	4.21%
West Midlands	£177.05	£185.57	4.81%
Yorkshire and the Humber	£172.23	£170.01	-1.29%
ENGLAND	£179.66	£181.13	0.82%

Table 12: LA CORE Incomes + HB, by region

Region	2007/08	2008/09	Increase
East Midlands	£204.53	£207.69	1.54%
Eastern	£220.05	£226.88	3.10%
London	£227.83	£235.98	3.58%
North East	£202.52	£204.73	1.09%
North West	£200.07	£206.37	3.15%
South East	£241.89	£245.54	1.51%
South West	£211.33	£219.85	4.03%
West Midlands	£206.59	£218.06	5.55%
Yorkshire and the Humber	£199.97	£202.24	1.14%
ENGLAND	£210.68	£214.88	1.99%

The highest incomes were found in the South East for both years including and excluding HB. London had the second highest incomes in 2008/09 when HB was included. The lowest incomes were found in Yorkshire and the Humber.

The largest annual percentage increase was found in the West Midlands. Yorkshire and the Humber had by far the lowest increases (or rather a small decrease for incomes without HB).

Table 13: Average LA CORE incomes / average HA CORE incomes, by region

Region	2007/08	2008/09
East Midlands	0.89	0.85
Eastern	0.86	0.87
London	0.94	0.88
North East	0.95	0.88
North West	0.92	0.91
South East	0.95	0.91
South West	0.85	0.85
West Midlands	0.94	0.97
Yorkshire and the Humber	0.91	0.87
ENGLAND	0.91	0.88

Table 14: Average LA CORE incomes +HB / average HA CORE incomes +HB, by region

Region	2007/08	2008/09
East Midlands	0.87	0.85
Eastern	0.87	0.88
London	0.91	0.87
North East	0.93	0.88
North West	0.91	0.90
South East	0.93	0.89
South West	0.84	0.85
West Midlands	0.91	0.94
Yorkshire and the Humber	0.91	0.88
ENGLAND	0.89	0.87

In 2007/08 LA incomes were 91% of HA incomes. By 2008/09 this had reduced to 88%. Including housing benefit LA incomes were 89% of HA incomes in 2007/08, reducing to 87% in 2008/09.

Whereas most regions slightly widened the gap between LA and HA incomes, the West Midlands stood out as the only region to narrow the gap by more than 1% (increasing by 3 percentage points for both measures, to 97% and 94% including HB).

Lower quartile earnings data were taken from the Annual Survey of Hours and Earnings (ASHE), which is a 1% sample of employees in the HM Revenue & Customs PAYE records as at April⁹, providing information about the levels, distribution and make-up of earnings and hours worked for employees within industries, occupations and regions. The data used in this analysis are based on place of residence.

Table 15: ASHE lower quartile earnings, by region

Region	2002/03	2007/08	2008/09	Increase (2002/03 to 2007/08)	Increase (2002/03 to 2008/09)	Increase (2007/08 to 2008/09)
East Midlands	£190.00	£219.80	£230.10	15.7%	21.1%	4.7%
Eastern	£201.50	£230.00	£239.60	14.1%	18.9%	4.2%
London	£265.80	£302.40	£308.00	13.8%	15.9%	1.9%
North East	£175.90	£218.00	£225.60	23.9%	28.3%	3.5%
North West	£191.10	£225.10	£230.20	17.8%	20.5%	2.3%
South East	£224.20	£245.70	£250.00	9.6%	11.5%	1.8%
South West	£180.10	£217.30	£226.10	20.7%	25.5%	4.0%
West Midlands	£191.90	£222.70	£229.50	16.1%	19.6%	3.1%
Yorkshire and the Humber	£184.00	£220.10	£224.90	19.6%	22.2%	2.2%
ENGLAND	£201.30	£233.80	£240.70	16.1%	19.6%	3.0%

⁹ Data in this analysis are taken from the 2002, 2007 and 2008 ASHE datasets

The average weekly earnings in England were £201.30 in 2002/03, increasing by 16.1% up to 2007/08 and a further 3.0% to £240.70 by 2008/09. At the regional level, by far the highest earnings were found in London for all years (£265.80 in 2002/03, £302.40 in 2007/08 and £308.00 in 2008/09), with the lowest in the North East in 2002/03, the South West in 2007/08 and Yorkshire and the Humber in 2008/09. There was a clear north-south divide in all years, with higher earnings concentrated in the south.

The largest increase over the seven years was found in the North East (28.3%), with the second highest increase in the South West (25.5%). The lowest increase was found in the South East (11.5%), with London second lowest (15.9%). The average increase in England was 19.6%; just below inflation at 20.4%.

The pattern of earnings increases at the regional level, with only one southern region in the top five, has resulted in a slight narrowing of the north-south divide but the hierarchy of earnings remained very consistent.

At the local authority level (see Annex Two, Fig. 2.7), in 2008/09 the highest earnings were to be found mostly in and around London and in some central areas. The lowest earnings were mostly concentrated in coastal areas.

7. Affordability

7.1. Affordability of HA rents

Table 16: HA rent / HA income, by region (CORE)

Region	2002/03	2007/08	2008/09
East Midlands	0.36	0.34	0.35
Eastern	0.35	0.34	0.36
London	0.44	0.50	0.49
North East	0.35	0.33	0.33
North West	0.36	0.36	0.36
South East	0.37	0.38	0.38
South West	0.36	0.34	0.35
West Midlands	0.36	0.36	0.38
Yorkshire and the Humber	0.35	0.33	0.34
ENGLAND	0.37	0.37	0.38

Table 17: HA rent / HA income + HB, by region (CORE)

Region	2002/03	2007/08	2008/09
East Midlands	0.30	0.29	0.29
Eastern	0.30	0.29	0.31
London	0.35	0.38	0.37
North East	0.30	0.29	0.28
North West	0.31	0.30	0.30
South East	0.31	0.32	0.32
South West	0.31	0.29	0.30
West Midlands	0.31	0.30	0.32
Yorkshire and the Humber	0.30	0.29	0.29
ENGLAND	0.31	0.31	0.31

London was least affordable for all years including and excluding HB, with the South East consistently in second place. Excluding London, the differences in affordability between the other regions seem to be quite minor. However while the national ratio was fairly static over the seven years, both with and without HB, the ratio was increasing slightly in four regions; three of which were in the south (Eastern, London, South East and West Midlands). Therefore, in general, HA entrant's incomes rose slightly slower than rents in the south and slightly faster in the rest of the country.

At the local authority level (see Annex Two, Figs. 2.8 and 2.9), in 2008/09 the highest ratios were found in and around London and some southern coastal areas. The lowest ratios were quite evenly spread, although with very few local authorities in and around London in the lowest quartile.

What is clear and unsurprising is that HB improves affordability in all years by a considerable amount, but again has the greatest effect in London. Without HB new entrants would have been paying consistently well over 40% of their incomes in rent

(49% in 2008/09) whilst with HB that falls to 37%. HB is taking the strain of both higher rents and higher increases.

Table 18: CORE HA rent / LQ ASHE earnings, by region

Region	2002/03	2007/08	2008/09
East Midlands	0.30	0.31	0.31
Eastern	0.31	0.32	0.33
London	0.28	0.31	0.33
North East	0.30	0.29	0.29
North West	0.29	0.29	0.30
South East	0.31	0.34	0.35
South West	0.34	0.34	0.34
West Midlands	0.30	0.31	0.32
Yorkshire and the Humber	0.31	0.29	0.30
ENGLAND	0.30	0.31	0.32

Comparing HA rents with lower quartile earnings the overall picture is rather similar to HA tenant incomes including HB. However, for six out of nine regions HA rents were less affordable when compared to LQ earnings.

London was the most affordable in 2002/03 but had become the third least affordable by 2008/09; because of the relatively low increases in earnings in lower paid employment. The national ratio increased by two percentage points over the seven years, making HA rents slightly less affordable by 2008/09.

The regional level ratios show a clear north-south divide for all years, with London making the picture even stronger in 2007/08 and 2008/09.

It is important to reiterate that on average affordability ratios are very similar between the incomes of those entering the HA sector and those on lower quartile earnings. Where they differ is in London and to a lesser extent the rest of the South reflecting the extent to which the sector caters for much lower income households.

At the local authority level (see Annex Two, Fig. 2.10), the pattern for 2008/09 was quite dispersed with a slight tendency for lower ratios to be focused in central areas while higher ratios were found in mostly southern coastal areas. Over the seven years, London became less affordable, with some of the higher ratios found in outer London by 2008/09. This pattern reflects higher incomes in central areas as well as commuting and retirement patterns.

7.2. Affordability of LA rents

Table 19: LA rent / LA Incomes, by region (LA CORE)

Region	2007/08	2008/09
East Midlands	0.30	0.31
Eastern	0.34	0.35
London	0.44	0.45
North East	0.28	0.29
North West	0.31	0.31
South East	0.31	0.32
South West	0.30	0.31
West Midlands	0.32	0.32
Yorkshire and the Humber	0.29	0.32
ENGLAND	0.31	0.33

Table 20: LA rent / LA Incomes + HB, by region (LA CORE)

Region	2007/08	2008/09
East Midlands	0.26	0.27
Eastern	0.28	0.29
London	0.34	0.35
North East	0.25	0.26
North West	0.26	0.27
South East	0.26	0.28
South West	0.26	0.26
West Midlands	0.27	0.27
Yorkshire and the Humber	0.25	0.27
ENGLAND	0.26	0.27

Comparison of average LA rents against average LA incomes reveals a fairly flat distribution in all regions other than London. London was by far the least affordable for both years including and excluding HB; although the ratio including HB was much improved. Other than London, the Eastern region was slightly less affordable than the remaining regions.

At the national level both measures had small increases across the two years with rents rising by 2 percentage points to 33% of incomes, or a 1 percentage point rise to 27% when HB was added to income.

With the worst levels of affordability in two southern regions there was a suggestion of a north-south divide.

Housing Benefit clearly improves the affordability of LA rents across the regions. Its impact is seen most clearly in London where it reduces rents from well over 40% of income to 35% in 2008/09.

Table 21: CORE LA rent / LQ ASHE earnings, by region

Region	2007/08	2008/09
East Midlands	0.24	0.24
Eastern	0.27	0.28
London	0.26	0.27
North East	0.23	0.23
North West	0.23	0.24
South East	0.26	0.27
South West	0.25	0.26
West Midlands	0.25	0.26
Yorkshire and the Humber	0.23	0.24
ENGLAND	0.24	0.25

The comparison of LA rents with lower quartile earnings reveals a fairly flat distribution. The Eastern region, London and the South East are the least affordable with the North East and Yorkshire and the Humber being the most affordable over the two years. The national ratio increased by one percentage point across the two years, making LA rents slightly less affordable by 2008/09.

The regional level ratios show a north-south divide for both years.

Unlike in the HA sector it is clear that affordability ratios are slightly different between the incomes of those entering the LA sector and those on lower quartile earnings. This reflects the lower level of incomes in the LA sector.

At the local authority level (see Annex Two, Fig. 2.11), there was evidence of a north-south in 2008/09 with the most affordable rents in the north and midlands and the least affordable in the south.

7.3. Social sector affordability comparison

Table 22: LA and HA rents, compared to CORE incomes

Region	2007/08		2008/09	
	LA	HA	LA	HA
East Midlands	0.30	0.34	0.31	0.35
Eastern	0.34	0.34	0.35	0.36
London	0.44	0.50	0.45	0.49
North East	0.28	0.33	0.29	0.33
North West	0.31	0.36	0.31	0.36
South East	0.31	0.38	0.32	0.38
South West	0.30	0.34	0.31	0.35
West Midlands	0.32	0.36	0.32	0.38
Yorkshire and the Humber	0.29	0.33	0.32	0.34
ENGLAND	0.31	0.37	0.33	0.38

Table 23: LA and HA rents, compared to CORE incomes including HB

Region	2007/08		2008/09	
	LA	HA	LA	HA
East Midlands	0.26	0.29	0.27	0.29
Eastern	0.28	0.29	0.29	0.31
London	0.34	0.38	0.35	0.37
North East	0.25	0.29	0.26	0.28
North West	0.26	0.30	0.27	0.30
South East	0.26	0.32	0.28	0.32
South West	0.26	0.29	0.26	0.30
West Midlands	0.27	0.30	0.27	0.32
Yorkshire and the Humber	0.25	0.29	0.27	0.29
ENGLAND	0.26	0.31	0.27	0.31

Affordability between the LA and HA sectors was fairly stable during 2007/08 and 2008/09 with LA rents consistently more affordable than HA rents. London stands out as having very high ratios for social sector rents before HB is added.

With some social rents accounting for far less than a third of social tenant incomes when HB is included, rent levels appear to be fairly affordable in all regions; with most difficulties in affordability concentrated in London.

Table 24: LA and HA rents, compared to LQ ASHE earnings

Region	2007/08		2008/09	
	LA	HA	LA	HA
East Midlands	0.24	0.31	0.24	0.31
Eastern	0.27	0.32	0.28	0.33
London	0.26	0.31	0.27	0.33
North East	0.23	0.29	0.23	0.29
North West	0.23	0.29	0.24	0.30
South East	0.26	0.34	0.27	0.35
South West	0.25	0.34	0.26	0.34
West Midlands	0.25	0.31	0.26	0.32
Yorkshire and the Humber	0.23	0.29	0.24	0.30
ENGLAND	0.24	0.31	0.25	0.32

LA rents were clearly more affordable than HA rents when compared to lower quartile earnings. It is clear that when compared to lower quartile earnings social sector rents are quite affordable, with LA rents in particular accounting for only a quarter of earnings.

7.5. Private rent affordability

Table 25: Private rent¹⁰ / LQ ASHE earnings, by region

Region	2002/03	2007/08	2008/09
East Midlands	0.40	0.45	0.45
Eastern	0.47	0.55	0.53
London	0.58	0.64	0.72
North East	0.43	0.41	0.45
North West	0.41	0.43	0.48
South East	0.49	0.55	0.59
South West	0.53	0.54	0.56
West Midlands	0.43	0.47	0.49
Yorkshire and the Humber	0.45	0.41	0.49
ENGLAND	0.49	0.54	0.58

In the private rented sector all affordability ratios based on lower quartile earnings were 40% and above reflecting major problems of affordability for private tenants who are just above the HB eligibility level or do not take up HB.

London was by far the least affordable for all years, followed by the surrounding regions. The most affordable areas were found in the north and midlands for both years, showing a strong north-south divide. The national ratio increased by nine percentage points over the seven years, making private rents even less affordable by 2008/09.

At the local authority level (see Annex Two, Fig. 2.12), there was a clear north-south divide that had strengthened by 2008/09. Areas in the least affordable quartile were mostly found in London, the South East and South West. Areas in the most affordable quartile were generally found in the north and midlands.

7.6. Equivalent user cost of owner occupation affordability

Table 26: OO cost / LQ ASHE earnings, by region

Region	2002/03	2007/08	2008/09
East Midlands	0.45	0.91	0.64
Eastern	0.61	1.12	0.81
London	0.70	1.21	0.93
North East	0.30	0.72	0.54
North West	0.32	0.77	0.58
South East	0.67	1.18	0.89
South West	0.68	1.21	0.87
West Midlands	0.46	0.90	0.66
Yorkshire and the Humber	0.34	0.82	0.60
ENGLAND	0.49	0.96	0.71

¹⁰ Private rents to 2007/08 are VOA referred rents. 2008/09 private rents are imputations using 2008/09 Hometrack lower quartiles and rent/stock relativities from 2007/08 VOA referred rents.

The position in the owner occupied sector reflects both the similarity in average affordability with the private rented sector in 2002/03 and substantial increases in costs between 2002/03 and 2008/09 (albeit slightly mitigated by falling house prices and costs in the latest year). The picture also reflects even stronger difficulties between the south and the rest of the country.

London was least affordable in 2002/03, followed by the surrounding regions. By 2007/08 London had become far less affordable, with housing costs at a massive 121% of lower quartile earnings. This level was matched in the South West with only slightly lower levels in the South East (118%) and the Eastern region (112%). However, by 2008/09 - following decreases in house prices and interest rates – London's ratio was still the highest but it had reduced to 93%. The second highest ratio was found in the South East (89%), with the South West and Eastern regions not far behind (87% and 81% respectively).

The most affordable areas were found in the north and midlands, which were far more affordable by 2008/09. The lowest ratio was found in the North East at just 54%, followed by the North West at 58%. Although reduced costs may have made owner occupation viable again in the north, it is clear that the high ratios in the south continue to be unsustainable.

At the regional level, the north-south divide was extremely strong for all years, with levels of affordability running in almost consistent order from the least affordable in the south to the most affordable in the north.

At the local authority level (see Annex Two, Fig. 2.14), there was a clear north-south divide in 2008/09 with high ratios concentrated in the south and low ratios in the north and midlands. Areas in the least affordable quartile were mostly found in London, the South East and South West. In the north, slightly breaking the overall pattern, there was an area of high ratios in Yorkshire and this had become stronger by 2008/09.

8. Conclusions

The overall picture suggests that the HA sector is generally far more affordable than private sector housing across the country. It also suggests that HB improves affordability in the HA sector to the extent that the ratio of HA rent to actual tenant income plus HB is often lower than the ratio of HA rent to private sector LQ earnings.

The most affordable rents are found in the LA sector, with rents only just over a quarter of tenant incomes once HB is included.

Lower quartile house prices increased at a higher rate than incomes and earnings over the seven years from 2002/03 to 2008/09 (over 60% compared to 20-26%). This had a marked effect on the affordability of owner occupation, which in the years before 2008/09 was completely out of line with the cost of the private rented sector. Falls in house prices and other associated costs in the most recent year have brought OO costs closer to the private rented sector (22% higher in 2008/09). On the other hand, social sector affordability remained fairly consistent while private rents were only moderately less affordable in 2008/09 suggesting that both are more closely correlated to trends in incomes and earnings than they are to house price fluctuations in the short term.

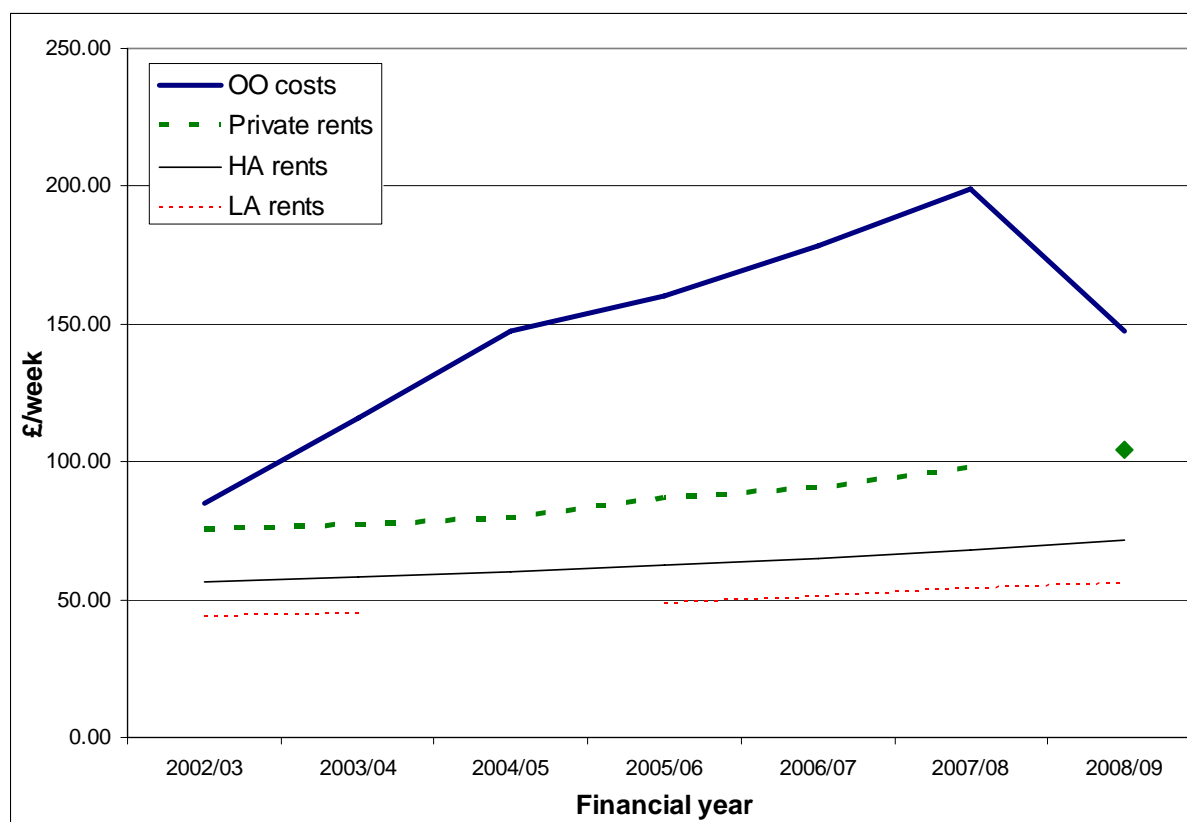
London stands out as particularly different with higher housing costs (Annex One, Fig. 1.3) compounded by rapidly increasing owner occupation costs (although substantially adjusted by recent trends). HA tenants appear to come from much further down the income scale. Moreover lower quartile earnings have risen more slowly than in the rest of the country, resulting in worsening affordability. London is also the only region to experience social rent divergence, with LA average rents falling from 87% of average HA rents in 2002/03 to 79% by 2008/09.

Overall HA incomes have risen in line with rents at the national level. At the regional level HA incomes have risen slightly more slowly than rents in the south with the reverse picture for the rest of the country. By 2008/09 Private rents had risen faster than earnings, especially in and around London, resulting in some worsening of affordability. But the major input on affordability has been confined to the lower end owner occupied sector which – despite a considerable decrease in costs - is unaffordable for lower income households in the south of England.

The most important changes over the seven year period relate to the rapid increases in house prices which have more than offset declining interest rates to leave owner occupation (OO costs) unaffordable to lower income earners in the south of England.

Annex One - Average regional rents by tenure¹¹

Figure 1.1: East Midlands



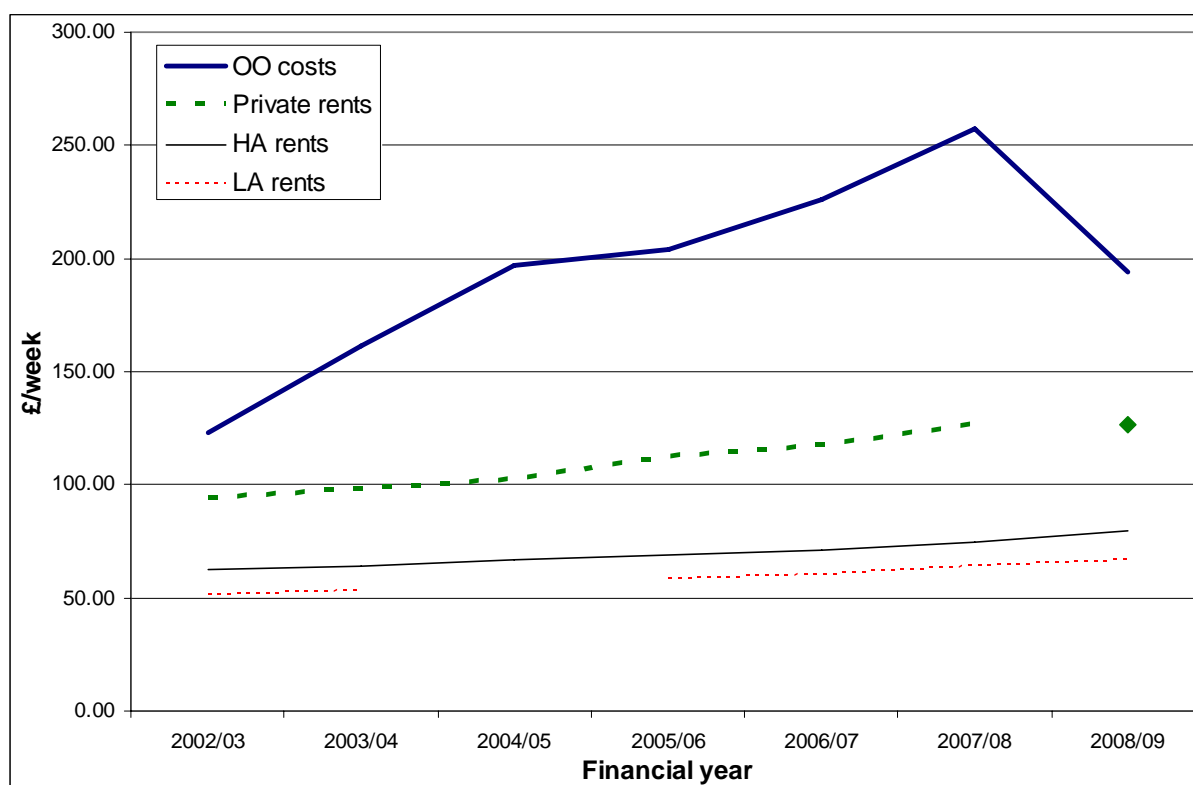
In the East Midlands OO costs were just 13% higher than private rents in 2002/03, by 2007/08 this had risen to 103% with OO costs reaching £199.18. Following falls in house prices and other associated costs, by 2008/09 OO costs had fallen to £147.51; just 42% higher than private rents.

Average private rents although increasing at a lower rate than equivalent costs of owner occupation moved away from social sector rents over the seven years. Private rents were 32% higher than housing association rents in 2002/03 and this had increased to 45% by 2008/09. A similar increase was seen when compared against local authority rents (73% in 2002/03 rising to 86% by 2007/08).

In 2002/03 HA rents were 30% higher than LA rents, by 2008/09 this had decreased to 28% (although a 2 percentage point increase on the previous year) showing gradual progress towards rent convergence.

¹¹ From 2007/08 OO costs were calculated using quarterly lower quartiles, whereas in previous years the financial year lower quartile was used. This may lead to a slight inflation of the 2007/08 and 2008/09 OO costs. These estimates reflect actual average outgoings. They do not relate to the traditional economists user cost which includes capital gains. Up to 2007/08 private rents are VOA referred rents. 2008/09 private rents are imputed using 2008/09 Hometrack data and rent/stock relativities from 2007/08 VOA data.

Figure 1.2: East of England

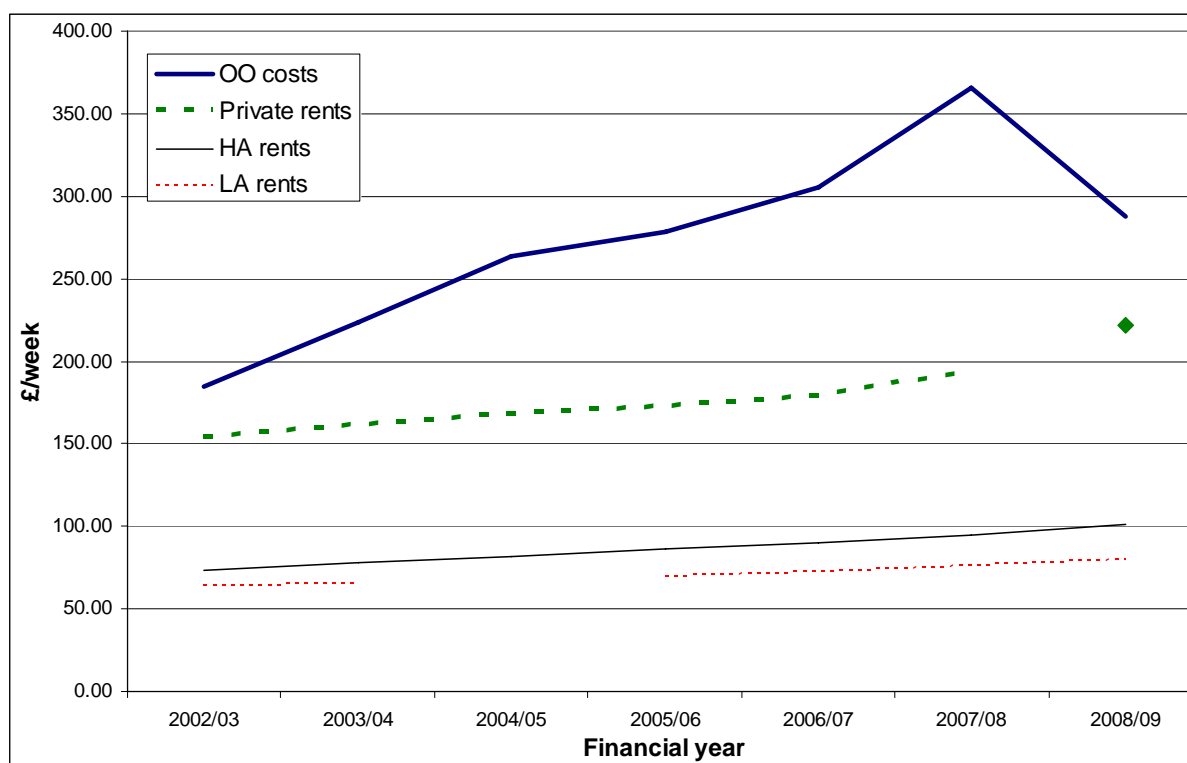


In the East of England OO costs were 31% higher than private rents in 2002/03, by 2007/08 this had risen to 103% with OO costs reaching £257.43. Following falls in house prices and other associated costs, by 2008/09 OO costs had fallen to £194.15; just 53% higher than private rents.

Average private rents although increasing at a lower rate than equivalent costs of owner occupation moved away from social sector rents over the seven years. Private rents were 50% higher than housing association rents in 2002/03 and this had increased to 60% by 2008/09. A similar increase was seen when compared against local authority rents (83% in 2002/03 rising to 89% by 2008/09).

In 2002/03 HA rents were 22% higher than LA rents, by 2008/09 this had decreased to 18% (although an increase of 2 percentage points from the previous year) showing good progress towards rent convergence.

Figure 1.3: London

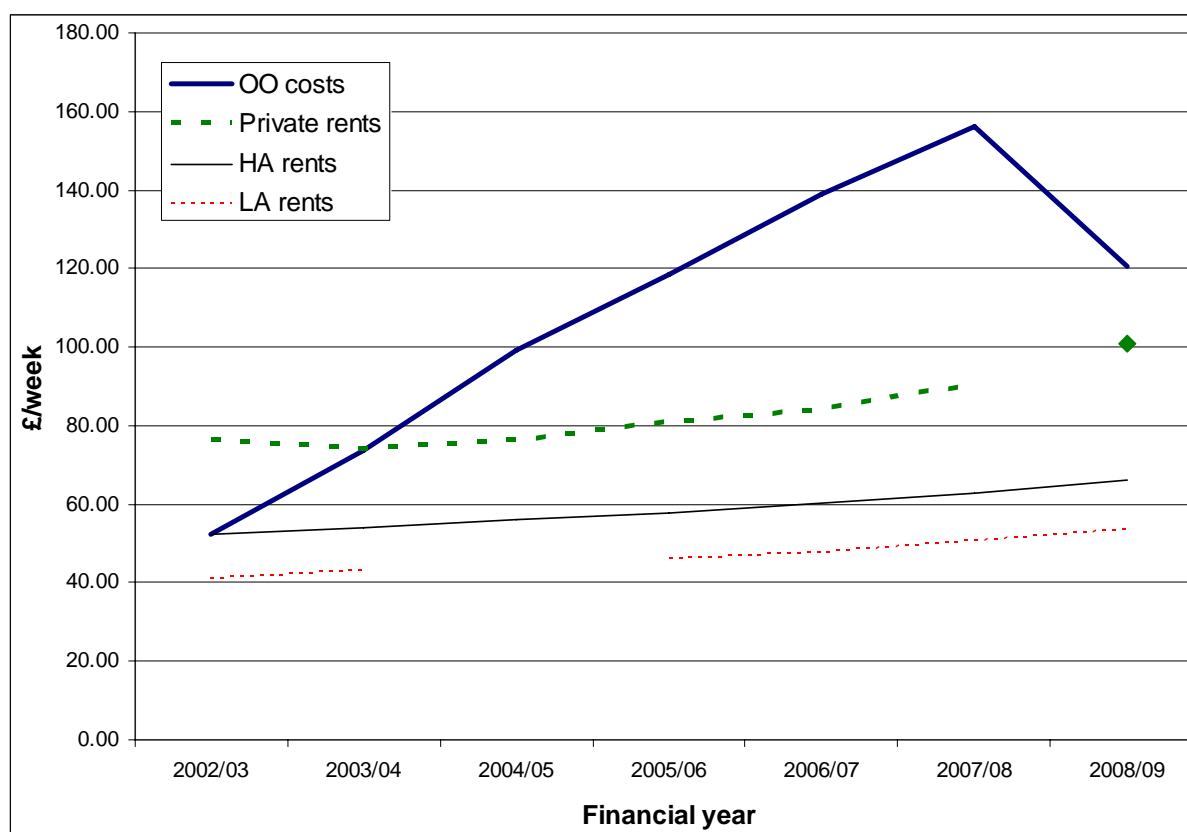


In London OO costs were 20% higher than private rents in 2002/03, by 2007/08 this had risen to 88% with OO costs reaching £365.35. Following falls in house prices and other associated costs, by 2008/09 OO costs had fallen to £287.25; just 29% higher than private rents.

Average private rents although increasing at a lower rate than equivalent costs of owner occupation moved away from social sector rents over the seven years. Private rents were 110% higher than housing association rents in 2002/03 and this had increased to 119% by 2008/09. A slightly higher increase was seen when compared against local authority rents (142% in 2002/03 rising to 178% by 2008/09).

In 2002/03 HA rents were 16% higher than LA rents, by 2008/09 this had increased to 27% showing quite severe rent divergence.

Figure 1.4: North East

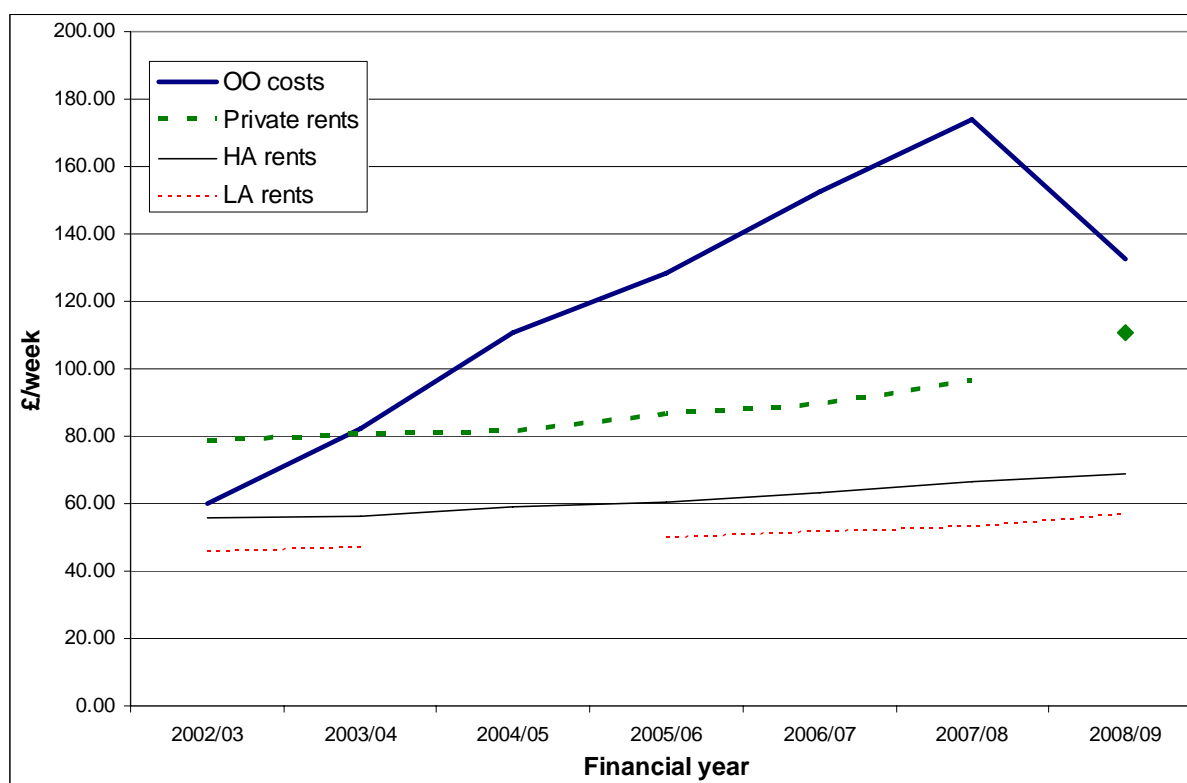


In the North East surprisingly OO costs were 31% lower than private rents in 2002/03, by 2007/08 this position had reversed with OO costs 73% higher at £156.20. Following falls in house prices and other associated costs, by 2008/09 OO costs had fallen to £120.72; just 20% higher than private rents.

Average private rents although increasing at a lower rate than equivalent costs of owner occupation moved away from social sector rents over the seven years. Private rents were 46% higher than housing association rents in 2002/03 and this had increased to 52% by 2008/09. An increase was also seen when compared against local authority rents (85% in 2002/03 rising to 88% by 2008/09).

In 2002/03 HA rents were 27% higher than LA rents, by 2008/09 this had decreased to 23% showing gradual progress towards rent convergence.

Figure 1.5: North West

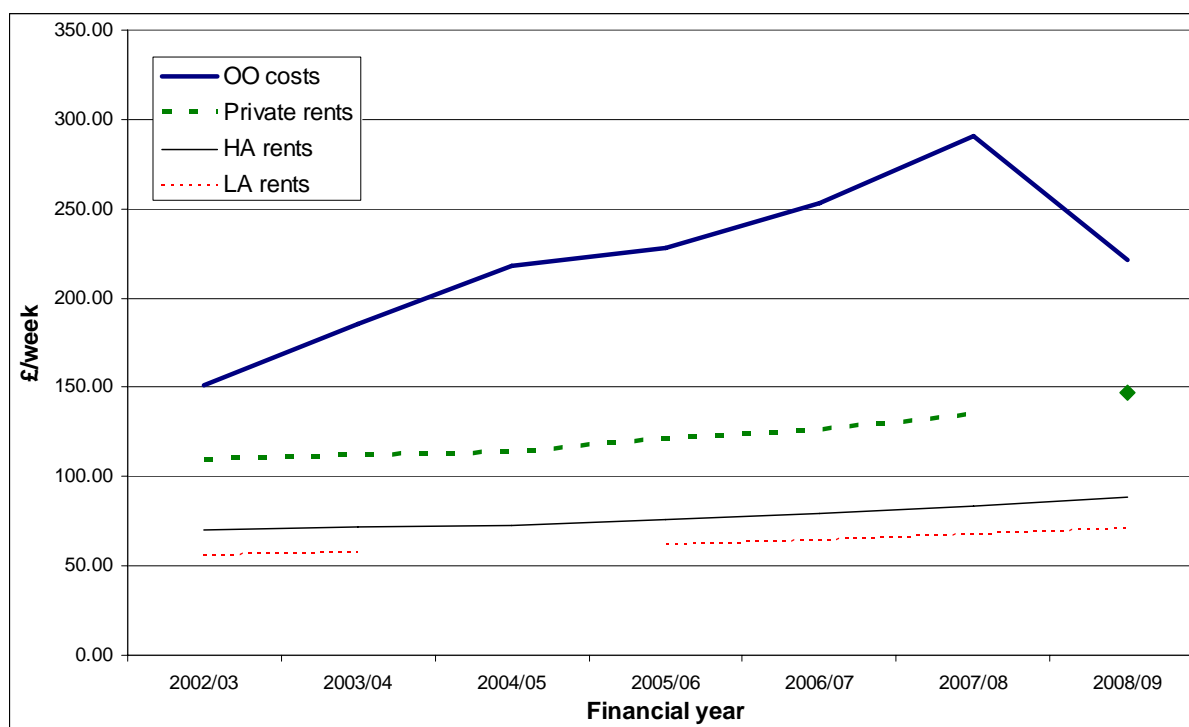


In the North West surprisingly OO costs were 23% lower than private rents in 2002/03, by 2007/08 this position had reversed with OO costs 81% higher at £174.15. Following falls in house prices and other associated costs, by 2008/09 OO costs had fallen to £132.70; just 20% higher than private rents.

Average private rents although increasing at a lower rate than equivalent costs of owner occupation moved away from social sector rents over the seven years. Private rents were 41% higher than housing association rents in 2002/03 and this had increased to 60% by 2008/09. A similarly large increase was seen when compared against local authority rents (73% in 2002/03 rising to 96% by 2007/08).

In 2002/03 HA rents were 22% higher than LA rents. There was no change in this level by 2008/09, although the level had fallen by three percentage points since the previous year.

Figure 1.6: South East

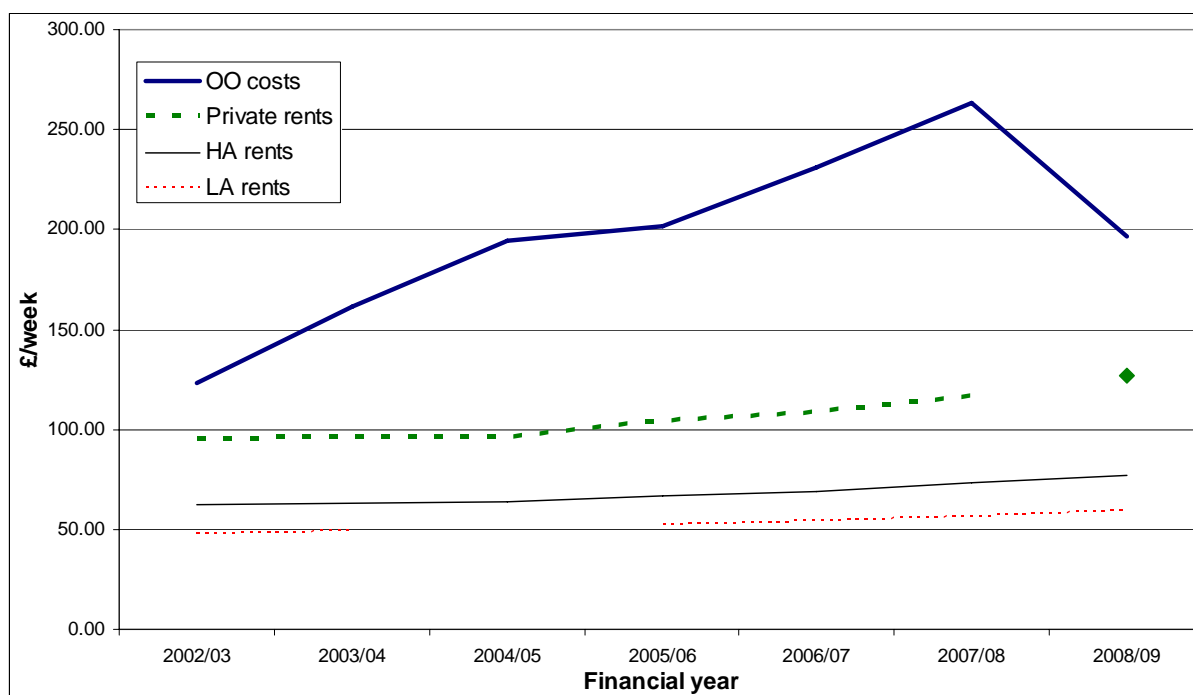


In the South East OO costs were 38% higher than private rents in 2002/03, by 2007/08 this had risen to 116% with OO costs reaching £290.57. Following falls in house prices and other associated costs, by 2008/09 OO costs had fallen to £221.49; 50% higher than private rents.

Average private rents although increasing at a lower rate than equivalent costs of owner occupation moved away from social sector rents over the seven years. Private rents were 56% higher than housing association rents in 2002/03 and this had increased to 67% by 2008/09. A similar increase was seen when compared against local authority rents (96% in 2002/03 rising to 107% by 2007/08).

In 2002/03 HA rents were 26% higher than LA rents, by 2008/09 this had decreased to 24% showing gradual progress towards rent convergence.

Figure 1.7: South West

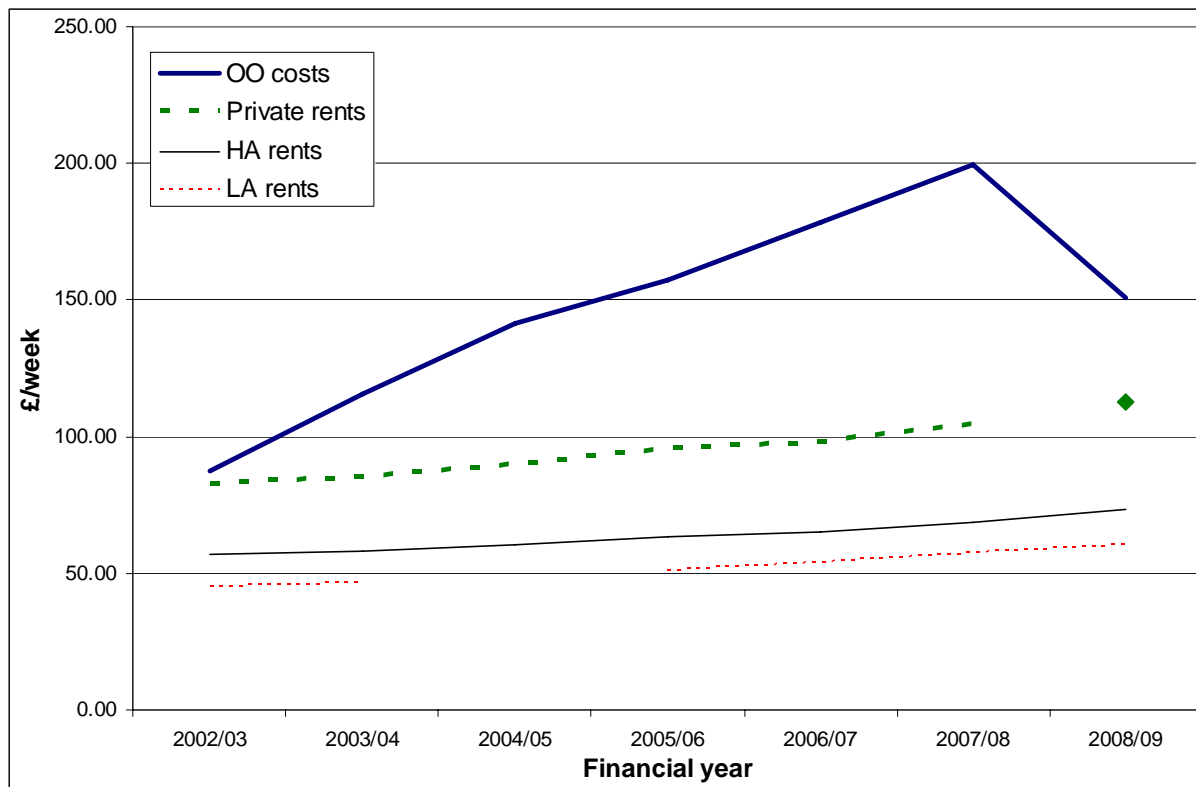


In the South West OO costs were 29% higher than private rents in 2002/03, by 2007/08 this had risen to 125% with OO costs reaching £262.98. Following falls in house prices and other associated costs, by 2008/09 OO costs had fallen to £196.85; 55% higher than private rents.

Average private rents although increasing at a lower rate than equivalent costs of owner occupation moved away from social sector rents over the seven years. Private rents were 54% higher than housing association rents in 2002/03 and this had increased to 65% by 2008/09. A similar increase was seen when compared against local authority rents (101% in 2002/03 rising to 113% by 2008/09).

In 2002/03 HA rents were 30% higher than LA rents, by 2008/09 this had decreased to 29% showing very gradual progress towards rent convergence.

Figure 1.8: West Midlands

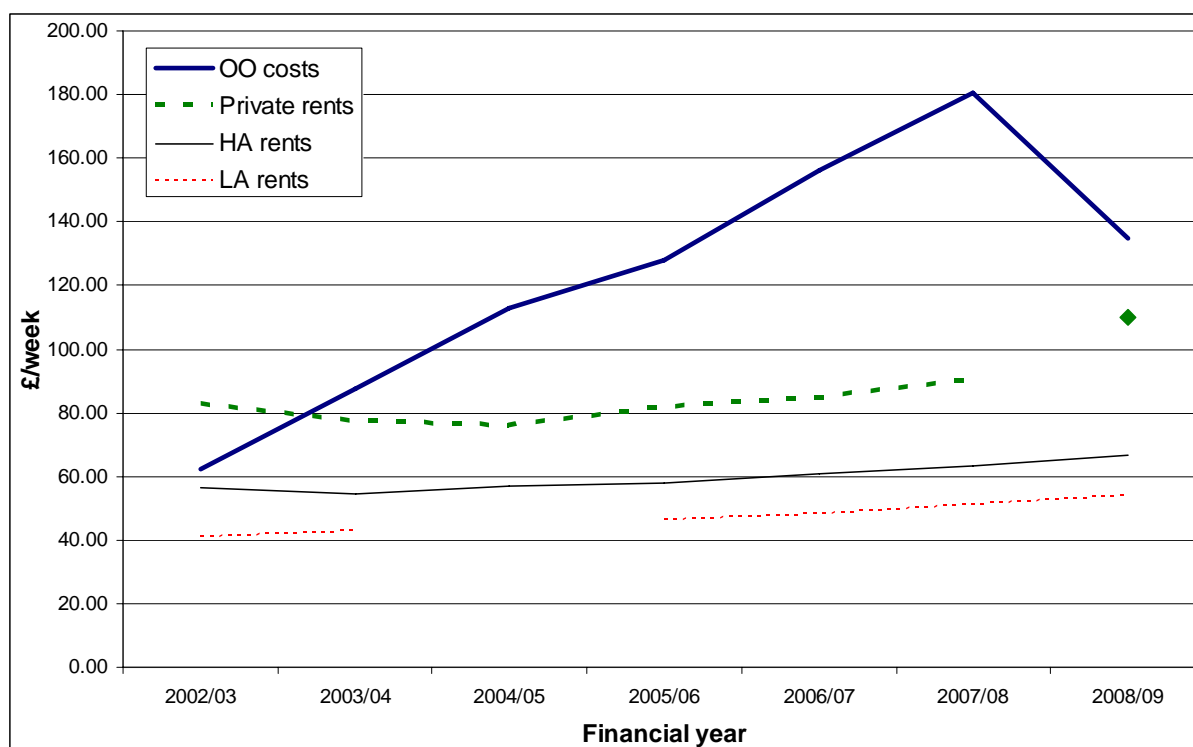


In the West Midlands OO costs were only 6% higher than private rents in 2002/03, by 2007/08 this had risen to 91% with OO costs reaching £199.38. Following falls in house prices and other associated costs, by 2008/09 OO costs had fallen to £150.94; just 34% higher than private rents.

Average private rents although increasing at a lower rate than equivalent costs of owner occupation moved away from housing association rents over the seven years. Private rents were 44% higher than housing association rents in 2002/03 and this had increased to 53% by 2008/09. A lower increase was seen when compared against local authority rents (a difference of 84% in 2002/03 rising to 86% by 2008/09).

In 2002/03 HA rents were 27% higher than LA rents, by 2008/09 this had decreased to 21% showing good progress towards rent convergence.

Figure 1.9: Yorkshire and the Humber



In Yorkshire and the Humber surprisingly OO costs were 25% lower than private rents in 2002/03, by 2007/08 this position had reversed with OO costs 100% higher than private rents at £180.51. Following falls in house prices and other associated costs, by 2008/09 OO costs had fallen to £134.61; just 22% higher than private rents.

Average private rents although increasing at a lower rate than equivalent costs of owner occupation moved away from housing association rents over the seven years. Private rents were 47% higher than housing association rents in 2002/03 and this had increased to 65% by 2008/09. A far lower increase was seen when compared against local authority rents (a difference of 103% in 2002/03 rising to 104% by 2008/09).

In 2002/03 HA rents were 38% higher than LA rents, by 2008/09 this had decreased to 24% showing fairly rapid progress towards rent convergence.

Annex Two – District level maps

Figure 2.1: CORE HA rents (2008/09)

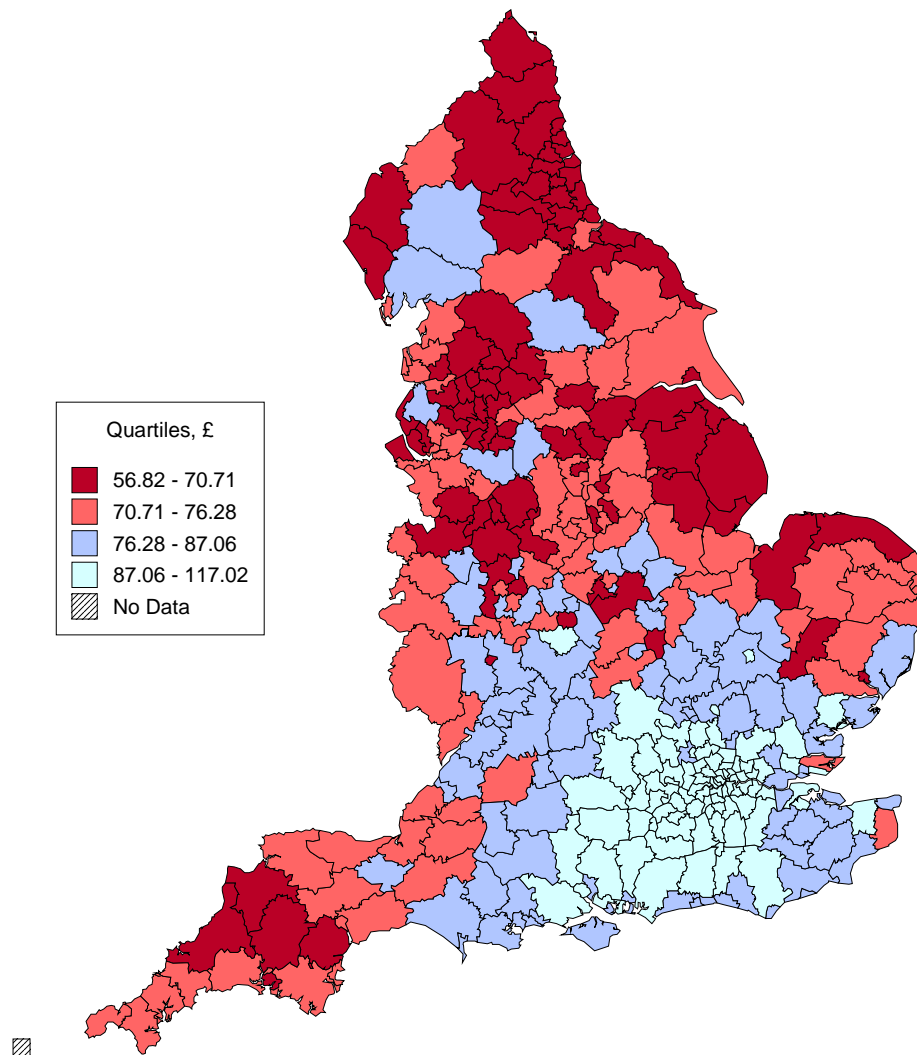


Figure 2.2: CLG LA rents (2008/09)

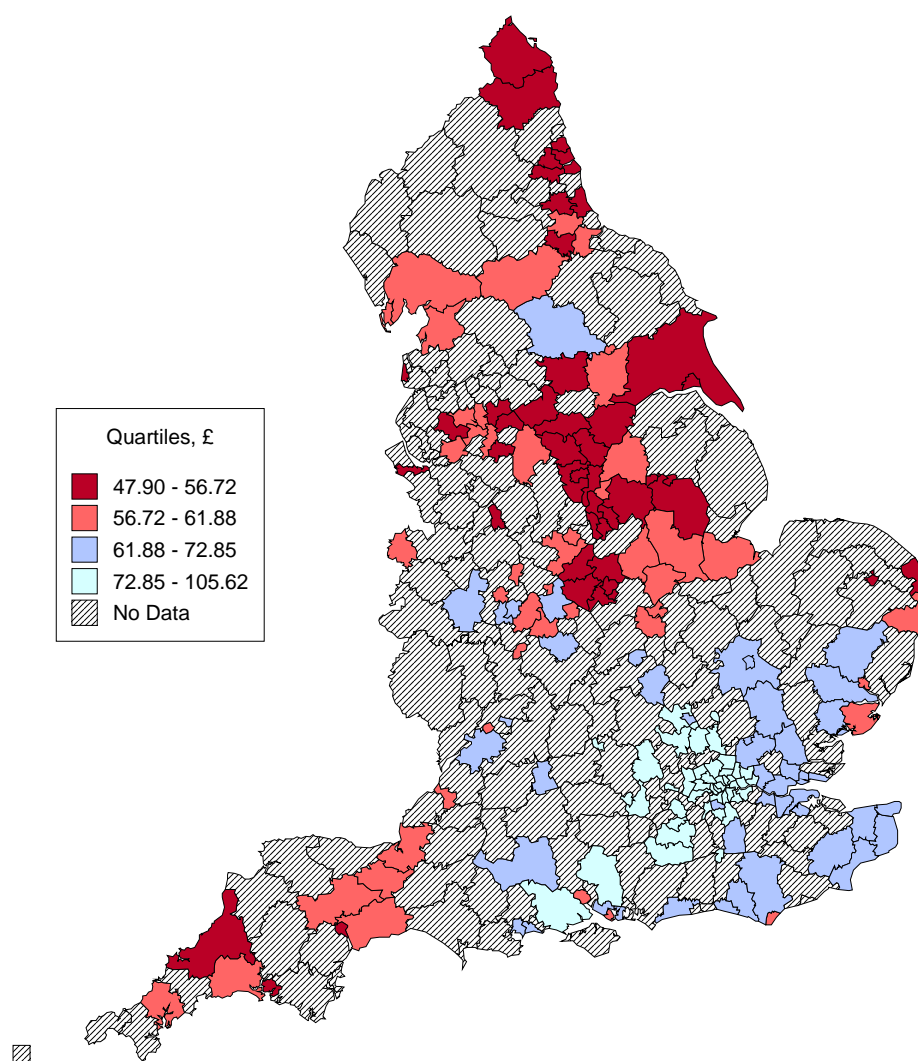
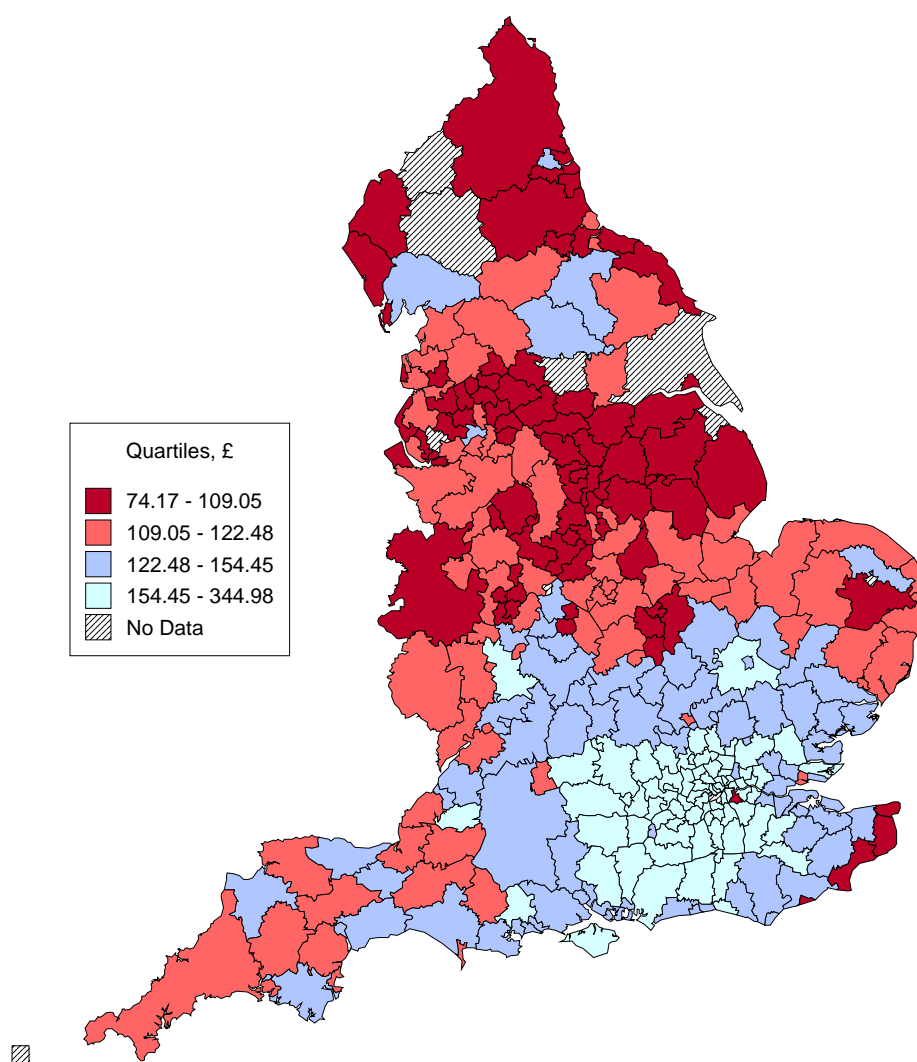
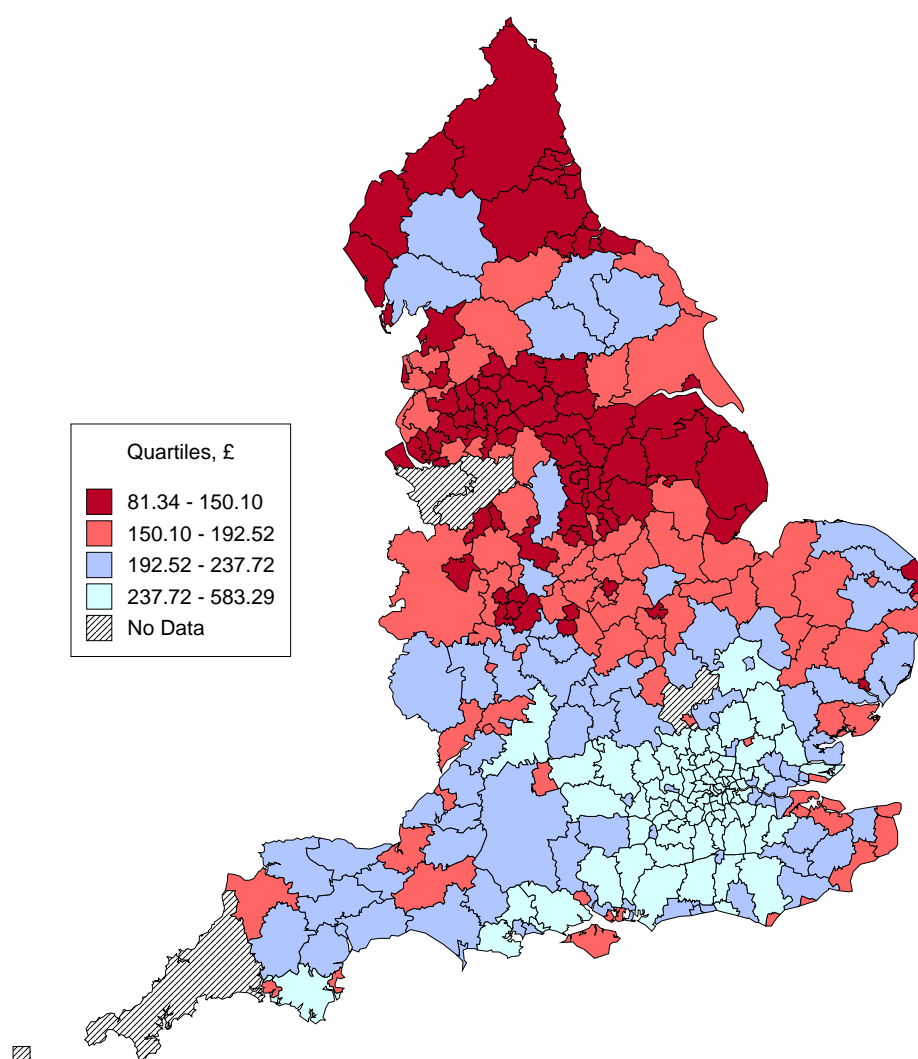


Figure 2.3: Hometrack LQ Private Rents (imputed)¹² (2008/09)



¹² Maps involving Hometrack private rents use the new LA boundaries (as at 1st April 2009). Private rent imputation was based on small sample sizes in some LAs

Figure 2.4: Equivalent user cost of owner occupation (2008/09)¹³



¹³ Maps involving OO costs use the new LA boundaries (as at 1st April 2009)

Figure 2.5: CORE incomes (2008/09)

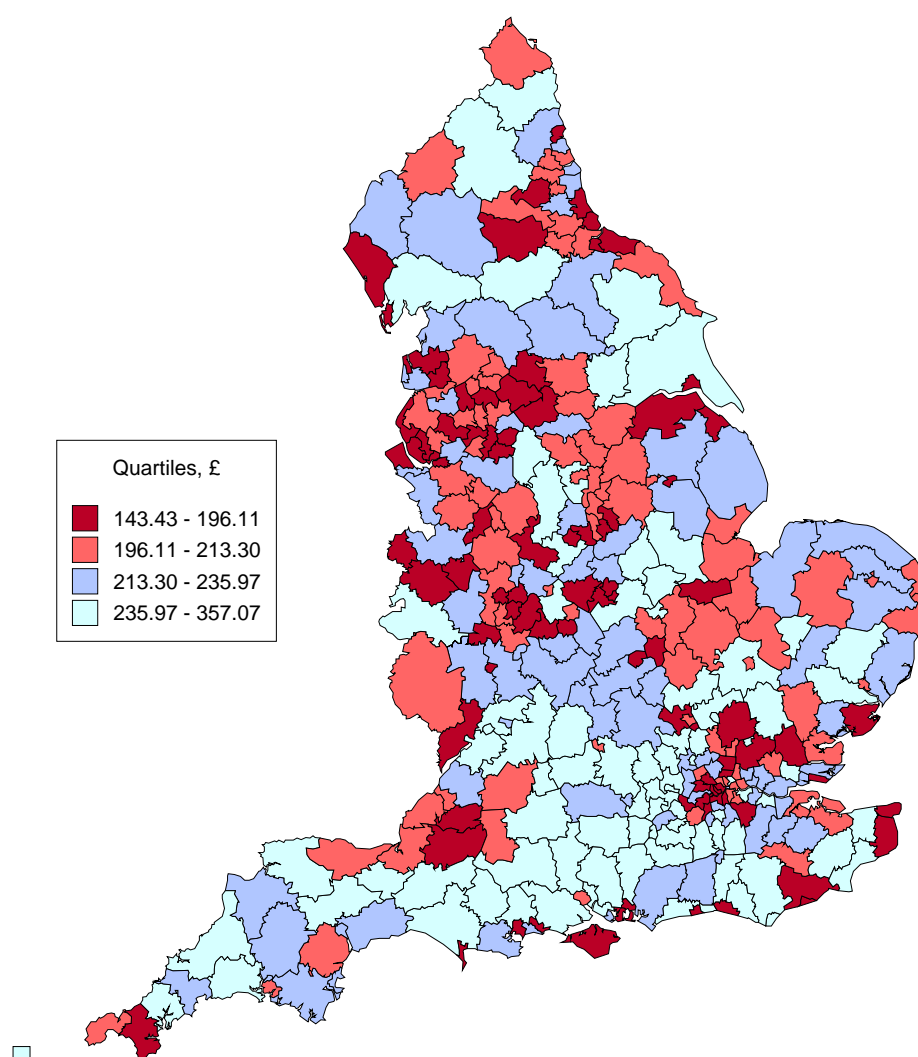


Figure 2.6: CORE incomes + HB (2008/09)

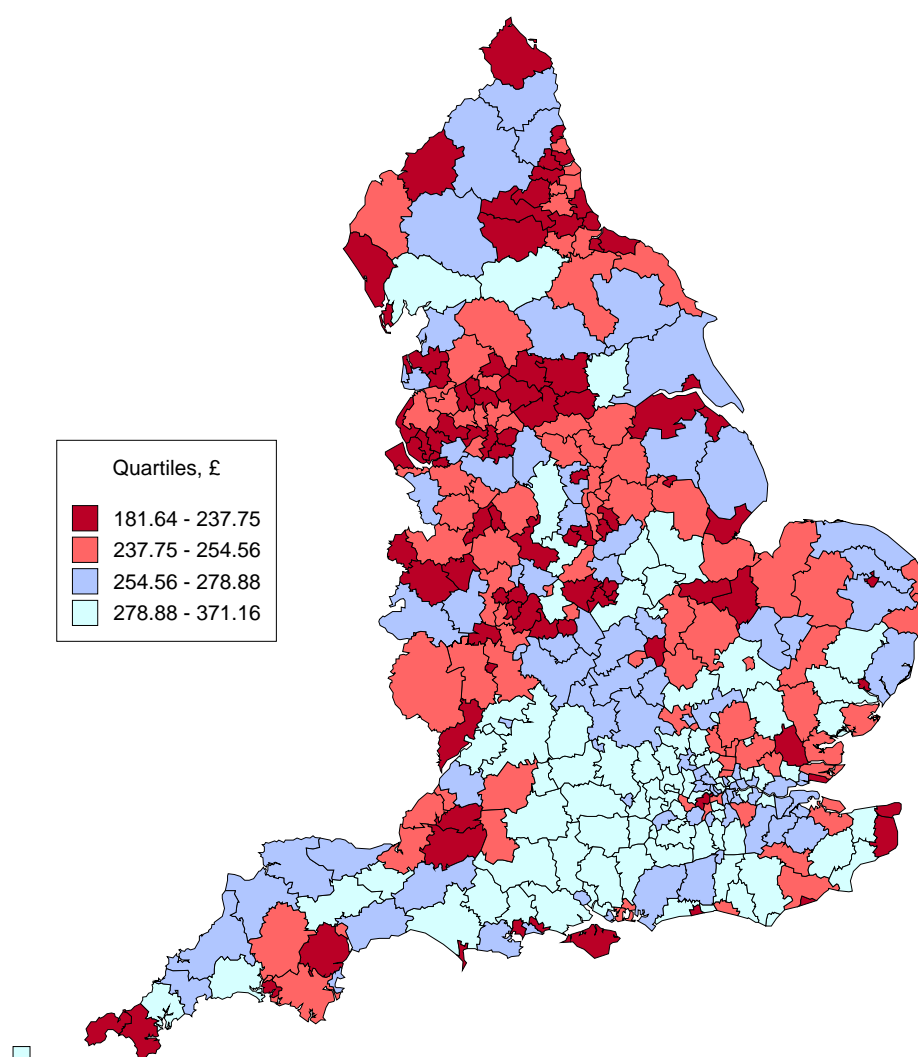


Figure 2.7: ASHE lower quartile earnings (2008/09)

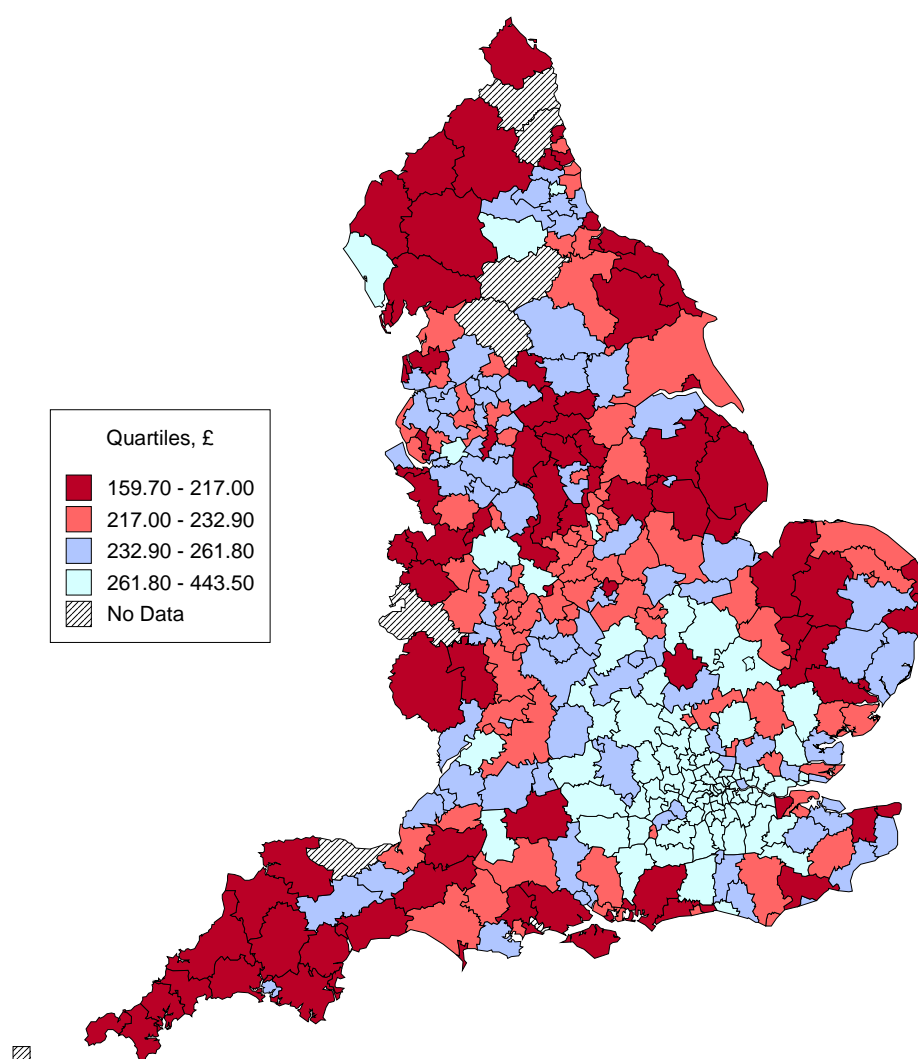


Figure 2.8: CORE HA rent/CORE income (2008/09)

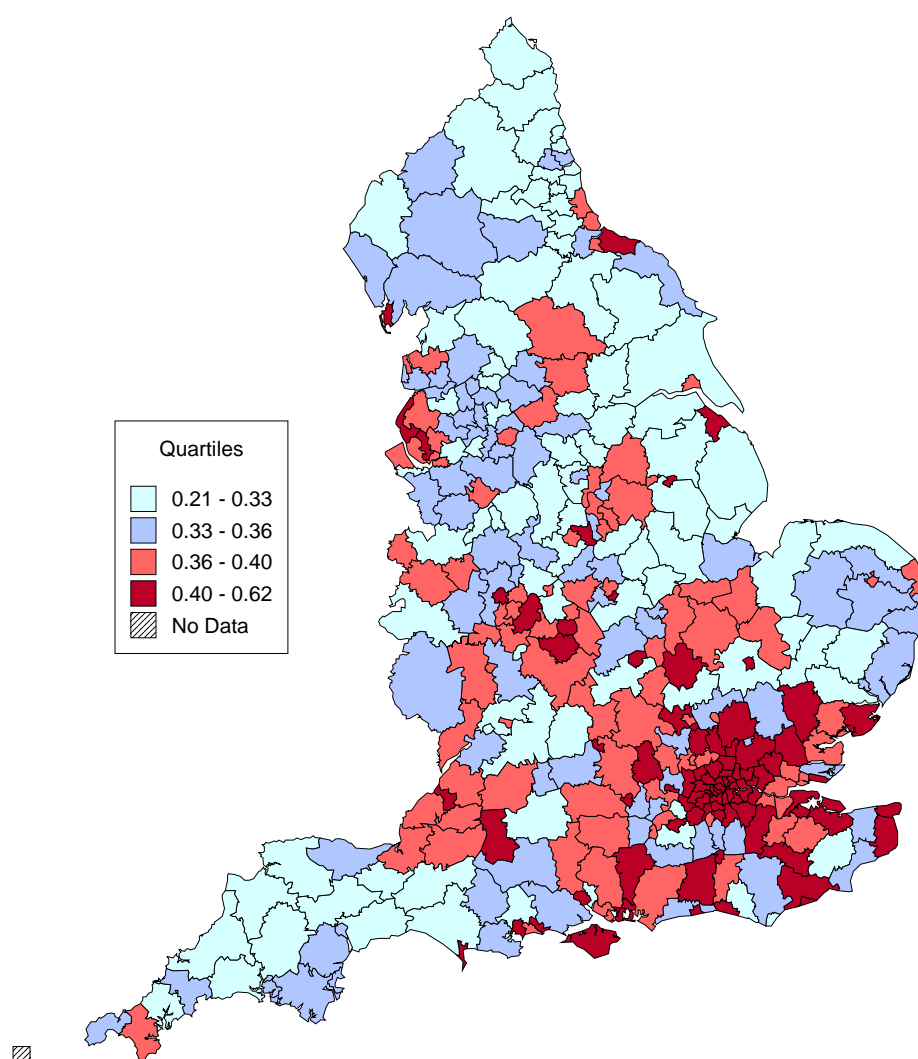


Figure 2.9: CORE HA rent/CORE income + HB (2008/09)

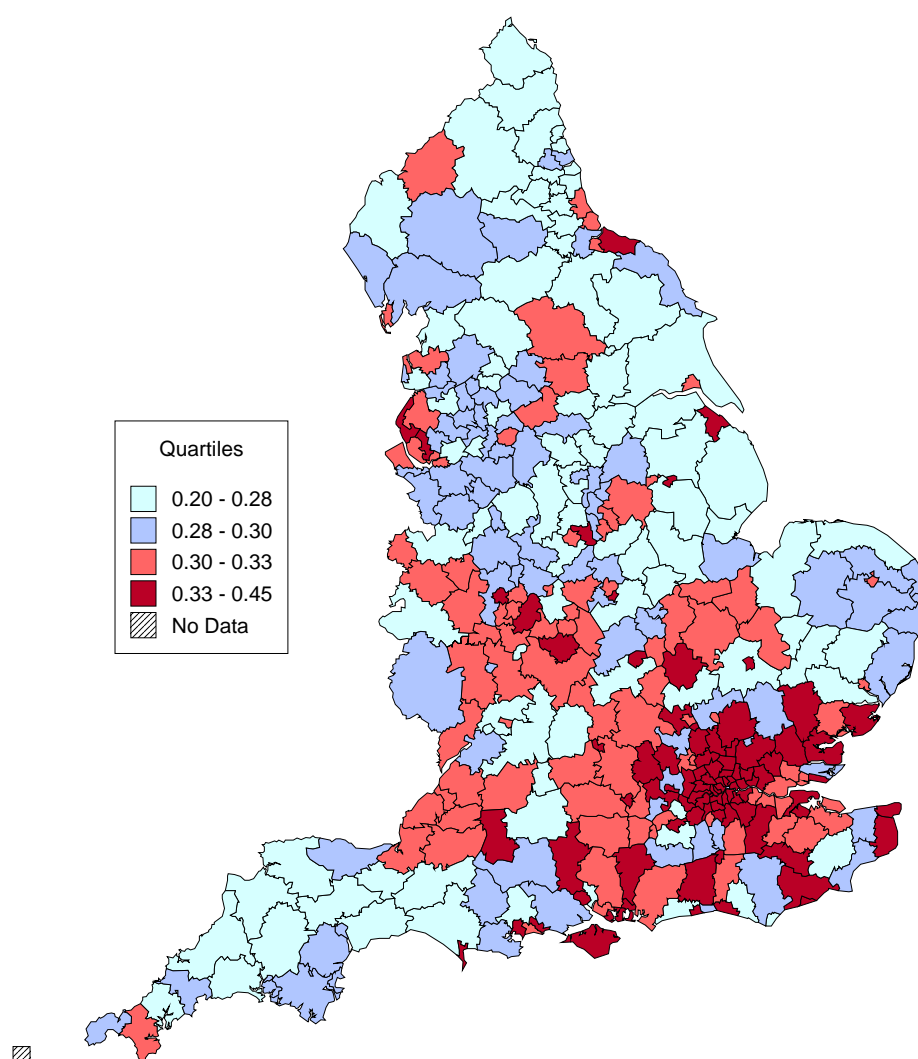


Figure 2.10: CORE HA rent/ASHE lower quartile earnings (2008/09)

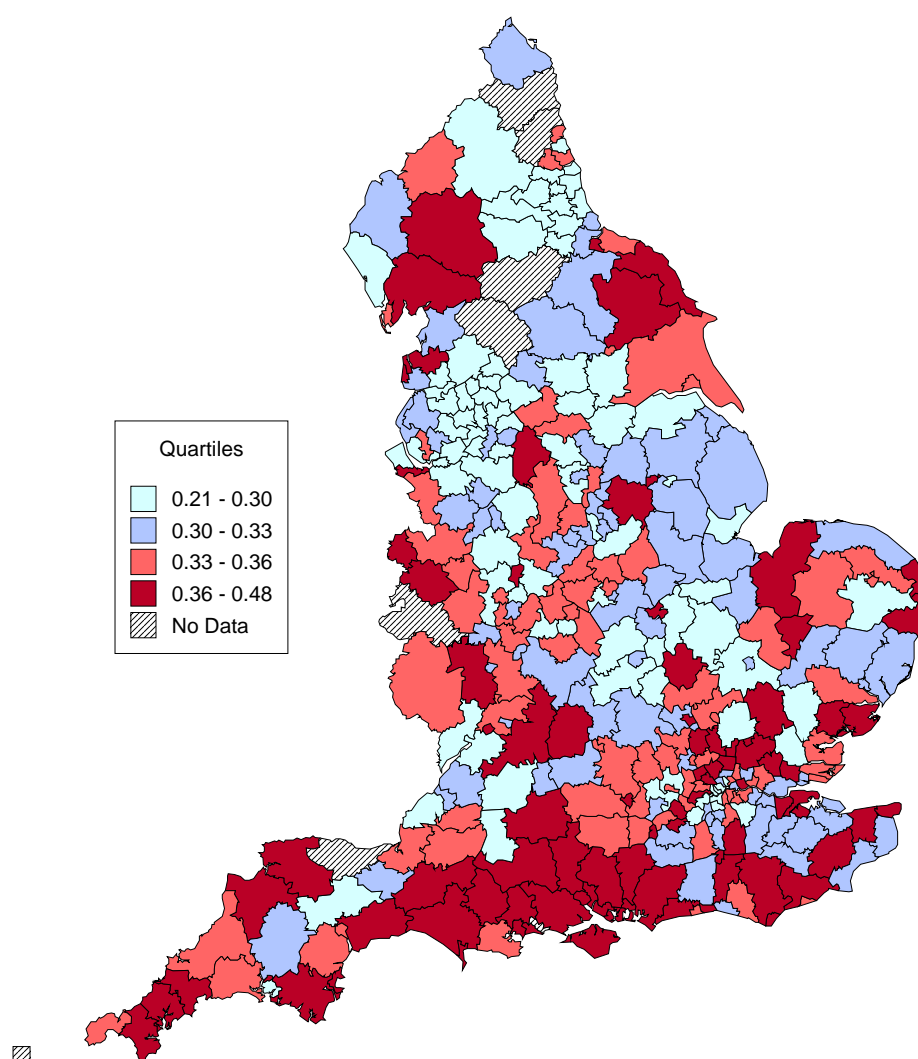


Figure 2.11: CLG LA rent/ASHE lower quartile earnings (2008/09)

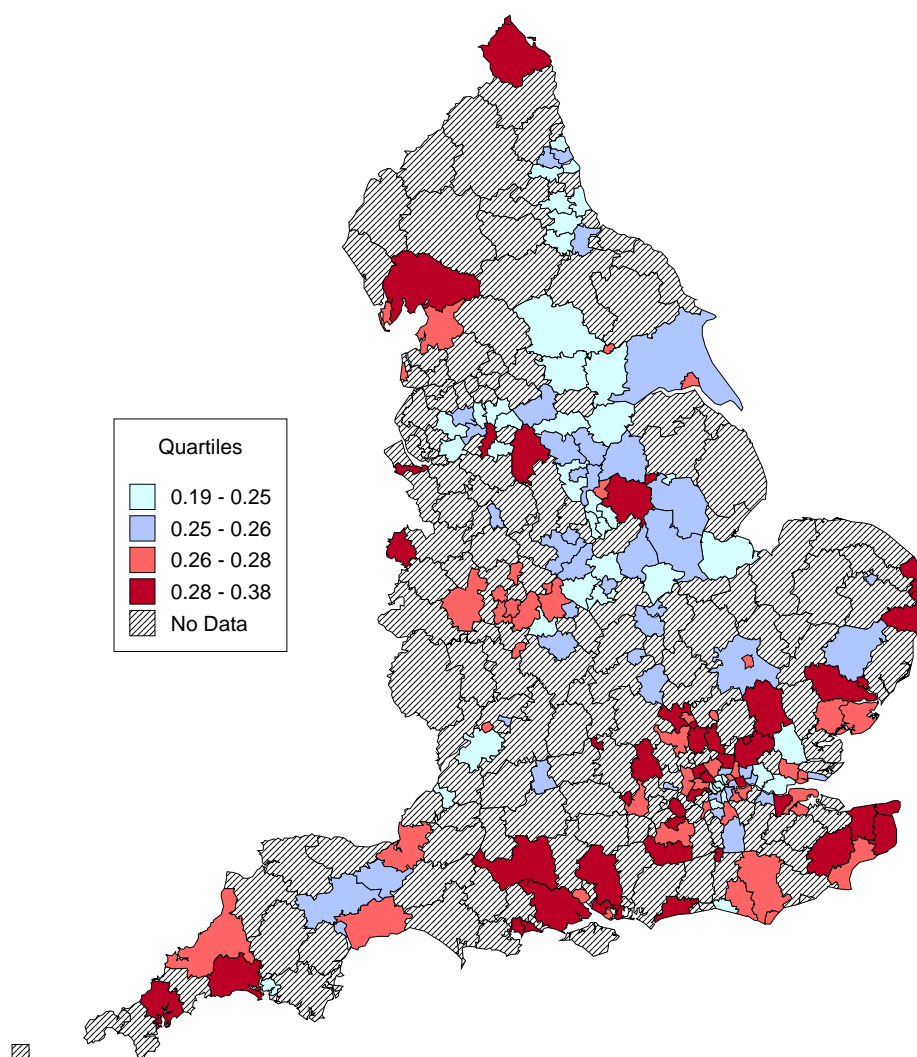
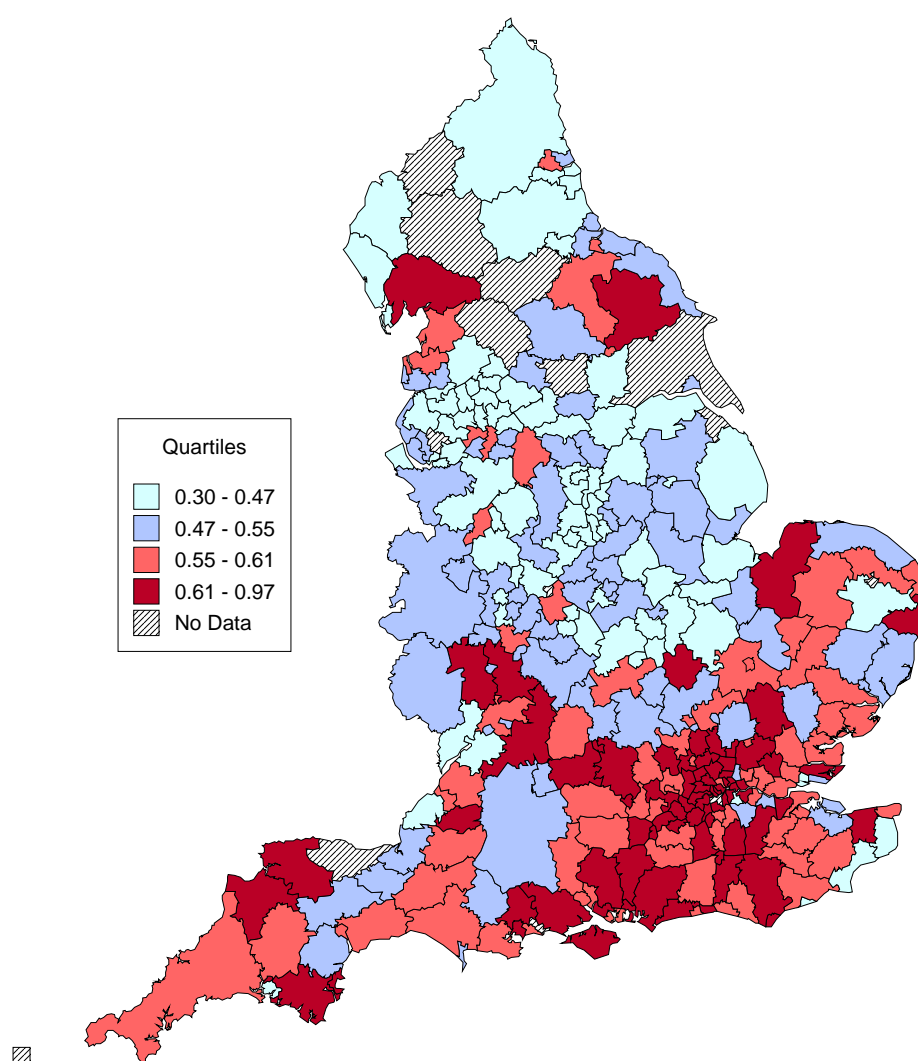
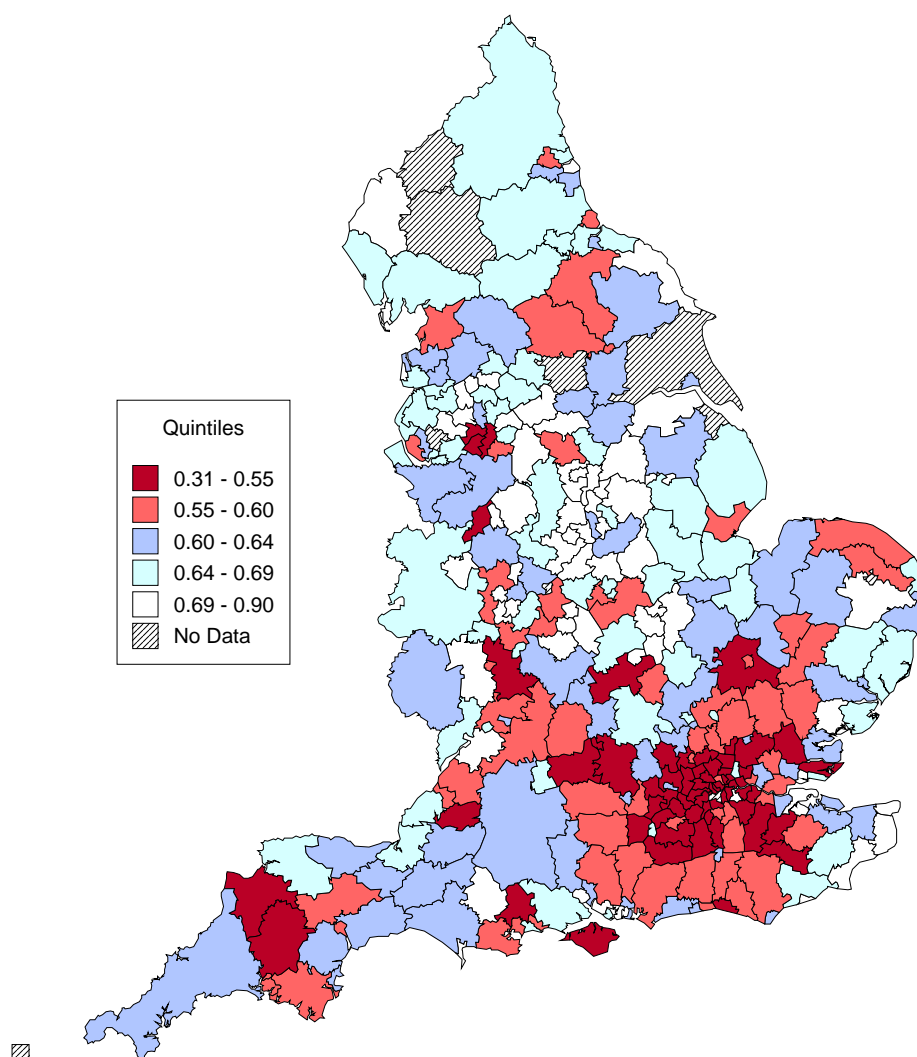


Figure 2.12: Hometrack LQ private rent (imputed)/ASHE LQ earnings¹⁴ (2008/09)



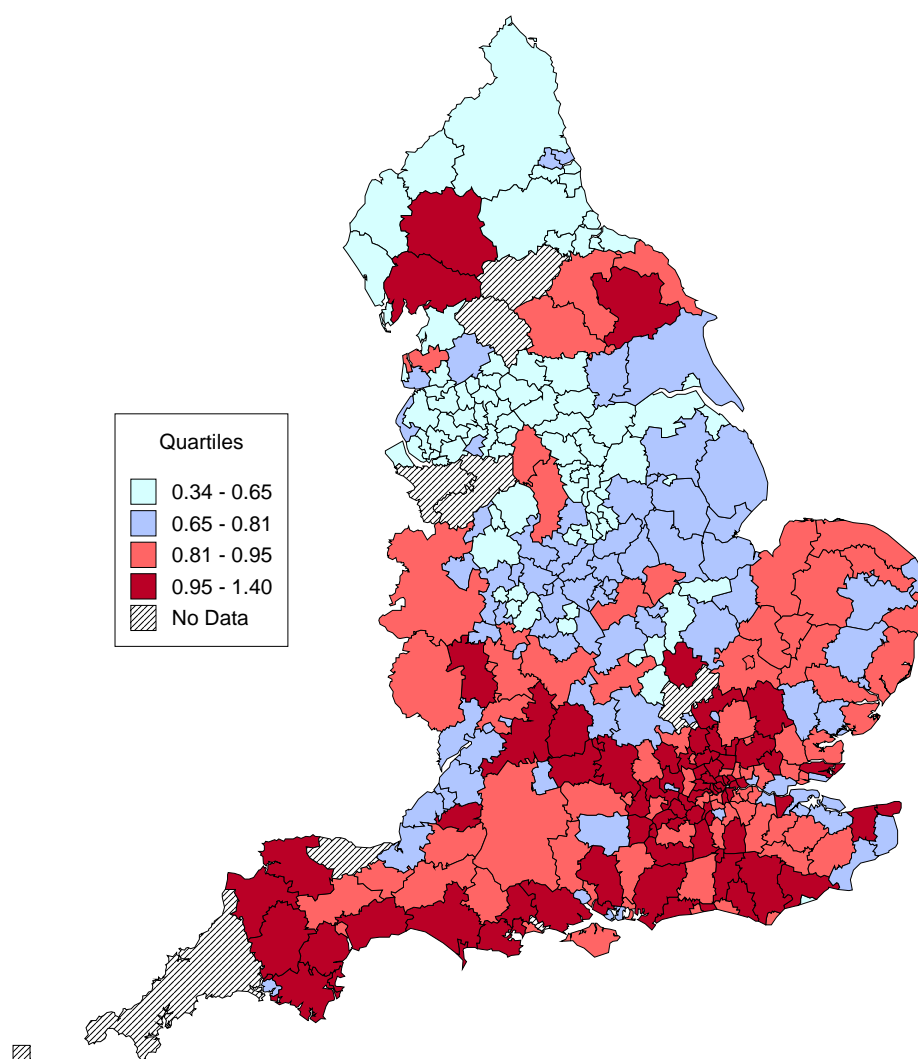
¹⁴ Maps involving Hometrack private rents use the new LA boundaries (as at 1st April 2009). Private rent imputation was based on small sample sizes in some LAs

Figure 2.13: CORE HA rent / Hometrack LQ private rent (imputed)¹⁵ (2008/09)



¹⁵ Maps involving Hometrack private rents use the new LA boundaries (as at 1st April 2009). Private rent imputation was based on small sample sizes in some LAs

Figure 2.14: Equivalent user cost of owner occupation/ASHE LQ earnings (2008/09)¹⁶



¹⁶ Maps involving OO costs use the new LA boundaries (as at 1st April 2009)

Annex Three – Data definitions

(1) Rents and Costs

(i) Rents

The rents data published in this paper were the same as those used in the Guide to Local Rents¹⁷. The rest of this section ('(i) Rents') is taken from the Appendix of that publication¹⁸:

Rent data from CORE

Data were collected by CORE (COntinuous REcording system) when a HA property was newly let (newly built, rehabilitated or otherwise acquired) or re-let (where an existing property became vacant).

The rent shown was the average weekly gross rent for all new general needs lets or re-lets made by HAs during the period 1 April to 31 March.

- Data included assured tenancies
- Data excluded secure tenancies
- Data included general needs housing
- Data excluded all supported housing and housing for older people

Rent data for local authority rents from CLG

The local authority (LA) rent data were derived from the returns made annually to Communities and Local Government (CLG). From 2005/06 the rent data for LA stock were estimates (made by each LA area) for the period from 1 April to 31 March – previously the dataset had reported actual rents for the previous year.

The rent data covered all LA housing stock, with the exception of hostels and a small number of other dwellings not included in the main classifications. LAs, unlike HAs, did not classify their dwellings as general needs or supported housing. Thus, sheltered and supported housing were included. The rent in the CLG dataset was standard rent, excluding service charges, such as water rates, central heating, laundry services and hot water supply.

LA rent data were not provided for every LA area. This was because some LAs transferred much or all of their housing stock to HAs under the Large Scale Voluntary

¹⁷ Guide to local rents 2009 part I: Cross Tenure Rents, *Tenant Services Authority publication*

¹⁸ Also, an excerpt from the appendix of **Guide to local rents 2008 part I: Cross Tenure Rents**, *Tenant Services Authority publication* to cover the VOA private rents dataset

Transfer (LSVT) programme. Such LAs were marked as LSVT under LA rent in Table A2. In other cases, LAs did not report their rents, and these were reported as 'n/a' in the table. Data fields that were returned as blank or zeros by LAs were treated either as zero or 'n/a'.

The dataset from CLG was unaudited, and thus figures had a high probability of errors, inconsistencies and omissions. The rental data at the national and regional levels were calculated by Dataspring, based on the available LA figures.¹⁹

Private sector rents

Rent Service private rents

These data were taken from the Rent Service which provided a rental valuation service for Housing Benefit (HB) purposes.

Private rents were:

- **'Referred rent'** which was the contractual rent (including service charges eligible for HB) proposed by the landlord and referred by the LA to the Rent Service. The data included cases where the referred rent was not the actual rent that was reported for subsidy purposes (e.g., HB did not cover the full amount of the referred rent).
- The data related to the referrals made over the period 1 April to 31 March.
- The data referred to lettings of unfurnished and furnished assured short-hold tenancies and secure tenancies.

2008/09 private rents from Hometrack

The Rent Service was merged into the Valuation Office Agency on 1st April 2009 and the former Rent Service dataset was discontinued. Therefore, regional private rents for 2008/09 were taken from Hometrack, a private company providing private sector rents as part of a package of housing data across England.

- Rents included service charges regardless of eligibility for Housing Benefit.
- Lower quartile rents for each region over the period 1 April 2008 to 31 March 2009.
- Data for all property sizes are imputed figures based on 2 bedroom Hometrack rents and relativities from 2007/08 VOA private rent data.

¹⁹ Adur (for all size categories except six or more bedrooms), Chesterfield (for five or more and six or more bedrooms), North West Leicestershire (for all size categories except six or more bedrooms and all sizes) and Wear Valley (from one bedroom to five or more bedrooms) were excluded in any spatial analyses as they omitted either rent or stock information.

Imputation example:

In 2007/08 average VOA private rents in London were £211.69 for 2 bedroom properties and £194.10 for all properties. Therefore, the all properties average rent was 91.7% of the 2 bedroom average rent (£194.10 / £211.69). The same multiplier was then used to estimate a 2008/09 all properties average rent using the 2008/09 Hometrack average rent for 2 bedroom properties: £242.00 x 0.917 = £221.89.

Weighted averages for regions and England

All the average rents, except 2008/09 private sector rents, were weighted averages rather than simple averages. This meant that the average for any given geographical area was calculated by the division of all average rents by the total number of cases.

(ii) Costs

Equivalent costs of home ownership were calculated by Dataspring. These data estimate the weekly costs of owner-occupation for first-time buyers. The data are only available for all dwelling sizes combined. The costs were calculated using the following variables:

(A) Average size of loan

The size of the loan was calculated by multiplying the Land Registry lower quartile house price for each local authority area by the (UK) average percentage advance for first-time buyers. The average percentage advance for first-time buyers was the unweighted twelve-month average of percentage advance medians for UK given in **CML Statistics, First-time buyers, lending and affordability, Table ML2**. The definition of 'first-time buyer' was based on the applicant's last tenure and covers any type of tenure other than owner-occupier.

(B) Weekly repayment of loan

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

The rate of interest used was the unweighted twelve-month average of **Bank of England, 'Building society & bank basic mortgage rate'**.²⁰ This particular rate of interest was selected because it is derived from data from both building societies and banks.

(C) Buildings insurance premium

The average premium across all regions and for all property sizes was the unweighted average of four quarters ending in April, according to **the AA building**

²⁰Available at ONS, *Financial Statistics* (www.statistics.gov.uk/STATBASE/Product.asp?Vlnk=376).

premium index. This figure is likely to be a slight overestimate because the size of property purchased by first time buyers is less than the average.

(D) Mortgage payment protection insurance (MPPI)

This cost was 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 to all first-time buyers.

(E) Loss of imputed interest on the deposit

The average size of the deposit was derived from the average percentage advance (see (A) above). 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 was thus included as a cost in the calculation. The rate of interest used was the unweighted twelve-month average of **Bank of England, 'Households' average deposit interest rate -- bank and building society's branch-based notice accounts.**²¹ It is assumed that interest is paid net of the basic rate of income tax according to **HM Revenue & Customs.**²²

(2) Incomes and Earnings

CORE Incomes

HA Incomes data were taken from HA CORE and were average general needs net weekly household incomes. HA CORE records information on the characteristics of individual new HA tenants (new lets and relets) who enter the HA sector between 1st April to 31st March each year. Incomes exclude sheltered and warden assisted units.

LA Incomes data were taken from LA CORE and were average net weekly household incomes for general needs tenancies. LA CORE records information on the characteristics of individual new council tenants who enter the council housing sector between 1st April to 31st March each year.

Incomes from CORE, comprise of:

- State Benefits (including state pension)
- Child Benefit
- Child Tax Credit
- Occupational/Stakeholder Pension (including SERPS)
- Earnings from employment/self employment (net income after deductions for income tax and NI)

²¹ Available at BoE, *Statistical Interactive Database* (www.bankofengland.co.uk/mfsd/iadb/index.asp?first=yes&SectionRequired=1&HideNums=-1&ExtraInfo=true&Travel=NIxSTxTlx).

²² Available at HMRC (www.hmrc.gov.uk/stats/tax_structure/table-a2a.xls).

- Other income (including Working Tax Credit)

CORE incomes exclude the following:

- Housing benefit
- Council tax benefit
- Interest from savings
- The childcare element of Working Tax Credit

Where Housing Benefit was added to Incomes, this was taken from the 'PaidHB' field, which is a standard field calculated based on CORE variables and included in the CORE dataset.

Annual Survey of Hours and Earnings (ASHE Incomes)

Lower quartile earnings data were taken from the Annual Survey of Hours and Earnings (ASHE), which is a 1% sample of employees in the HM Revenue & Customs PAYE records as at April²³, providing information about the levels, distribution and make-up of earnings and hours worked for employees within industries, occupations and regions. The data used in this analysis were based on place of residence.

More details on ASHE are available on the National Statistics website²⁴.

²³ Data in this analysis were taken from the 2002, 2007 and 2008 ASHE datasets

²⁴ See <http://www.statistics.gov.uk/statbase/Product.asp?vlnk=13101&More=Y>