

Housing associations and changes in rent 2001 to 2002

As the housing association (HA) stock to which the regulation of rent increases and rent restructuring policies apply is different, populations of HAs and total stock are different in the rent increase and target rent analysis.

Key findings

Target rents

- Nearly two thirds (62%) of HAs to which target rents apply have average target rents that are higher than actual rents, but around half have target rents that differ by less than £5 from actual rents.
- The average differentials between target and actual rents are greater for smaller properties, and for those owned by large HAs (with between 5,000 to 9,999 units).
- Large Scale Voluntary Transfer (LSVT) HAs with target rent calculations (those established before 31 March 1997) have higher average actual rents than their non-LSVT counterparts but the differentials between their actual and target rents are smaller (£3.91 compared to £4.63).

Rent increases

- Across all general needs self contained assured and fair rent tenancies, the average rent increase including new stock from over the year to 31 March 2002 was 3.6%. The median rent increase was 3.7% and well below the RPI+1% guideline figure of 4.3%.
- Average rent increases were higher than last year. Even so, more HAs (69%) kept within the guideline for increases of RPI+1% because RPI was higher than last year.

- Once again, HAs with the highest rents tended to have smaller increases. This suggests rents are converging, although further research would be needed to assess the extent of this.
- Black and Minority Ethnic (BME) HAs had average rent increases of 2.6%, well within the guideline. LSVT HAs, on the other hand, exceeded the guideline with average increases of 4.8%.

Introduction

HAs owning or managing more than 250 self contained units, bedspaces or shared ownership properties aim to limit their aggregate changes in rent (including service charges eligible for housing benefit) on all general needs self contained stock with assured and fair rent tenancies to the Retail Price Index (RPI) plus 1 percent. This is required in order to meet Housing Corporation performance standards. This Sector Study is the fifth in a series of annual reviews of changes in HA rents, covering the period between 1 April 2001 and 31 March 2002.

The Government has now brought in additional requirements in order to enable rent restructuring to take place over the next ten years and this year the Regulatory and Statistical Return (RSR), from which data are drawn for this study, includes an additional question about average target rents. This is the rent level to be met by the end of the ten year rent restructuring period in 2012. It is determined for each eligible property according to the formula laid down by the Department of Transport Local Government and the Regions (DTLR) (now Office of the Deputy Prime Minister (ODPM)). Given the importance of rent restructuring to the sector, the emphasis of this year's report will be on comparing target and actual rents, in addition to reporting changes in rents over the last year.

Methodology and data changes

The information on HA rents used in this analysis comes from the RSR for 31 March 2002. For changes in rents, rents are average assured and fair rent (secure) weekly rents plus service charges eligible for Housing Benefit combined, taken as at 31 March 2002. Rent increases cover the period from 1 April 2001 to 31 March 2002.¹

The relevant RPI figure that HAs were expected to use when setting their rents for 2001/02 was that for September 2000. RPI was then 3.3%, so the RPI +1% figure was 4.3%.

Where the stock with service charges eligible for housing benefit is less than the total stock for assured and/or fair rent tenancies, the service charges are spread over the total stock figure by multiplying the average service charge by the number of dwellings with service charges and dividing by the total number of dwellings. Service charges not eligible for housing benefit are excluded from the analysis, together with all tenancies that are not general needs e.g. supported housing tenancies, assured shorthold and market rent tenancies.

Changes in rents relate to the average change for each HA. Where the analysis groups HAs together, for example in Table 2, the average rent is weighted by the relevant HAs' holdings of assured and fair rent stock. The percentage rent increases here are calculated by averaging the average.

For the target rents, averages for each property size are calculated from the target rent, which itself is calculated using the formula and data set out in *Guide to Social Rent Reforms* (DTLR, December 2000). Inflation is not included over the ten-year period of restructuring, nor is any of the allowed margin for flexibility taken into account (5% above or below the actual target rent). If the target rent is above the relevant cap, the target rent is recorded. This makes it possible to do a comparative analysis of, for example, valuations across local authority areas. Where an HA can defer implementation of target rents on sheltered accommodation, only the stock numbers for which target rents are actually calculated are included. LSVT HAs registered after 31 March 1997 can also defer implementation, and many BME HAs will also do so, so they are excluded from the target rent analysis. As a result, the populations of HAs and rental stock included in the average rental increase and target rent analysis are different.

Differences between target rents and actual rents

Data in this section come from Part I of the RSR. Only HAs that have given figures for target and actual rents are included. All LSVT HAs registered after 31 March 1997 and all BME HAs are excluded.

On the evidence available from 289 HAs, nearly two thirds (62%) of HAs will have average target rents that are higher than actual rents. However, just under a quarter

1. Last year's analysis looked at increases in rents including and excluding new additions to stock. Changes in the questions in this year's RSR form mean only the figures for increases including new stock are comparable with last year, so analysis is limited to these changes.

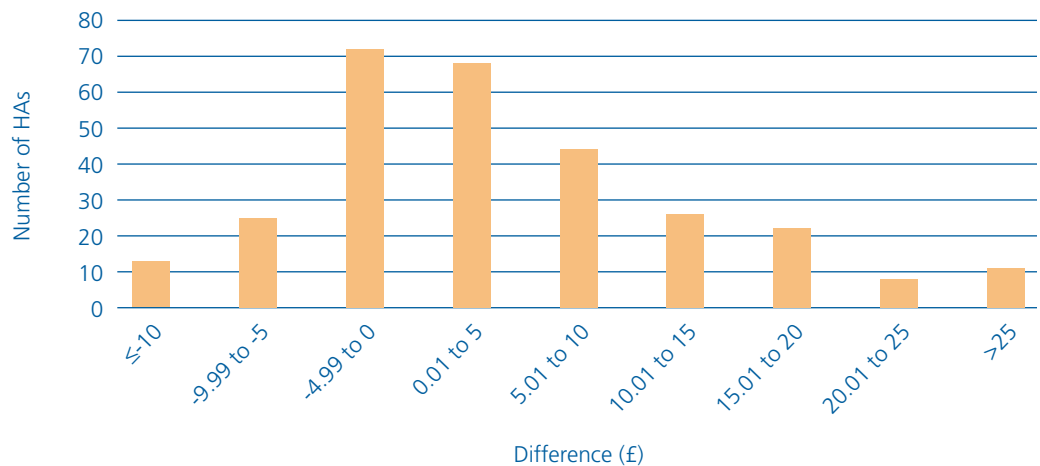
Table 1

Difference between target rents and actual rents at 31 March 2002

Difference in rent*	Number of HAs	Percent (%)
≤ -£5	38	13.1
-£4.99 to -£2.50	34	11.8
-£2.49 to £0	38	13.1
£0.01 to £2.50	30	10.4
£2.51 to £5.00	38	13.1
> £5.00	111	38.4
Total	289	100
Average	£4.29	
Median	£2.67	

* net rent

Figure 1
Differences between target and actual rent* at 31 March 2002



* net rent

(23.5%) of all HAs target rents will vary by less than £2.50 from their current rent levels.

Figure 1 shows the spread of the differentials in more detail. Just under half (48.4%) of the HAs have actual rents that differ by less than £5 from the target rent but there are more HAs with target rents above actual rents. Furthermore the highest positive differential is greater than the lowest negative one. Eleven HAs (3.8%) have positive differentials in excess of £25, yet none has a negative differential of more than £16.

Analysis by property size shows that the differentials tend to decrease as the

property size increases, suggesting that bedsits and 1 bedroom properties will be subject to greater absolute target rent changes. Analysis by HA size shows the higher average differentials tend to be found in HAs with 5,000 to 9,999 units (Table 2).

Although currently LSVT HA rents are on average lower than those of non-LSVT HAs (see Table 6), the longer established LSVT HAs included here have average actual rents that are higher than those of non-LSVT HAs (Table 3). Furthermore, their differentials are smaller (£3.91 compared to £4.63).

Table 2
Target rent levels and differentials by size of HA (assured and fair rent)

	No. of HAs	Bedsit		1 bed		2 bed		3 bed		4+ bed		All	
		Rent	Diff	Rent	Diff	Rent	Diff	Rent	Diff	Rent	Diff	Rent	Diff
Small (<1,000 units)	159	54.36	12.06	55.67	5.34	61.72	4.21	68.05	2.19	83.34	5.60	61.08	4.77
Medium (1,000–4,999 units)	171	48.35	4.49	54.26	3.83	61.84	3.64	69.29	4.29	76.64	1.95	61.88	3.91
Large (5,000–9,999 units)	40	48.91	5.98	57.15	7.03	64.53	5.43	70.04	4.49	80.16	3.25	64.34	6.08
Very large (>10,000+ units)	19	44.87	7.34	52.04	4.10	59.74	2.23	66.40	1.15	78.05	3.29	59.45	3.65
All	389	48.10	7.19	54.38	4.78	61.91	3.72	68.59	3.34	78.39	2.94	61.75	4.43

Notes: (1) Data excludes LSVTs registered after 31/3/1997 and all BME HAs (2) HA size is calculated on general needs assured and fair rent stock only

Table 3

Target and actual rent* levels by LSVTs and non-LSVTs

HA type (number)	Assured and fair		Difference
	Target rent	Actual rent	
LSVTs (57)	£63.93	£60.02	£3.91
Non-LSVTs (332)	£61.12	£56.50	£4.63

* net rent

Note: Data excludes all LSVTs registered after 31/3/1997 and all BME HAs

Changes in rents

Data in this section are taken from Part H of the RSR and include all HAs with valid returns.

Table 4 shows that in 2001/02 the average rent increase was 3.6% and the median rent increase was 3.7% including new stock. This is well below the RPI+1% guideline figure of 4.3%. This compares favourably with last year's average rent increases which were slightly above the guideline, but that itself was much lower at 2.1%.

More HAs therefore kept rent increases to RPI +1% or less this year, 69% compared to only 45% last year. Seven percent of HAs kept their average rents at the same level as last year or reduced them in nominal terms.

Figure 2 shows the distribution of changes in rents including new additions to stock in more detail. In particular it shows that most rent increases were between 3% and 5% and that the majority of HAs exceeding RPI + 1% have average rent increases below 6%. There were only 32 HAs where rent increases exceeded 6% of which, six were LSVT HAs.

In Tables 6 and 7 the rent differences are

analysed by stock size and to show the position of LSVT HAs and BME HAs. LSVT HAs account for an increasing proportion of the sector's stock, while BME HAs tend to have higher rents, given their relatively new stock.

Differences by stock size

In previous years HAs in the largest size group tended to have lower than average rents. This year their average rents are also slightly lower than the overall average despite above average increases. Small HAs, however, still had the lowest average rent increases (Table 5).

LSVT and non-LSVT HAs

One hundred and twelve LSVT HAs were included in the analysis, compared to 91 last year (Table 6). LSVT HAs have lower average rents than non-LSVT HAs but a higher average rent increase (4.8%). This is higher than both non-LSVT HAs (3.2%) and the overall average (3.6%), but more importantly it exceeds the RPI+1% guideline. Some high rates of increase for LSVT HAs could be attributable to increases occurring in a continuing rent guarantee period. These may be above the guideline but still be in line with the business plan assumptions at the time of transfer. This

Table 4

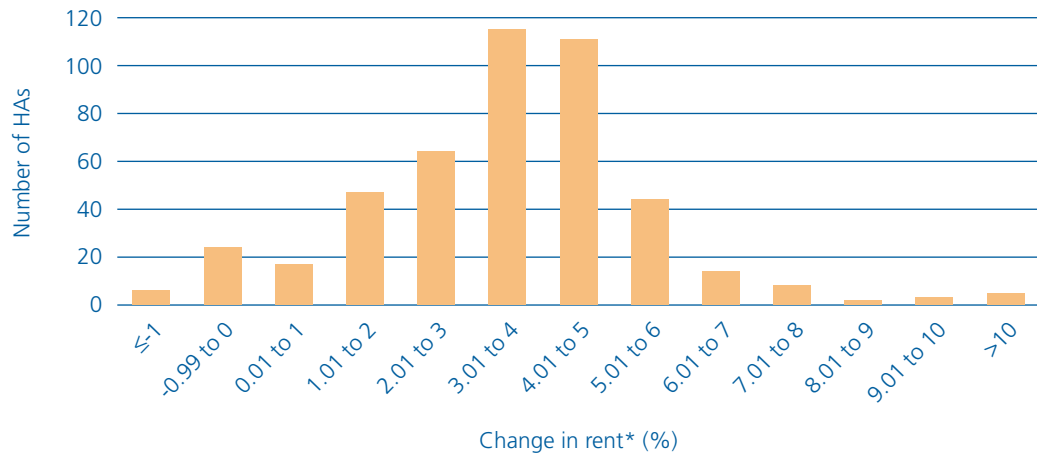
HA changes in rent* from April 2001 to March 2002

Difference in rent*	Number of HAs	Percent (%)
≤ 0	30	6.5
0.1 to 2.0	64	13.9
2.1 to 3.0	64	13.9
3.1 to 4.0	115	25.0
4.1 to 5.0	111	24.1
> 5.0	76	16.5
Total	460	100
Average	3.6%	
Median	3.7%	

* includes average weekly rent and service charge eligible for housing benefit. Includes new stock

Figure 2

Changes in rent* including new stock from 1 April 2001 to 31 March 2002



* includes the average weekly rent and service charge eligible for housing benefit

Table 5

Average rent levels and changes in rent by size of HA

	No. of HAs	Assured					All	Fair	Assured & fair	
		Bedsit	1 bed	2 bed	3 bed	4+bed		All	All	Rent inc.
Small (< 1,000 units)	180	42.25	52.10	61.66	69.92	83.16	59.90	52.23	58.80	3.0%
Medium (1,000–4,999 units)	198	43.17	50.24	57.99	65.24	77.06	57.90	53.46	57.24	4.0%
Large (5,000–9,999 units)	62	41.71	47.81	54.98	59.74	71.25	54.38	52.83	54.22	3.9%
Very large (>10,000+ units)	20	37.31	47.40	57.23	65.60	75.99	55.47	51.08	54.67	4.3%
All	460	40.66	48.87	56.96	63.52	75.73	56.26	52.52	55.73	3.6%

*includes the average weekly rent and service charge eligible for housing benefit. HA size is calculated on assured and fair rent stock only.

Table 6

Average rent* levels and changes in rent* by LSVTs and non-LSVTs

HA type (number)	Assured rent	Fair rent	Assured and fair rent	Rent increase
LSVTs (112)	£54.11	£51.90	£53.97	4.8%
Non-LSVTs (348)	£57.93	£52.65	£56.89	3.2%

* includes the average weekly rent and service charge eligible for housing benefit

Table 7

Average rent* levels and changes in rent* by BMEs and non-BMEs

HA type (number)	Assured rent	Fair rent	Assured and fair rent	Rent increase
BMEs (36)	£71.21	£55.86	£70.59	2.6%
Non-BMEs (424)	£56.00	£52.50	£55.50	3.7%

* includes the average weekly rent and service charge eligible for housing benefit

year's rise is also much higher than the LSVT average rent increase last year, which was 2.9% including new stock and 2.8% excluding new stock.

BME and non-BME HAs

BME HA rent levels are on average significantly higher than those of other HAs (excluding fair rents), reflecting their higher proportions of post-1988 development and their dependence on private finance. Yet in 2001/02, as in the previous year, BME HAs had a lower average rent increase than non-BME HAs, at 2.6% compared to 3.7% (Table 7). BME HA rent increases were therefore much lower than RPI+1%.

Conclusions

While many HAs have target rents that are higher than existing rents, in nearly half the cases the difference between target and actual rents is less than £5. The older LSVT HAs included in the target rent analysis have average actual rents that are higher than those of the non-LSVT HAs but the differences between their actual and target rents are less. Yet individual LSVT HAs facing negative differences are in a more precarious position than non-LSVT HAs with a national spread of properties that can cross-subsidise in order to maintain their viability.

The analysis implies that many smaller properties are likely to experience rent increases arising from the restructuring formula. This suggests that certain

household types, such as single households and couples without children, may bear more of the burden of rent changes in the move to target rents.

However, caution has to be used in drawing conclusions from an analysis based on average rents since the real difference will depend on the individual HA's current rent setting policy, so landlords with similar target or average rents may have very dissimilar actual differentials.

Increases in HA average rents are higher this year, reflecting the higher inflation figure. However, more HAs are meeting the Corporation's guideline limit than last year. This is particularly true for mixed funded and BME HAs. Once again, BME HAs have higher initial rents but lower average rent increases, while LSVT HA rents are lower but increases are greater. With the number of LSVT HAs increasing, this suggests more HAs may exceed the regulatory guidelines, especially in years when the RPI is low.

Sector Studies

This Sector Study was written by Caroline Kiddle and Daniel Banks, Dataspring, Cambridge Housing and Planning Research, University of Cambridge.

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