

Housing associations and changes in rent 2002 to 2003

Key findings

Target rents

- The average differential between target rents and actual rents fell from £4.29 in 2002 to £2.90 in 2003.
- Sixty-two percent of HAs to which target rents apply had average actual rents that were lower than average target rents.
- Fifty-nine percent of HAs had average actual rents that were within plus or minus £5 of average target rents.
- The percentage of HAs which had an average actual rent that was lower than the average target rent by more than £5.00 fell from 38% in 2002 to 31% in 2003.
- The average differentials between target and actual rents tended to be greater for smaller properties.
- The average differentials between target and actual rents tended to be greater for properties owned by small to medium sized HAs (less than 5,000 units).
- All of which suggests that HA rents are moving towards target rents over the time frame allowed by the policy.

Rent increases

- Across all social general needs tenancies, the average gross rent increase over the year to 31 March 2003 was 1.2%.
- Small HAs (less than 1,000 units) had the largest average increase (2.4%). Both medium-sized HAs (1,000-4,999 units) and large-sized HAs (5,000 – 9,999 units) had the lowest average increases, at 1.0%, and the very large HAs (>10,000 units) had an average increase of 1.5%.
- The small-sized HAs also had the highest average gross rent level (£66.20), followed by medium and very large HAs (£60.94 and £61.01). Large HAs had the lowest average

gross rent level (£57.28).

- The average increase was higher for non-LSVT HAs (2.6%) than for LSVT HAs (0.5%).
- Black and minority ethnic (BME) HAs had an average rent increase of 2.3%; significantly higher than the average.

Introduction

This Sector Study compares actual rents as at 31 March 2003 to target rents and describes the annual changes in rents for the period 1 April 2002 to 31 March 2003.

The rent restructuring regime, introduced in 2002 (*Rent influencing regime: implementing the rent restructuring framework*, Housing Corporation, October 2001), aims to bring greater coherence to rents between similar properties among different landlords. Most housing associations are required to calculate a target rent for each property using the formula and information set out in the *Guide to Social Rent Reforms* (DTLR, December 2000) and to adjust the actual net rent to meet the target rent over a ten-year rent-restructuring period. Housing associations report their average target rents for each property type by local authority area in the Regulatory and Statistical Return (RSR), helping the Housing Corporation to assess compliance with the rent-restructuring framework.

This Sector Study can be obtained from the Housing Corporation's RSR Survey website at www.rsrsurvey.co.uk or from the Dataspring website at www.dataspring.org.uk

Methodology

General points

- Data for these analyses come, via Dataspring, from the 2002/03 RSR and from the 2001/02 RSR for comparison over time.

- Data include sheltered but not supported housing.
- All rent and service charge data are expressed in £s per week.
- The methods used for calculating group averages are described in the Appendix.

Target rent analysis

- Actual rents and target rents are as of 31 March 2003.
- Target rent data come from Part I of the RSR.
- Only social, self-contained, general needs stock is included.
- The analysis of target rents includes only those housing associations that have currently reported their target rents¹. However, the average net rent for each HA included in the analysis are calculated on all its social, self-contained, general stock. The calculation cannot be restricted to that portion of stock for which a target rent has been calculated as such data are not reported in the RSR.
- Estate Renewal Challenge Fund stock is included for those housing associations that have currently calculated their target rents.
- Net rents are analysed, that is average assured and secure weekly rents combined — service charges are excluded.

Rent increase analysis

- Rent increases cover the period 1 April 2002 to 31 March 2003.
- Rent data comes from Part H of the RSR.
- Data from all housing associations that completed the long version of the RSR and made a valid return are included. (In general those HAs that own or manage more than 250 homes and/or bedspaces, including shared ownership dwellings, complete the long version of the RSR.)
- Only social general needs (units and bedspaces) stock is included. This differs from last year's analyses for the period 2001/02, which excluded bedspaces.
- Estate Renewal Challenge Fund stock is excluded.
- New additions to stock are included.
- Percentage change in rents is calculated on gross rent, that is, average assured and fair rent (secure) weekly rents combined plus service charges eligible for Housing Benefit.

Differences between target rents and actual rents

In total 410 housing associations owning 1,256,642 units of social general needs stock are included in the analysis of target rents.

Sixty-two percent of these HAs had an

1. Housing associations that **do not** currently report target rent include some LSVTs for the period 1 April 1998 to 31 March 2001, some BME housing associations, Abbeyfields and housing associations owning or managing 250 or fewer homes and/or bedspaces (including shared ownership dwellings).

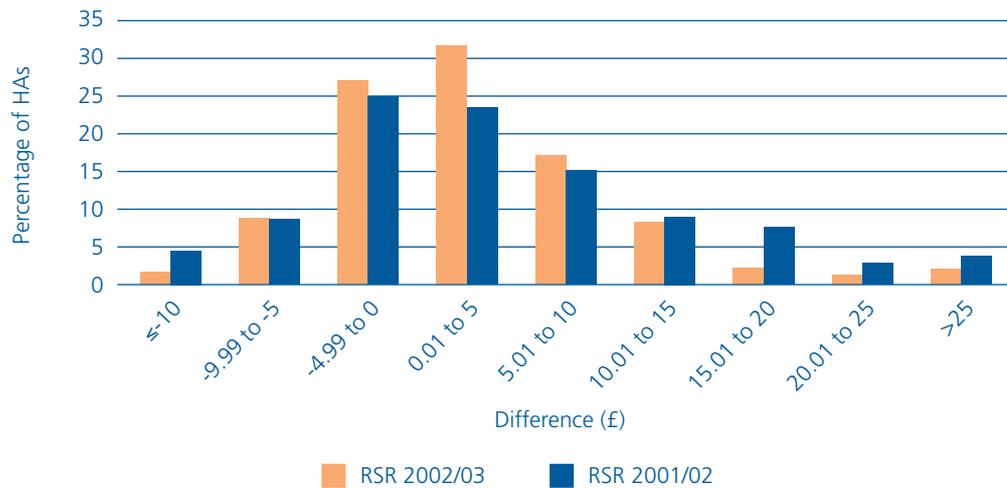
Table 1

Difference between target rents and actual net rents

Difference in target and actual net rents	2002/03 RSR		2001/02 RSR	
	No. of HAs in each band (N)	Percentage of HAs in each band (%)	No. of HAs in each band (N)	Percentage of HAs in each band (%)
<= -£5	43	10.5	38	13.1
-£4.99 to -£2.50	38	9.3	34	11.8
-£2.49 to £0	73	17.8	38	13.1
£0.01 to £2.50	72	17.6	30	10.4
£2.51 to £5.00	58	14.1	38	13.1
> £5.00	126	30.7	111	38.4
Total	410	100	289	100
Mean		£2.90		£4.29
Median		£1.93		£2.67
Minimum		-£20.98		-£15.82
Maximum		£45.84		£54.72

Notes: 1 The differential is calculated by subtracting average net rent from average target rent.
2 The mean given is not weighted by stock. The weighted mean is £2.74.

Figure 1
Difference between target rents and actual net rents: a comparison of 2001/02 with 2002/03



average net rent that was lower than the average target rent, the same percentage as the previous year. However, the percentage of HAs which had a target rent that was higher than the average net rent by more than £5.00 has fallen from 38% to 31% (see Table 1).

This convergence of average net rents to average target rents is reflected in the summary statistics — the average discrepancy between target rents and net rents fell from £4.29 in 2002 to £2.90 in 2003. The range has also narrowed (see Table 1).

Figure 1 compares the distribution of the differentials for 2003 with 2002 and

illustrates that the distribution is narrowing. In 2003, for example, a greater proportion of HAs had an average target rent that was within plus or minus £5.00 of the average net rent than in 2002.

Table 2 shows average target rent levels and differentials (to net rents) by property size and size of HA. Differentials are given in £s, but the general patterns that emerge also hold if the differentials are expressed in relative terms (differential as a percentage of net rent).

On average, the very large (>10,000 units) and large (5,000–9,999 units) housing associations had the smallest differentials between target and net rent.

Table 2
Target rent levels and differentials¹ by size of HA² and property size

	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)	141	51.82	7.66	55.46	3.61	62.66	3.76	69.33	2.07	79.65	3.21	61.20	3.58
Medium (1,000–4,999 units)	195	48.68	4.66	54.24	3.61	61.94	3.36	67.42	2.58	77.49	1.98	61.54	3.18
Large (5,000–9,999 units)	51	47.99	4.96	53.18	3.39	60.24	2.14	64.06	1.81	73.82	-0.65	59.44	2.39
Very large (>10,000+ units)	23	43.23	4.59	52.48	2.91	61.12	2.32	65.93	1.44	76.42	1.72	59.47	2.32
All	410	46.65	4.93	53.51	3.35	61.29	2.76	66.12	2.03	76.37	1.31	60.37	2.74

Notes: 1 The differential is calculated by subtracting average net rent from average target rent.

2 HA size is calculated on social, general needs stock (units and bedspaces) and includes stock from the Estate Renewal Challenge Fund (RSR Part I).

Table 3
Target rents, net rents
and differentials by
LSVTs and non-LSVTs

HA type	No. of HAs	Target rent	Actual rent	Difference
LSVT ¹	91	£59.57	£56.56	£3.01
Non-LSVT	319	£60.78	£58.17	£2.60

Notes: 1 In some local authority areas where a full LSVT has taken place, ownership of stock was transferred to more than one HA. Hence the 91 HAs categorised as 'LSVT' cover 82 local authority areas where a full LSVT has taken place.
2 LSVTs that registered during the period 1 April 1998 to 31 March 2001 are not currently required to calculate their target rents and are thus excluded.
3 LSVTs that registered during the period 1 April 1997 to 31 March 1998 were required to calculate their target rents for the first time in 2002/03. This group (7 HAs), have until 2013 (rather than 2012) to meet target rents.

Three-bed and four-bed properties had the lowest differentials, despite having higher average rents.

Bedsits had the largest target to net rent differential and the differential was particularly high (£7.66) for small housing associations (less than 1,000 units). Nevertheless, the differential was significantly lower than the corresponding figure of £12.06 in 2002.

Table 3 compares non-LSVT HAs with LSVT HAs². Both the average target rent and average net rent were slightly higher for the non-LSVT group, but the target to net rent differential was lower. In 2002 the reverse pattern was observed.

Variation in the differentials between target and net rent across local authority areas and regions

To compare the extent of variation between districts, the target to net rent differential (target rent minus net rent) needs to be measured in relative terms to standardise for the different rent levels between districts. For example, a differential of £3 where the average rent is £30 per week represents a higher variation than a differential of £5 per week where the average rent is £100, even though £5 is the higher absolute figure. Therefore the differential for each district has been standardised by dividing it by the mean average net rent for all housing associations that had calculated their target rents in the area. The result, expressed as a percentage, indicates by how much the average net rent will need to increase or decrease to reach the average target rent.

Table 4 categorises the percentages into four quartiles, reflecting the extent of variation for two bedroom properties — the most numerous property size across the housing association sector — by region. The differentials range from -23% to 58%. The middle two quartiles (the interquartile range) indicate that half of all districts had an average actual rent that was fairly close to the average target rent (-7.2% to 4.9%). More than half of all districts (56%) had an average actual rent that was higher than the average target rent.

For districts falling in the first quartile the average actual rent will need to decrease by between 7.2% and 23.3% to converge with the average target rent. Five regions had at least one-third of their districts falling in the first quartile — the South West (38%), the East Midlands (40%), the West Midlands (35%), Yorkshire and the Humber (33%) and the North East (35%). Moreover, the South West and Yorkshire and the Humber also had a high proportion of districts falling in the second quartile (44% and 43% respectively).

For districts falling in the upper quartile the average actual rent is lower than the average target rent by between 5.0% and 57.8%. Three regions had more than one-third of their districts falling in the upper quartile — Greater London (70%), East of England (38%) and Merseyside (67%).

Map 1 shows the spatial pattern of variation in target to actual rent differential (expressed as a percentage of actual net rent) across England for two bedroom properties. There is a discernable regional pattern, as highlighted in Table 4.

² In some local authority areas where a full LSVT has taken place, ownership of stock was transferred to more than one HA. Hence the 91 HAs categorised as 'LSVT' in Table 3 cover 82 local authority areas where a full LSVT has taken place.

Map 1

Variation in the differential between average target rent and average actual rent for two bedroom properties, 2002/03

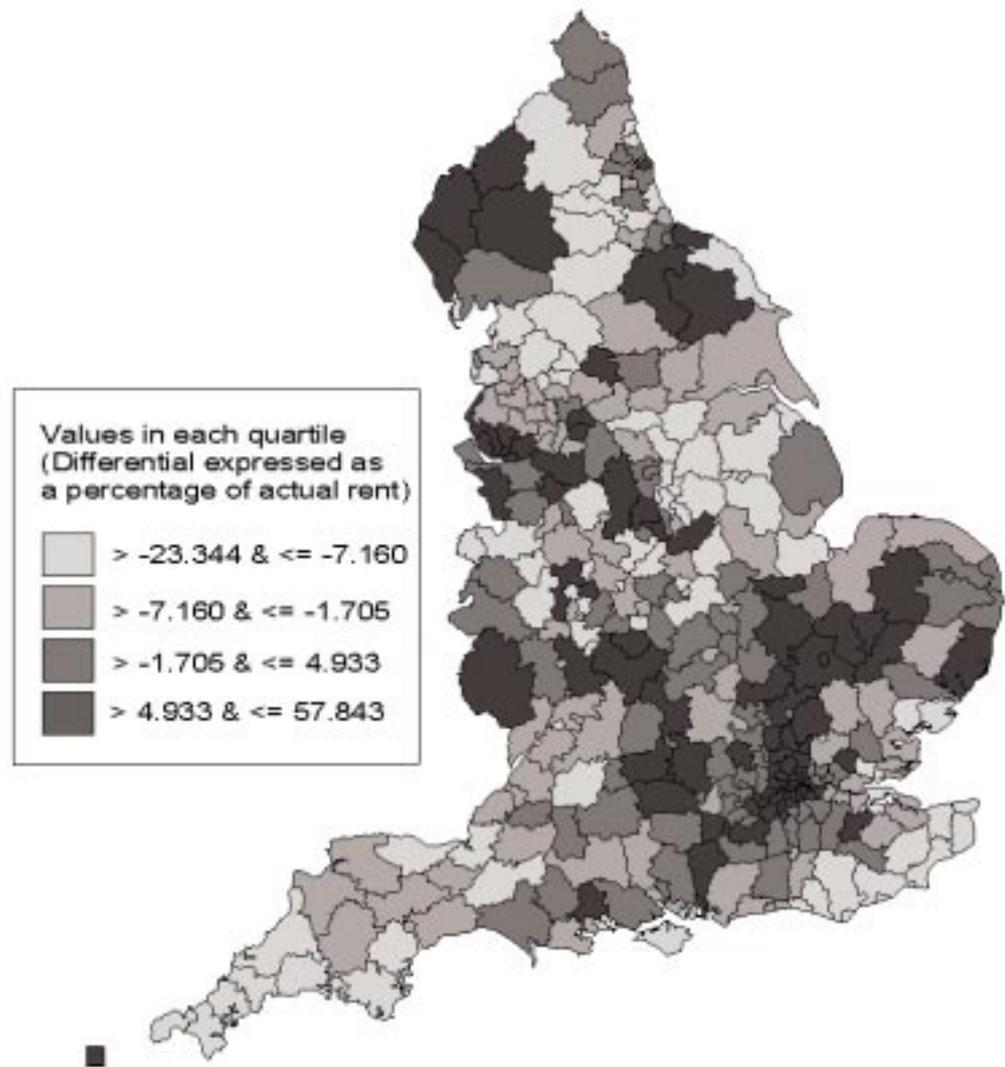


Table 4

Variation in the differential between target rent and actual rent¹ for two bedroom properties: percentage of districts falling in each quartile by region

Region	Range of target to net rent differentials within each quartile				Total no. of districts (N)
	Q1 -23.344% to -7.160 (%)	Q2 > -7.160% to -1.705% (%)	Q3 > -1.705% to 4.933% (%)	Q4 > 4.933% to 57.843% (%)	
London	0.0	3.0	27.3	69.7	33
South East	22.4	23.9	31.3	22.4	67
South West	37.8	44.4	13.3	4.4	45
East Midlands	40.0	15.0	35.0	10.0	40
East of England	10.4	20.8	31.3	37.5	48
West Midlands	35.3	26.5	20.6	17.6	34
Yorkshire and the Humber	33.3	42.9	9.5	14.3	21
North East	34.8	17.4	39.1	8.7	23
North West	23.5	38.2	11.8	26.5	34
Merseyside	0.0	11.1	22.2	66.7	9

Note: 1 The differential is calculated by subtracting average net rent from average target rent and is expressed as a percentage of net rent. Negative values indicate that average target rent is lower than average net rent.

Table 5**a: Districts with a differential of more than 20%**

Congleton	North West	20.5%
Lewisham	London	20.8%
Cambridge	East of England	20.9%
Derbyshire Dales	East Midlands	21.6%
Richmond upon Thames	London	22.0%
Breckland	East of England	23.9%
St Helens	Merseyside	25.4%
Hackney	London	27.4%
Lambeth	London	28.2%
Westminster	London	31.5%
Wandsworth	London	35.4%
Hammersmith and Fulham	London	36.8%
Islington	London	43.8%
City of London	London	45.3%
Kensington and Chelsea	London	50.0%
Isles of Scilly	South West	57.8%

b: Districts with the highest negative differentials

Restormel	South West	-23.3%
Eastbourne	South East	-18.3%
Hastings	South East	-18.0%
Telford and Wrekin	West Midlands	-16.2%
Craven	Yorkshire and the Humber	-16.0%
Harlow	East of England	-15.8%
Fylde	North West	-15.4%
Easington	North East	-15.1%
Mansfield	East Midlands	-14.8%
Bassetlaw	East Midlands	-14.6%

Districts that had a differential of more than 20% are mainly located in London (ten boroughs). (Table 5a) Districts that had the highest negative differentials were dispersed across all regions except London and Merseyside (neither of which had a district falling in the first quartile). (Table 5b)

Changes in rents

In total 489 housing associations owning 1,487,553 units of social general needs stock are included in the analysis of rent increases. This year's analysis includes bedspaces, which constitute 0.3% of the total stock figure. This differs from last year's analysis, which excluded bedspaces. The calculation of rent increases also differs from previous years. In previous years the increase was calculated as a simple average of the increases reported by individual HAs, with each HA being given equal weight.

This year, the calculation takes into account the relative size of each HA, thus reflecting the impact of rent increases across all stock.

Across all social general needs tenancies, the average rent increase over the year to 31 March 2003 was 1.2%. The average level of gross rent increased from £59.33 to £60.06.

Individual HAs were required to keep rent increases within a limit of RPI +0.5% (1.7 + 0.5 = 2.2%). HAs were in addition allowed to increase individual rents by up to an extra £2.00 per week if the actual rent was below target rent.

Table 6 groups HAs by size and presents the average increase for each group of HAs. The average increase in rent was highest (2.4%) for small-sized HAs (less than 1,000 units). The medium-sized HAs (1,000–4,999

Table 6Average¹ assured and secure gross² rent by size of HA³

Size of HA	2002		2003		Percentage increase in averages
	No. of HAs	Average gross rent	No. of HAs	Average gross rent	
Small (< 1,000 units)	178	£64.65	176	£66.20	2.4%
Medium (1,000–4,999 units)	200	£60.32	218	£60.94	1.0%
Large (5,000–9,999 units)	63	£56.71	70	£57.28	1.0%
Very large (>10,000 units)	21	£60.11	25	£61.01	1.5%
All	462	£59.33	489	£60.06	1.2%

Notes: 1 Average rent levels are weighted by the quantity of stock owned/managed. 2 Average gross rent increase includes service charges eligible for Housing Benefit. 3 HA size is calculated on social, general needs stock (units and bedspaces), including stock from the Estate Renewal Challenge Fund (RSR Part H).

Table 7Average¹ assured and secure gross² rent by LSVT³

Type of HA	2002		2003		Increase
	No. of HAs	Average gross rent	No. of HAs	Average gross rent	
LSVT³	113	£55.29	135	£55.54	0.5%
Non-LSVT	349	£62.05	354	£63.65	2.6%
All	462	£59.33	489	£60.06	1.2%

Notes: 1 Average rent levels are weighted by the quantity of stock owned/managed. 2 Average gross rent increase includes service charges eligible for Housing Benefit. 3 In some local authority areas where a full LSVT has taken place, ownership of stock was transferred to more than one HA. Hence the 135 HAs categorised as 'LSVT' in 2003 cover 114 local authority areas where a full LSVT has taken place.

Table 8Average¹ assured and secure gross² rent by BME³

Type of HA	2002		2003		Increase
	No. of HAs	Average gross rent	No. of HAs	Average gross rent	
BME³	37	£75.21	38	£76.92	2.3%
Non-BME	425	£59.08	451	£59.81	1.2%
All	462	£59.33	489	£60.06	1.2%

Notes: 1 Average rent levels are weighted by the quantity of stock owned/managed. 2 Average gross rent increase includes service charges eligible for Housing Benefit. 3 In 2003 just under 8% of all HAs were BME HAs. However, total stock held by BME HAs constitutes only 1.5% of all stock. Thus the non-BME HAs' increase is virtually the same as the increase for all HAs, as the BME HAs have a very small effect on the overall increase.

units) and large-sized HAs (5,000–9,999 units) had the lowest average increases, both at 1.0%, and the very large-sized HAs (>10,000 units) had an average increase of 1.5%.

The average increase in gross rent (including service charge eligible for Housing Benefit) was lower for LSVT HAs (0.5%) than non-LSVT HAs (2.6%). The average level of gross rent was also lower for LSVT HAs (£55.54) than non-LSVT HAs (£63.65) (see Table 7).

Black and minority ethnic (BME) HAs had an average gross rent increase of 2.3%, higher

than the non-BME increase of 1.2% (see Table 8). The average level of rent for BME HAs at £76.92 was also higher than that of non-BME HAs (£59.81). The difference is importantly related to the higher proportion of 4-plus bedroom properties owned by BME HAs (22.9% of stock as compared to 2.9% for non-BMEs).

Conclusion

A comparison of the data for 2003 with that of 2002 suggests that actual rents are converging to target rents quite rapidly. The majority (59%) of HAs to which target rents

apply had average target rents that differed by less than £5 from average actual net rents, as at 31 March 2003, a much higher percentage than the 48% of the previous year. The average differential between average target rents and average actual rents fell from £4.29 in 2002 to £2.90 in 2003 and the overall distribution of differentials is narrowing.

The average differentials have reduced since 2002 across all property sizes. However, these differentials were greater for smaller-sized properties, particularly bedsits.

The average differentials were greater for properties owned by small to medium sized HAs.

The increase in the average level of rent was lower for LSVT HAs than for non-LSVT HAs. Moreover, the average level of rent was lower for LSVTs.

The increase in the average level of rent for Black and Minority Ethnic (BME) HAs was higher than that of non-BME. The average level of rent for BME HAs was also higher than that of non-BME HAs.

The spatial analysis, which considered average actual and target rents at the

district level, indicated that on average, actual rents will have to decrease in order to meet actual rents in more than half (56%) of all districts. In particular, the South West and Yorkshire and the Humber had high proportions of districts where the average district rent will need to be reduced.

The move towards target rents is occurring relatively rapidly. In the majority of areas where average rents are higher than target rent, it is usually by quite small amounts. In areas where actual rents are lower than target rents, such as London and Merseyside, the differences are greater.

Further information

This Sector Study was written by Wendy Solomou and Ian Elliott, Dataspring, Cambridge Centre for Housing and Planning Research, Department of Land Economy, University of Cambridge.

Further information on the Sector Studies series can be obtained from Siobhan McHugh, Sector Analyst, Regulation Division, on 020-7393 2024 or email siobhan.mchugh@housingcorp.gsx.gov.uk

Appendix: calculation of averages

Housing associations calculate average rent (net or target) by adding together all of the rents at 31 March 2003 and then dividing this total by the total number of units.

One bedroom example:

$$\frac{\text{Total net rent charged for all one-bed properties}}{\text{Total number of one-bed properties}}$$

Where the analysis groups HAs together, for example, Table 2, the group average rent (net or target) is weighted by the quantity of stock owned.

Example: to calculate the average net rent

for one-bed properties for medium-sized HAs:

- 1 For each medium-sized HA, multiply the average rent charged for one-bed properties by the total number of one-bed properties owned.
- 2 Sum the results for all medium-sized HAs.
- 3 Divide this result by the total number of one-bed properties owned by all medium-sized HAs.

The average rent increases (expressed as percentages) in table 6, 7 and 8 are calculated from the unrounded weighted average rent data given in the tables.