

## **Private rents and rental rates of return, 1996/97 to 2006/07**

A Dataspring Brief Report on behalf of the  
Tenant Services Authority

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the Tenant Services Authority

Chihiro Udagawa and Connie P. Y. Tang  
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Further Information:

Dataspring,  
Cambridge Centre for Housing and Planning Research,  
University of Cambridge,  
19 Silver Street, Cambridge,  
CB3 9EP  
Tel: 01223 337118  
[www.dataspring.org.uk](http://www.dataspring.org.uk)

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<sup>1</sup> This report is based on Udagawa (2008) *Private Sector Rents and Rates of Return, 1996/97 to 2006/07* which can be accessed as a source document through the Dataspring's website.

## 1. Introduction

In 2007 Dataspring undertook a detailed analysis of the spatial pattern of the private rents and rental rates of return from 1996/97 to 2005/06. This paper updates the analysis to 2006/07 and examines the pattern of changes over the decade at national, regional and local levels.

The aim of this paper is to analyse how private rents relate to the lower quartile (LQ) house prices in the private sector and to examine the gross rates of return on capital achieved by private landlords. It will therefore focus on three issues:

- Changes of private sector gross rents from 1996/97 to 2006/07
- The relationship between private sector gross rents and LQ house prices
- Private gross rental rates of return in terms of LQ house prices

## 2. Private sector gross rents across England, 1996/97 to 2006/07

### 2.1 The national trend in private rents

Private rent data come from the Rent Officer Service at the former Department of Transport, Local Government and the Regions for 1996/97 to 2000/01 and from the Rent Service of the Department for Work and Pensions for 2001/02 to 2006/07.<sup>2</sup> The study uses average weekly rents which include service charges that are eligible for Housing Benefit. Gross rents are for assured short-hold tenancies and secure tenancies in the unfurnished and furnished self-contained properties only. Rents for bedsits are excluded.

Table 2.1 Average weekly private rents in England, 1996/97 to 2006/07

	Rent (£)	Nominal change	Rent in 1996/97 prices (£)	Real change
1996/97	82.77		82.77	
1997/98	83.46	0.8%	80.56	-2.7%
1998/99	83.36	-0.1%	77.98	-3.2%
1999/00	81.59	-2.1%	75.48	-3.2%
2000/01	85.91	5.3%	76.98	2.0%
2001/02	89.35	4.0%	78.72	2.3%
2002/03	104.17	16.6%	90.19	14.6%
2003/04	105.42	1.2%	88.81	-1.5%
2004/05	106.72	1.2%	87.26	-1.7%
2005/06	116.57	9.2%	92.81	6.4%
2006/07	121.10	3.9%	93.08	0.3%
<b>96/97 to 06/07</b>		<b>46.3%</b>		<b>12.5%</b>
<b>Estimated annual change</b>		<b>3.9%</b>		<b>1.2%</b>

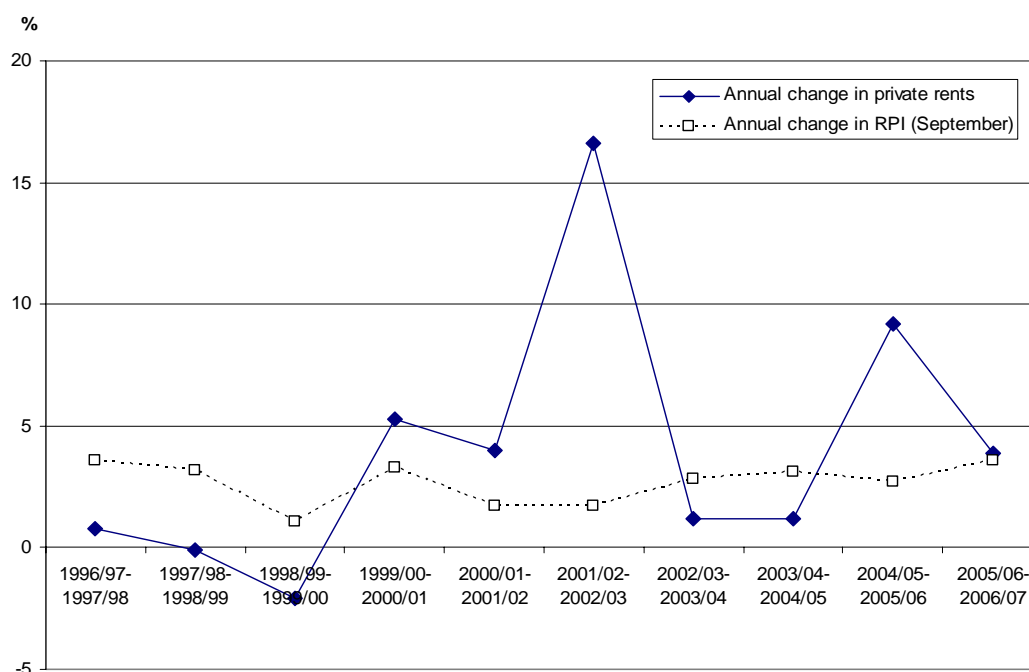
Note: Rents were weighted averages which were based on local authority (LA) areas' individual rents. Source: Based on data from the Rent Officer Service and the Rent Service.

Table 2.1 shows private rents for furnished and unfurnished self-contained properties for England from 1996/97 to 2006/07. Average rents increased steadily from £82.77

<sup>2</sup> See Udagawa and Whitehead (2006) *Private sector rents and rates of return, 1996/97 to 2000/01*.

per week in 1996/97 to £121.10 in 2006/07. Figure 2.1 shows that the annual change in private rents was above the annual change of the Retail Price Index (RPI) for all items in September in five out of 11 years. However, the overall increase of private rents was 46.3%, with an annual increase of 3.9% between 1996/97 and 2006/07 which was above the average increase of RPI of 2.6% per annum. Using the 1996/97 prices as a base year, the real accumulate change of private rents was 12.5% in an annual rate of 1.2% (Table 2.1).

Figure 2.1 Annual rates of increase in private rents in England, 1996/97 to 2006/07



Source: Based on data from the Rent Officer Service, the Rent Service and the Office of the National Statistics ([http://www.statistics.gov.uk/downloads/theme\\_economy/RP04.pdf](http://www.statistics.gov.uk/downloads/theme_economy/RP04.pdf)).

## 2.2 Regional trends in private rents

Table 2.2 illustrates the regional trend in private sector gross rents for the period 1996/97 to 2006/07. London consistently had the highest average rents. The North East was most often the lowest rent region; private rents in this region were the lowest nationally in seven out of the 11 years. The East Midlands had the lowest rent in the first two years and 2001/02, and Yorkshire and the Humber had the lowest in 2004/05.

Private rents increased in all nine regions. The fastest growth region was found in the East (59.7%, or an annual rate of 4.8%). This was followed by the South West (54.9%, or an annual rate of 4.5%) and the East Midlands (54.3%, or an annual rate of 4.4%). The slowest growth was in the North West (31.4%, or an annual rate of 2.8%), followed by Yorkshire and the Humber (38.0%, or an annual rate of 3.3%) and the North East (40.7%, or an annual rate of 3.5%). The annual rate of rent increase in every region was above the RPI (2.7%). The North West, however, had an annual rent increase very close to the RPI so that in real terms, its annual rate of average rent increase was close to zero over the 11 year period.

Table 2.2 Average weekly private rents (£) by region, 1996/97 to 2006/07

	London	SE	East	SW	W Mid	E Mid	NW	Y & H	NE
1996/97	129.45	90.16	77.44	75.13	69.43	60.46	69.59	62.70	60.56
1997/98	132.20	92.37	79.04	76.58	70.54	61.20	70.07	63.55	61.37
1998/99	135.28	94.06	80.64	78.20	71.76	62.38	69.37	64.36	61.98
1999/00	137.02	96.04	83.21	80.03	72.65	62.83	68.68	64.57	60.20
2000/01	149.16	101.86	85.04	83.27	75.18	65.24	69.03	66.28	62.82
2001/02	148.51	102.84	87.22	84.42	78.28	68.91	75.11	69.60	68.98
2002/03	177.34	118.46	100.54	104.02	86.25	77.72	80.46	85.92	77.15
2003/04	183.08	121.45	107.43	102.97	88.44	78.41	81.70	79.20	74.82
2004/05	187.09	120.06	107.02	99.96	91.34	80.78	81.95	76.36	76.69
2005/06	194.69	130.00	118.59	110.81	98.04	89.02	87.47	82.59	81.19
2006/07	199.42	134.88	123.70	116.41	101.30	93.30	91.44	86.55	85.22
<b>Nominal change:</b>									
<i>96/97 to 06/07</i>	54.1%	49.6%	59.7%	54.9%	45.9%	54.3%	31.4%	38.0%	40.7%
<i>Estimated annual</i>	4.4%	4.1%	4.8%	4.5%	3.8%	4.4%	2.8%	3.3%	3.5%
<b>Real change:</b>									
<i>96/97 to 06/07</i>	16.0%	13.3%	20.7%	17.2%	11.2%	17.3%	1.0%	5.8%	7.9%
<i>Estimated annual</i>	1.7%	1.4%	2.1%	1.8%	1.2%	1.7%	0.1%	0.6%	0.8%

Source: Based on data from the Rent Officer Service and the Rent Service.

### 2.3 Private rents at local authority level<sup>3</sup>

#### Range of average weekly rents

Table 2.3 illustrates the range of private sector average weekly rents at the local authority (LA) level for the period 1996/97 to 2006/07. In 2006/07, the median rent was £108.14 per week, compared to £72.89 in 1996/97, an increase of 48.4%. The range of rents across LA areas has widened each year, with the exception in 2001/02 and 2004/05. The lowest rent in 1996/97 was £48.33 while the highest was £180.10, a range of £131.77 with a standard deviation of £23.46. In 2006/07, the range increased to £235.73 with the highest £295.51 and the lowest £59.78. The standard deviation was increased to £37.20.

Table 2.3 Range of average weekly rents (£) at LA level, 1996/97 to 2006/07

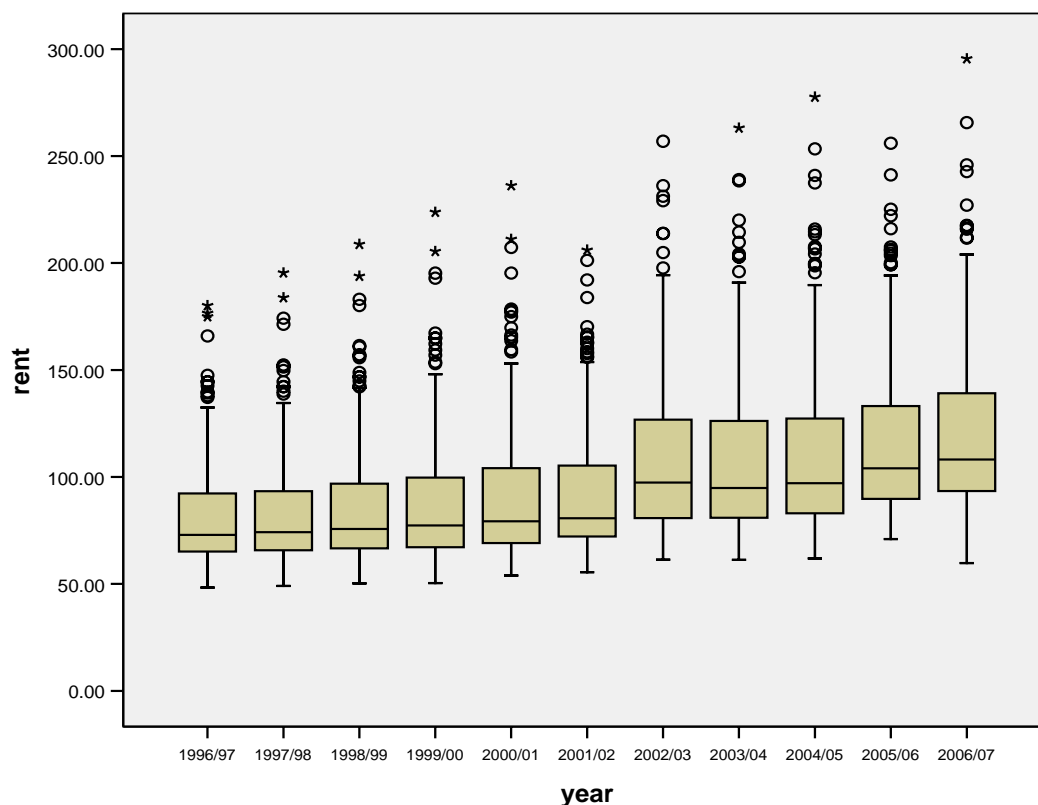
	Median	Standard deviation	Highest	Lowest	Highest – lowest
1996/97	72.89	23.46	180.10	48.33	131.77
1997/98	74.16	24.78	195.41	49.08	146.33
1998/99	75.71	26.75	208.76	50.22	158.54
1999/00	77.35	28.68	223.77	50.37	173.40
2000/01	79.29	30.90	236.19	53.89	182.30
2001/02	80.71	27.94	206.06	55.48	150.58
2002/03	97.38	35.99	256.94	61.33	195.61
2003/04	94.82	36.71	263.12	61.23	201.89
2004/05	95.45	35.76	254.48	61.81	192.67
2005/06	104.58	36.62	280.45	71.15	209.30
2006/07	108.14	37.20	295.51	59.78	235.73
<i>Change: 96/97 to 06/07</i>	48.40%	58.60%	64.10%	23.70%	78.90%

Source: Based on data from the Rent Officer Service and the Rent Service.

<sup>3</sup> The LA areas are based on the boundaries as of April 1998.

The widening pattern in the range of private rents is shown visually in Figure 2.2. Median rents, the highest and the lowest rents, and rents at the 25<sup>th</sup> percentile and the 75<sup>th</sup> percentile, all increased steadily over the study period, except for small dips in the lowest rent in 2003/04 and 2006/07.

Figure 2.2 Distribution of average weekly rents (£) at the LA level, 1996/97 to 2006/07



Source: Based on data from the Rent Officer Service and the Rent Service.

### ***LA areas with the highest and the lowest average weekly rents***

Table 2.4 lists the ten LA areas in England having the highest and the lowest average weekly private rents in 1996/97 and in 2006/07. Kensington and Chelsea (£180.10 in 1996/97 and £295.51 in 2006/07) and Westminster (£176.51 and £265.55, respectively) were the two LA areas with the highest average weekly rents for both years. All the ten LA areas having the highest private rents were located in London, except Elmbridge in the South East. Six of the ten LA areas having the highest rents in 1996/97 remained in the same list for 2006/07.

Table 2.4 also shows the ten LA areas with the lowest rents. Berwick-upon-Tweed had the lowest in 1996/97 (£48.33), followed by Wansbeck (£48.48) and Alnwick (£51.51). Six of these LA areas were located in the East Midlands and the remainder were in the North East. Three of them remained as the ten LA areas with the lowest rents in 2006/07. South Norfolk (£59.77) was now the lowest, followed by Teignbridge (£64.67) and North East Lincolnshire (£66.37). Three of these lowest rent LA areas were located in the North West while two each were in Yorkshire and the Humber and the North East.

It is noteworthy that all LA areas with the highest rents were located in urban areas whilst nine of the LA areas with the lowest rents were classified as rural in 1996/97 and seven in 2006/07.

Table 2.4 Ten LA areas with the highest and ten LA areas with the lowest rents, 1996/97 and 2006/07

1996/97			2006/07		
LA areas	Region	Rent (£)	LA	Region	Rent (£)
<i>Highest weekly rent</i>			<i>Highest weekly rent</i>		
Kensington and Chelsea	London	180.10	Kensington and Chelsea	London	295.51
Westminster	London	176.51	Westminster	London	265.66
Camden	London	174.94	Hammersmith and Fulham	London	245.86
Hammersmith and Fulham	London	165.92	Camden	London	242.75
Islington	London	147.49	Tower Hamlets	London	227.10
Barnet	London	144.51	Brent	London	217.66
Wandsworth	London	144.44	Hackney	London	217.39
Richmond Upon Thames	London	142.65	Islington	London	216.29
Elmbridge	SE	139.79	Barnet	London	215.83
Haringey	London	139.26	Ealing	London	212.04
<i>Lowest weekly rent</i>			<i>Lowest weekly rent</i>		
Berwick-upon-Tweed	NE	48.33	South Norfolk	E	59.77
Wansbeck	NE	48.48	Teignbridge	SW	64.67
Alnwick	NE	51.51	North East Lincolnshire	Y & H	66.37
West Lindsey	E Mid	51.72	Berwick-upon-Tweed	NE	70.56
Castle Morpeth	NE	52.21	Barrow-in-Furness	NW	72.62
Boston	E Mid	52.32	Kingston upon Hull	YH	72.94
Bolsover	E Mid	52.89	Copeland	NW	73.91
East Lindsey	E Mid	53.71	Allerdale	NW	75.3
Ashfield	E Mid	53.89	West Lindsey	E Mid	75.34
South Holland	E Mid	54.04	Wansbeck	NE	75.93

Source: Based on data from the Rent Officer Service and the Rent Service.

### **LA areas with the largest and the smallest rent changes**

The average growth rate of private rents at the LA level between 1996/97 and 2006/07 was 47.9%. Eighty-seven LA areas experienced rent increases that were *greater* than 56.5%, the upper quartile growth rate over the period. The majority were located in southern England, including 26 in the East, 17 in London, 15 in the South West, and 12 in the South East. Almost an equal number of LA areas were located in urban (43) and rural areas (44).

At the other end of the spectrum, 88 LA areas had average growth rates that were *lower* than the lower quartile growth rate of 40.4%. Three quarter of these (66 LA areas) were in northern England: 35 were in the North West, 13 in the West Midlands, ten in Yorkshire and the Humber, six in the North East and two in the East Midlands. The number of urban LA areas having lower rent increases was larger than that for rural areas, 50 as opposed to 38.

Table 2.5 lists the ten LA areas having the largest and the smallest *real* growth in average rents between 1996/97 to 2006/07. St. Helens had the largest real rent increase of 42.1%, followed by South Holland, 40.3% and Milton Keynes, 36.3%. Surprisingly, only three of these top ten LA areas were located in London. Six were

urban LA areas. For those with the smallest rent increases (or the largest decreases), the top three LA areas – Guildford, Teignbridge and South Norfolk – showed an unusual decline of more than 30% in real terms (which warrants further investigation and possible correction before concluding that these LA areas actually experienced rent devaluations in nominal terms). Excluding these three extreme cases, four of the seven LA areas having the smallest growth rates were located in the North West and two in London. Almost all were urban areas, with only one rural LA area.

Table 2.5 Ten LA areas with the largest and ten LA areas with the smallest rent changes between 1996/97 and 2006/07

LA areas	Region	Urban/rural	Rent (£)		Change (%)	
			1996/97	2006/07	Nominal	Real
<i>Largest real rent growth</i>						
St. Helens	NW	Urban	69.22	127.97	84.9	42.1
South Holland	E Mid	Rural	54.04	98.67	82.6	40.3
Milton Keynes	SE	Urban	82.10	145.57	77.3	36.3
Boston	E Mid	Rural	52.32	91.69	75.2	34.7
Mid Bedfordshire	E	Rural	77.77	135.03	73.6	33.5
Greenwich	London	Urban	100.22	173.05	72.7	32.7
Tower Hamlets	London	Urban	131.75	227.10	72.4	32.5
Chelmsford	E	Rural	84.18	144.72	71.9	32.1
Slough	SE	Urban	103.13	176.03	70.7	31.2
Brent	London	Urban	127.86	217.66	70.2	30.8
<i>Smallest real rent growth</i>						
Guildford	SE	Rural	120.51	93.61	-22.3	-40.3
Teignbridge	SW	Rural	72.59	64.67	-10.9	-31.5
South Norfolk	E	Rural	65.81	59.77	-9.2	-30.2
North East Lincolnshire	Y & H	Urban	61.92	66.37	7.2	-17.6
Lewisham	London	Urban	106.59	117.40	10.1	-15.3
Wandsworth	London	Urban	144.44	168.47	16.6	-10.3
Copeland	NW	Rural	61.81	73.91	19.6	-8.1
Burnley	NW	Urban	63.30	77.58	22.6	-5.8
Stockport	NW	Urban	87.30	107.30	22.9	-5.5
Pendle	NW	Urban	62.26	77.73	24.8	-4.0

Note: The real change is based on 1996/97 prices.

Source: Based on data from the Rent Officer Service and the Rent Service.

## 2.4 Private rents in urban and rural LA areas

Table 2.6 shows private rents for rural and urban LA areas over the period of 1996/97 to 2006/07. In 2006/07, the average weekly rents were £127.97 for urban areas and £106.37 for rural areas. In general, private rents in both urban and rural areas showed increases each year, except during the period of 1998/99 to 1999/00 for the urban group and from 2003/04 to 2004/05 for the rural group. On average, urban rents rose by £39.93 or 45.4% (or 11.7% in real terms) in the 11-year period, while average rural rents increased by £35.27 or 49.6% (or 15.0% in real terms).



Table 2.6 Average weekly private rents by urban and rural LA areas, 1996/97 to 2006/07

	Weekly rent (£)	
	Urban LA areas	Rural LA areas
1996/97	88.04	71.10
1997/98	88.35	72.25
1998/99	87.95	73.05
1999/00	85.49	74.52
2000/01	90.06	76.72
2001/02	94.18	78.75
2002/03	108.82	94.28
2003/04	111.53	92.79
2004/05	113.92	92.20
2005/06	123.27	102.48
2006/07	127.97	106.37
<b>Nominal change:</b>		
96/97 to 06/07	45.4%	49.6%
Estimated annual	3.8%	4.1%
<b>Real change:</b>		
96/97 to 06/07	11.7%	15.0%
Estimated annual	1.1%	1.4%

Source: Based on data from the Rent Officer Service and the Rent Service.

Table 2.7 shows average weekly private rents by the six categories of LA areas according to the Defra's urban and rural LA area classification.<sup>4</sup> During the period from 1996/97 to 2006/07, LA areas in the 'Major Urban' category experienced the highest rents. By contrast, LAs in the most rural category, the 'Rural-80', had the lowest rents, except in 2002/03 when the second most rural category, the 'Rural-50', had the lowest.

With respect to the growth in average rents, LA areas in the 'Rural-80' had the largest growth for the whole period (50.9%, or an annual rate of 4.2%; in real terms 16.0%, or an annual rate of 1.5%). This was followed by LA areas in the smallest urban group, the 'Other Urban', (50.8%, or an annual rate of 4.2%; in real terms 15.9%, or an annual rate of 1.5%). The lowest growth was found in LA areas in the 'Large Urban' category (42.9%, or an annual rate of 3.6%; in real terms 9.8%, or an annual rate of 0.9%).

<sup>4</sup> The urban and the rural LA area classifications are based on the Defra (2006) *Rural Definition and Local Authority Classification* (<http://www.defra.gov.uk/rural/ruralstats/rural-definition.htm#defn>), which classifies urban and rural LA areas into six categories:

1. Major Urban: districts with either 100,000 people or 50% of their population in urban areas with a population of more than 750,000
2. Large Urban: districts with either 50,000 people or 50% of their population in one of 17 urban areas with a population between 250,000 and 750,000
3. Other Urban: districts with fewer than 37,000 people or less than 26% of their population in rural settlements and larger market towns
4. Significant Rural: districts with more than 37,000 people or more than 26% of their population in rural settlements and larger market towns
5. Rural-50: districts with at least 50 percent but less than 80% of their population in rural settlements and larger market towns
6. Rural-80: districts with at least 80% of their population in rural settlements and larger market towns

Table 2.7 Average weekly rents by LA level according to the six urban/rural LA area classifications, 1996/97 to 2006/07

	Weekly rent (£)					
	Major urban	Large urban	Other urban	Rural-26	Rural-50	Rural-80
1996/97	99.92	76.51	73.21	72.22	72.55	68.75
1997/98	98.91	77.38	74.36	73.09	73.89	70.00
1998/99	97.52	78.80	75.37	73.82	74.41	71.19
1999/00	95.11	80.89	75.89	75.38	75.94	72.64
2000/01	100.42	81.47	77.39	77.70	77.98	74.63
2001/02	104.99	84.55	80.41	79.32	80.19	76.97
2002/03	122.90	95.94	91.32	94.58	91.11	96.89
2003/04	125.82	97.76	94.51	94.08	92.81	91.45
2004/05	129.54	95.81	97.49	93.25	93.45	89.92
2005/06	140.01	104.55	105.07	102.01	105.29	100.48
2006/07	144.06	109.33	110.42	106.20	109.35	103.77
<i>Nominal change:</i>						
96/97 to 06/07	44.2%	42.9%	50.8%	47.1%	50.7%	50.9%
Estimated annual	3.7%	3.6%	4.2%	3.9%	4.2%	4.2%
<i>Real change:</i>						
96/97 to 06/07	10.8%	9.8%	15.9%	13.0%	15.9%	16.0%
Estimated annual	1.0%	0.9%	1.5%	1.2%	1.5%	1.5%

Source: Based on data from the Rent Officer Service and the Rent Service.

### 3. The relationship between private sector gross rents and LQ house prices, 1996/97 to 2006/07

This section examines how private rents vary in relation to house prices, in particular the extent to which private rents are correlated with house prices, from the Land Registry, at the national as well as regional and LA levels. Lower quartile (LQ) house prices, rather than the median, are analysed as the rent dataset examined in the previous section is most comparable to the lower part of the market.<sup>5</sup>

#### 3.1 The relationship between private rents and LQ house prices in England

Table 3.1 shows that LQ house prices in England increased considerably from £41,500 in 1996/97 to £124,200 in 2006/07, implying a growth rate of 199.3% or 11.6% per annum. In real terms, the increase was 130.0% or an annual rate of 8.7%. LQ house prices rose sharply from 2002/03 to 2004/05, after which growth rates have increased moderately. The nominal annual change fell to 6.9% between 2004/05 and 2005/06 (or in real terms, 4.1%), and 7.5% between 2005/06 and 2006/07 (or in real terms, 3.8%).

<sup>5</sup> Department of Work and Pension (2007) *Family Resource Survey 2005-06* reported that nearly half (48%) of households in private rented tenures in UK had a weekly income less than £400, while the equivalent proportion of households in social rented tenures was 68% in 2005/06.

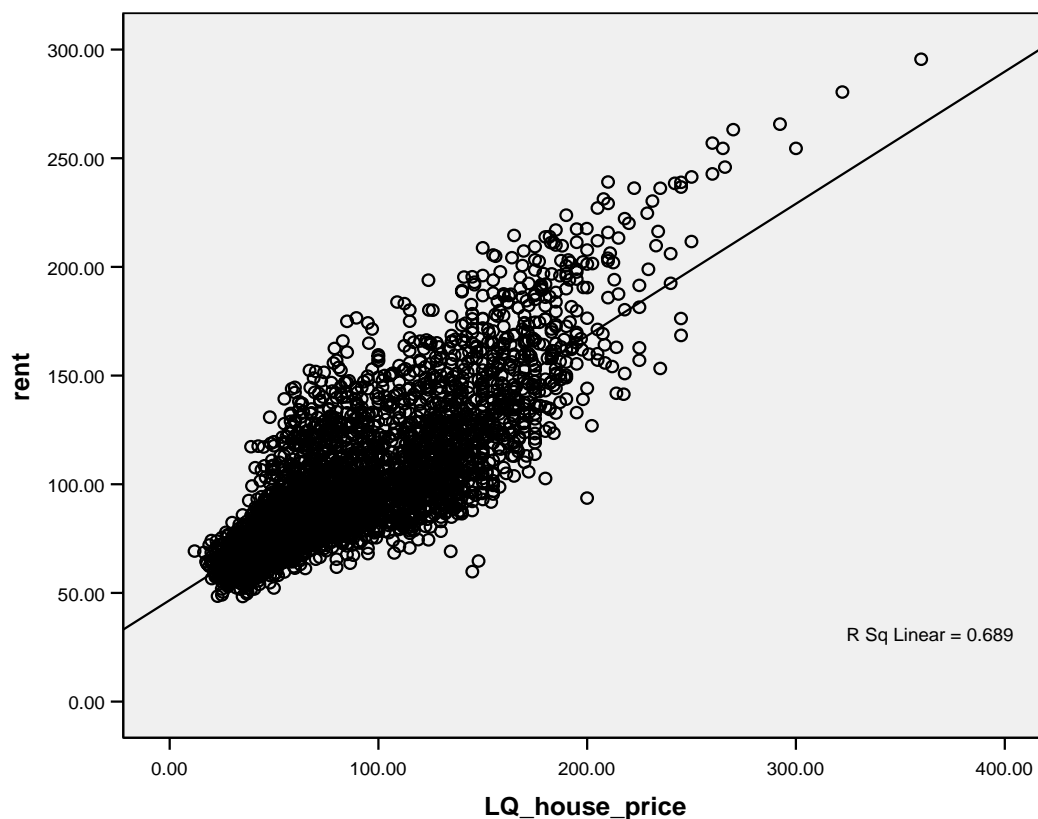
Table 3.1 LQ house prices in England, 1996/97 to 2006/07

	LQ house price (£)	Nominal change	LQ house price in 1996/97 prices (£)	Real change
1996/97	41,500		41,500	
1997/98	44,000	6.0%	42,471	2.3%
1998/99	46,500	5.7%	43,499	2.4%
1999/00	51,000	9.7%	47,179	8.5%
2000/01	54,950	7.7%	49,238	4.3%
2001/02	60,000	9.2%	52,863	7.3%
2002/03	74,250	23.8%	64,286	21.7%
2003/04	89,000	19.9%	74,979	16.6%
2004/05	108,000	21.3%	88,307	17.7%
2005/06	115,500	6.9%	91,959	4.1%
2006/07	124,200	7.5%	95,465	3.8%
<b>96/97 to 06/07</b>		<b>199.3%</b>		<b>130.0%</b>
<b>Estimated annual change</b>		<b>11.6%</b>		<b>8.7%</b>

Source: Based on data from the Land Registry.

There was a positive and significant relationship between private rents and LQ house prices (Fig. 3.1). The coefficient was 0.830, and the adjusted  $R^2$  was 0.689 implying that while house prices were extremely important in determining private sector rent levels, there were other factors influencing these rents.

Figure 3.1 The relationship between private rents and LQ house prices, 1996/97 to 2006/07: England



Source: Based on data from the Rent Officer Service, the Rent Service and the Land Registry.

### 3.2 The relationship between private rents and LQ house prices by region

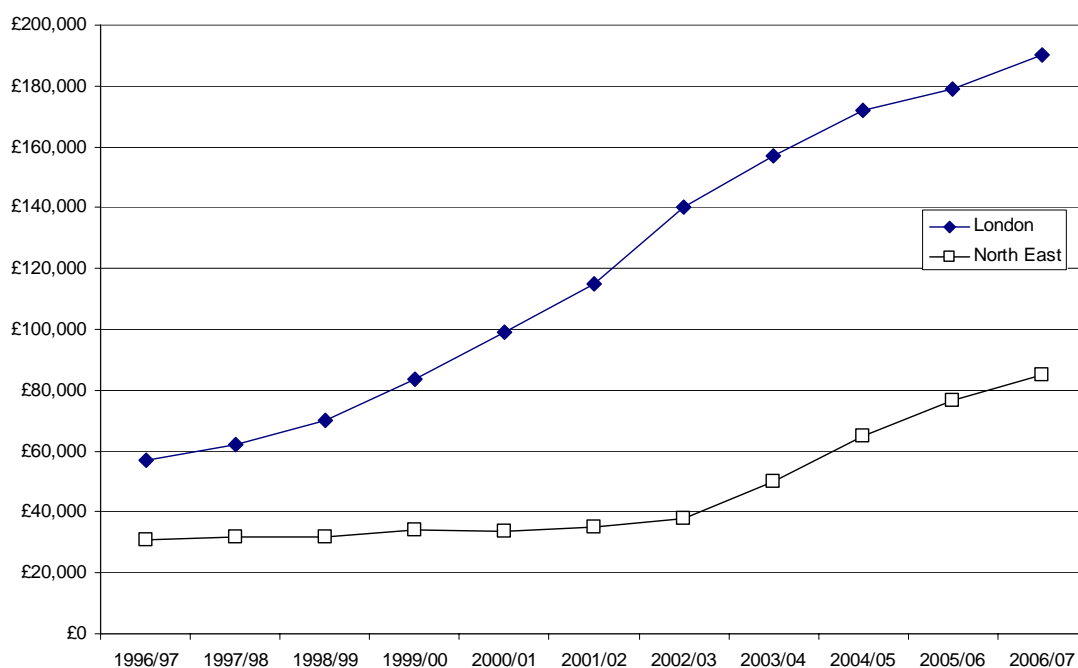
Table 3.2 shows LQ house prices by region between 1996/97 and 2006/07. As always, London had the highest LQ house prices while the North East had the lowest. The range between these two regions widened from £26,000 in 1996/97 to £105,000 in 2006/07 as shown in Figure 3.2.

Table 3.2 LQ house prices (£) by region, 1996/97 to 2006/07

	London	SE	SW	East	W Mid	E Mid	Y & H	NW	NE
1996/97	57,000	51,000	43,950	43,000	39,000	36,000	34,500	33,500	31,000
1997/98	62,000	55,000	46,500	46,500	40,500	38,000	35,500	34,750	32,000
1998/99	70,000	59,950	49,950	50,000	42,000	39,000	36,000	35,000	32,000
1999/00	83,500	68,000	56,000	55,950	45,000	42,000	38,000	37,000	34,000
2000/01	99,000	79,500	64,000	63,500	48,000	44,500	38,907	37,000	33,500
2001/02	115,000	90,000	74,950	74,000	54,000	50,000	40,000	39,950	35,000
2002/03	140,000	114,000	92,500	92,500	65,000	62,950	45,500	44,000	38,000
2003/04	157,000	129,950	112,675	112,500	80,000	80,000	59,950	56,000	49,950
2004/05	172,000	144,000	129,000	127,000	95,000	95,000	77,000	73,000	65,000
2005/06	179,000	148,500	132,000	130,000	104,000	102,000	86,000	83,500	76,500
2006/07	190,000	157,000	143,000	140,000	110,000	109,950	96,000	93,500	85,000
<i>Nominal change:</i>									
96/97 to 06/07	233.3%	207.8%	225.4%	225.6%	182.1%	205.4%	178.3%	179.1%	174.2%
Estimated annual	12.8%	11.9%	12.5%	12.5%	10.9%	11.8%	10.8%	10.8%	10.6%
<i>Real change:</i>									
96/97 to 06/07	156.2%	136.6%	150.1%	150.3%	116.8%	134.8%	113.9%	114.5%	110.8%
Estimated annual	9.9%	9.0%	9.6%	9.6%	8.0%	8.9%	7.9%	7.9%	7.7%

Source: Based on data from the Land Registry.

Figure 3.2 LQ house prices in London (the highest house price region) and the North East (the lowest house price region), 1996/97 to 2006/07



Source: Based on data from the Land Registry

London had the highest growth rate in the 11-year period of 233.3%, which equated to an annual rate of 12.8% (in real terms 156.2% or 9.9%, Table 3.2). This was followed by the East (225.6%, or an annual rate of 12.5%; in real terms 150.3% or 9.6%) and the South West (225.4%, or an annual rate of 12.5%; in real terms 150.1% or 9.6%). The lowest growth was seen in the North East (174.2%, or an annual rate of 10.6%; in real terms 110.8% or 7.7%) followed by Yorkshire and the Humber (178.3%, or an annual rate of 10.8%; in real terms 113.9% or 7.9%).

Table 3.3 The relationship between private rents and LQ house prices by region, 1996/97 to 2006/07

	<b>Correlation coefficient</b>	<b>Adjusted R<sup>2</sup></b>
London	0.908	0.823
East Midlands	0.851	0.724
East	0.838	0.702
South East	0.828	0.686
West Midlands	0.810	0.656
North West	0.810	0.655
South West	0.793	0.628
Yorkshire and Humber	0.755	0.568
North East	0.701	0.490

Source: Based on data from the Rent Officer Service, the Rent Service and the Land Registry.

Table 3.3 shows that private rents in all nine regions were positively related to LQ house prices over the whole 11-year period. However, the significance of these relationships varied. London showed the largest correlation coefficient between private rents and house prices (0.908) while the North East had the smallest (0.701). This suggested that LQ house prices in this region were not the major factor affecting levels of private rents.

#### **4. Private rental rates of return across England, 1996/97 to 2006/07**

##### **4.1 The national trend of private rental rates of return**

Private rental rates of return are measured as the percentage of average *annual* private rents over LQ house prices for each LA area across England. Table 4.1 shows that the private rental rate of return for England was 5.07% in 2006/07, which was 5.30 percentage points below the return in 1996/97. Rates of return declined throughout the period except in 2005/06 when LQ house prices grew faster (in percentage terms) than private rents. The large increase in house prices from 2002/03 to 2004/05 resulted in a sharp decline in the rate of return.

Table 4.1 Private rental rates of return (%) in England, 1996/97 to 2006/07

	Rate of return	Change from the previous year
1996/97	10.37	
1997/98	9.86	-0.51
1998/99	9.32	-0.54
1999/00	8.32	-1.00
2000/01	8.13	-0.19
2001/02	7.74	-0.39
2002/03	7.30	-0.44
2003/04	6.16	-1.14
2004/05	5.14	-1.02
2005/06	5.25	0.11
2006/07	5.07	-0.18
<i>96/97 to 06/07</i>		<i>-5.30</i>

Source: Based on data from the Rent Officer Service and the Rent Service.

#### 4.2 Regional trends of private rental rates of return

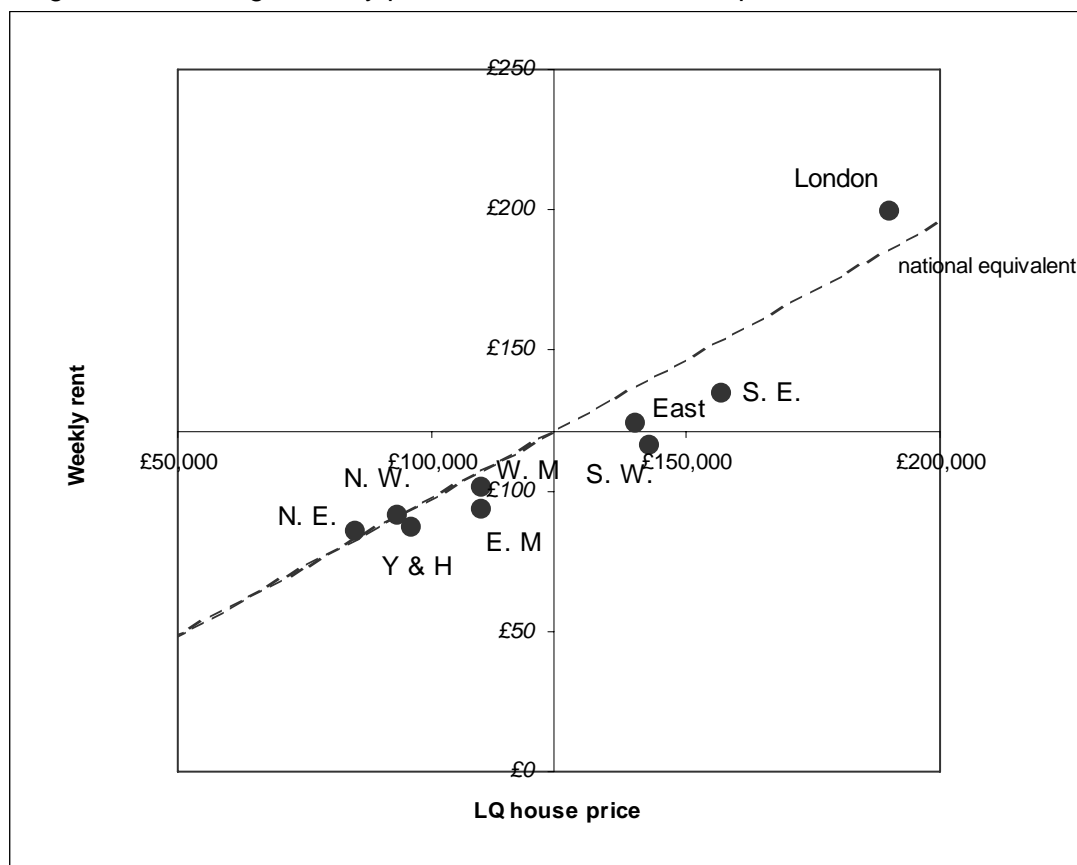
Until 2004/05 private rental rates of return declined continuously in all regions except those in the North East in the period of 2000/01 to 2002/03 and Yorkshire and the Humber in 2002/03 (Table 4.2). In 2006/07, the East, the East Midlands, the South East and the South West showed increases of rates from the previous year while London's rate varied little. London had the highest rate of return (5.46%) in 2006/07; it had the most significant decrease of 6.35 points after 1996/97. Despite that, in 2006/07, private rental rates of return for London, the North East and the North West were higher than the national average, whereas those in the remaining regions were below the national average (Fig. 4.1).

Table 4.2 Private rental rates of return (%) by region, 1996/97 to 2006/07

	London	NE	NW	W Mid	Y & H	East	SE	E Mid	SW
1996/97	11.81	10.16	10.80	9.26	9.45	9.36	9.19	8.73	8.89
1997/98	11.09	9.97	10.49	9.06	9.31	8.84	8.73	8.37	8.56
1998/99	10.05	10.07	10.31	8.88	9.30	8.39	8.16	8.32	8.14
1999/00	8.53	9.21	9.65	8.40	8.84	7.73	7.34	7.78	7.43
2000/01	7.83	9.75	9.70	8.14	8.86	6.96	6.66	7.62	6.77
2001/02	6.72	10.25	9.78	7.54	9.05	6.13	5.94	7.17	5.86
2002/03	6.59	10.56	9.51	6.90	9.82	5.65	5.40	6.42	5.85
2003/04	6.06	7.79	7.59	5.75	6.87	4.97	4.86	5.10	4.75
2004/05	5.66	6.14	5.84	5.00	5.16	4.38	4.34	4.42	4.03
2005/06	5.66	5.52	5.45	4.90	4.99	4.74	4.55	4.54	4.37
2006/07	5.46	5.21	5.09	4.79	4.69	4.59	4.47	4.41	4.23
<i>Change in percentage point</i>									
<i>96/97 to 06/07</i>	<i>-6.35</i>	<i>-4.95</i>	<i>-5.71</i>	<i>-4.47</i>	<i>-4.76</i>	<i>-4.77</i>	<i>-4.72</i>	<i>-4.32</i>	<i>-4.66</i>
<i>Estimated annual</i>	<i>-0.64</i>	<i>-0.50</i>	<i>-0.57</i>	<i>-0.45</i>	<i>-0.48</i>	<i>-0.48</i>	<i>-0.47</i>	<i>-0.43</i>	<i>-0.47</i>

Source: Based on data from the Rent Officer Service and the Rent Service.

Figure 4.1 Average weekly private rents vs. LQ house prices, 2006/07



Source: Based on data from the Rent Officer Service, the Rent Service and the Land Registry.

### 4.3 Trends of private rental rates of return at the LA level

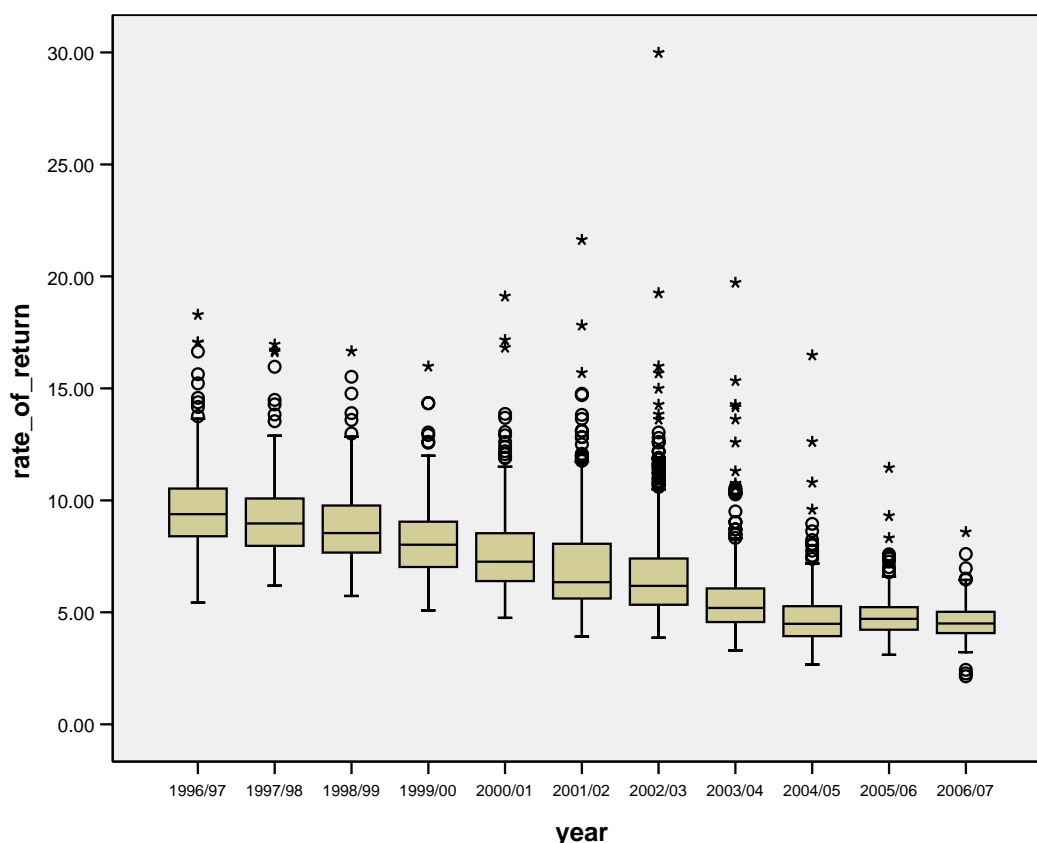
Table 4.3 shows that the median of rate of return across all LA areas in England was 9.39% in 1996/97. It fell to 4.50% in 2006/07, a reduction of 4.89 points. The range of rates across LA areas narrowed in 2006/07, with a standard deviation of 0.76, as compared with 1.77 in 1996/97. The difference between the maximum and the minimum rates declined from 12.85 in 1996/97 to 6.44 in 2006/07. Figure 4.2 illustrates how the variation across all LA areas has diminished over the 11-year period.

Table 4.3 Ranges of private rental rates of return (%) at the LA level, 1996/97 to 2006/07

	Median	Standard deviation	Maximum	Minimum	Max. – Min.
1996/97	9.39	1.77	18.29	5.44	12.85
1997/98	8.97	1.68	16.96	6.19	10.77
1998/99	8.54	1.58	16.66	5.73	10.93
1999/00	8.02	1.56	15.98	5.09	10.89
2000/01	7.26	1.91	19.11	4.75	14.36
2001/02	6.35	2.29	21.63	3.91	17.72
2002/03	6.18	2.59	29.99	3.87	26.12
2003/04	5.19	1.87	19.72	3.30	16.42
2004/05	4.49	1.31	16.48	2.67	13.81
2005/06	4.71	0.89	11.46	3.10	8.36
2006/07	4.50	0.76	8.58	2.14	6.44
<i>Change: 96/97 to 06/07</i>	<i>-4.89</i>	<i>-1.01</i>	<i>-9.71</i>	<i>-3.30</i>	<i>-6.41</i>

Source: Based on data from the Rent Officer Service and the Rent Service.

Figure 4.2 Distribution of private rental rates of returns (%) at the LA level, 1996/97 to 2006/07



Source: Based on data from the Rent Officer Service and the Rent Service.

### ***LA areas with the highest and the lowest private rental rates of return***

Table 4.4 lists the ten LA areas that had the highest and the lowest rates of return in 1996/97 and 2006/07. In 1996/97, Burnley had the highest rate of return (18.29%), followed by Manchester (17.06%) and Pendle (17.04%). Of the ten LA areas that had the highest rates, six were located in the North West, three in London and one in



the North East. Four of these LA areas remained in the ten LA areas with the highest rates in 2006/07. Burnley (8.58%) and Pendle (6.97%) were the first and the third highest. By region, five were located in the North West and three in the North East.

In 1996/97, Castle Morpeth had the lowest rates of return (5.44%), followed by Rutland (6.47%) and Rushcliffe (6.54%). Three of the top ten LA areas were located in the East Midlands, two each in the North East, the West Midlands and the South West, and one in Yorkshire and the Humber. Four of these LA areas remained in the list of 2006/07. South Norfolk had the lowest rate of return (2.14%), followed by Teignbridge (2.27%) and Guildford (2.43%). Three of them were located in the East Midlands and two in the West Midlands.

Table 4.4 Ten LA areas with the highest and ten LA area with the lowest private rental rates of return, 1996/97 and 2006/07

1996/97			2006/07		
LA	Region	Rate of return (%)	LA	Region	Rate of return (%)
<i>Highest private rental rates of return</i>					
Burnley	NW	18.29	Burnley	NW	8.58
Manchester	NW	17.06	St. Helens	NW	7.61
Pendle	NW	17.04	Pendle	NW	6.97
Hyndburn	NW	16.64	Hyndburn	NW	6.50
Newham	London	15.63	Middlesbrough	NE	6.46
Blackburn with Darwen	NW	15.22	Hartlepool	NE	6.44
Barrow-in-Furness	NW	14.57	Blackburn with Darwen	NW	6.31
Waltham Forest	London	14.38	Slough	SE	6.31
Hackney	London	14.17	Stoke-on-Trent	W Mid	6.28
Easington	NE	13.76	Sedgefield	NE	6.18
<i>Lowest private rental rates of return</i>					
Castle Morpeth	NE	5.44	South Norfolk	E Mid	2.14
Rutland	E Mid	6.47	Teignbridge	SW	2.27
Rushcliffe	E Mid	6.54	Guildford	SE	2.43
Derbyshire Dales	E Mid	6.65	South Shropshire	W Mid	3.22
Alnwick	NE	6.87	Derbyshire Dales	E Mid	3.25
Bromsgrove	W Mid	6.99	Eden	NW	3.27
Cotswold	SW	7.07	Malvern Hills	W Mid	3.27
Hambleton	Y & H	7.09	Alnwick	NE	3.34
Malvern Hills	W Mid	7.11	Rutland	E Mid	3.36
East Dorset	SW	7.12	Ryedale	Y & H	3.37

Source: Based on data from the Rent Officer Service and the Rent Service.

### ***LA areas with the largest and the smallest declines in rates of return***

Between 1996/97 and 2006/07, all LA areas in England experienced decreases in private rental rates of return. Table 4.5 lists the ten LA areas with the largest and the smallest decline in rates of return in the 11-year period. Manchester had the greatest decline of 12.02 percentage points, from 17.06% in 1996/97 to 5.04% in 2006/07, followed by Hyndburn (10.14 points or 16.64% to 6.50%) and Pendle (10.07 points or 17.04% to 6.97%). Six of these ten LA areas were located in the North West and three in London.

Table 4.5 also shows that Castle Morpeth was the LA area with the smallest decline in the rate of return, 1.80 percentage points, from 5.44% in 1996/97 to 3.64% in

2006/07. This was followed by Rushcliffe (3.04 points or 6.54% to 3.50%) and Rutland (3.10 points or 6.47% or 3.36%). Four of them were located in the East Midlands and two in the North East.

Table 4.5 Ten LA areas with the largest and ten LA areas with the smallest decline in private rental rates of return, 1996/97 and 2006/07

LA	Region	Rate of return (%)		1996/97 to 2006/07
		1996/97	2006/07	(%-point)
<i>Largest decline in private rental rates of return</i>				
Manchester	NW	17.06	5.04	-12.02
Hyndburn	NW	16.64	6.50	-10.14
Pendle	NW	17.04	6.97	-10.07
Newham	London	15.63	5.57	-10.06
Burnley	NW	18.29	8.58	-9.70
Waltham Forest	London	14.38	5.19	-9.19
Blackburn with Darwen	NW	15.22	6.31	-8.91
Lewisham	London	12.60	3.70	-8.90
Barrow-in-Furness	NW	14.57	5.85	-8.72
Brighton and Hove	SE	13.05	4.41	-8.65
<i>Smallest decline in private rental rates of return</i>				
Castle Morpeth	NE	5.44	3.64	-1.80
Rushcliffe	E Mid	6.54	3.50	-3.04
Rutland	E Mid	6.47	3.36	-3.10
Bromsgrove	W Mid	6.99	3.73	-3.26
Kensington & Chelsea	London	7.54	4.27	-3.27
South Cambridgeshire	E	7.31	3.99	-3.32
Berwick-upon-Tweed	NE	7.18	3.86	-3.32
Derbyshire Dales	E Mid	6.65	3.25	-3.40
Blaby	E Mid	7.69	4.22	-3.47
East Dorset	SW	7.12	3.65	-3.47

Source: Based on data from the Rent Officer Service and the Rent Service.

#### 4.4 Trends of private rental rates of return for urban and rural LA areas

In general, the estimated private rental rates of returns for rural LA areas were lower than those for urban ones (Table 4.6). In 2006/07, the rate for urban LA areas was 5.02% and for the rural, 3.95%. This compared with 11.45% and 8.40% in 1996/97, respectively. There was a continuous reduction in both rates of return over the 11-year period with urban areas experience a decline of 6.43 points and rural areas dropping 4.45.

Table 4.6 Private rental rates of return for urban and rural LA areas, 1996/97 to 2006/07

	Urban LA areas		Rural LA areas		Urban – rural
	Rate of return (%)	Change from the previous year	Rate of return (%)	Change from the previous year	
1996/97	11.45		8.40		3.04
1997/98	10.56	-0.88	8.08	-0.32	2.48
1998/99	9.73	-0.83	7.75	-0.33	1.98
1999/00	8.72	-1.02	7.11	-0.64	1.61
2000/01	7.81	-0.90	6.44	-0.67	1.37
2001/02	7.00	-0.81	5.69	-0.75	1.31
2002/03	6.54	-0.45	5.51	-0.18	1.03
2003/04	5.52	-1.02	4.39	-1.12	1.14
2004/05	4.90	-0.63	3.78	-0.61	1.12
2005/06	5.17	0.27	4.07	0.29	1.10
2006/07	5.02	-0.15	3.95	-0.12	1.07
<i>Change: 96/97 to 06/07</i>		-6.43		-4.45	

Source: Based on data from the Rent Officer Service and the Rent Service.

## 5. Conclusions

Private rents in England increased over the period from 1996/97 to 2006/07. House prices (measured by the average of LQ house prices) rose even faster but not as evenly – there was considerable variation in the rate of increase year on year. As both private rents and house prices followed the same general trend, there was a significant positive correlation between private rents and house prices. On the other hand, private rental rates of return, measured by dividing average annual private rents by LQ house prices, declined continuously throughout the study period, except in 2005/06 when they were generally remained stagnant. The decline of private rental rates of return was particularly sharp in London where house price rose very rapidly after 2001/02. Despite that, the private rental rate of return for London was still the highest in England. Surprisingly, three of ten LA areas having the highest private rental rates of return were located in the North West, Manchester, Pendle and Hyndbrun. They also experienced the most significant decline over the 11-year period. Generally, LA areas in central and northern England where house prices increased relatively slowly had lower rates of return with smaller decline. In contrast, private rental rates of return in urban LA areas were higher but declined faster than those in rural LA areas.