

## RSR Briefing Paper 5: Changes in rental stock and average rent levels, 1992-2005

A Dataspring Briefing Paper on  
behalf of the Housing Corporation

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This is one of a series of Briefing Papers presenting the preliminary findings from a 3-year study of data from the annual Regulatory and Statistical Return (RSR) that the majority of social landlords registered with the Housing Corporation are obliged to fill in each year. Each Briefing paper focuses on a particular theme, linked to the data available in particular parts of the RSR. The overall aim of the project is to understand how the Housing Association (HA) sector has changed since 1989, what has influenced or driven these changes and the implication of this for future housing regulation policy. This paper focuses primarily on changes in rent levels between 1992 (when the relevant data were first collected) and 2005.

## **Introduction**

Rental income tracks development and is clearly an important area for RSLs. Rents are therefore carefully monitored and regulated by the Housing Corporation. Dataspring publish an extensive series of detailed annual rents guides on behalf of the Housing Corporation that use data from the RSR and CORE (the COntinuous REcording system). These are outlined in the 'Guide to rent data published by the Housing Corporation', available from the Dataspring website, [Dataspring.org.uk](http://Dataspring.org.uk).

This paper does not seek to reproduce such comprehensive material; rather it is a general guide to the data available on rents over time in the RSR and a summary analysis of change since 1989.

## **Main Findings**

- Abbeyfield RSLs have the highest proportion of stock with fair rents.
- By 2005 on average 90% of all HA general needs rental dwellings had assured rents. Dwellings with four or more bedrooms had the lowest proportion, 87%.
- As is to be expected, rents have risen since 1989. Although there have been significant policy changes, on the whole the rate of increase has been steady. Overall, rents rose by 60% (weighted by bedsize) during this period,
- Between 2004 and 2005 the definitions of 'general needs' and 'supported housing' were changed. This had the effect of reclassifying many bedsits and one bedroomed properties from general needs to supported, thus raising the proportion of larger properties in the general needs profile. Thus, two- and three-bedroomed properties are now the most abundant type of HA general needs rental dwelling.
- The lowest rent increases have been associated, on average, with HAs that are small, have a large proportion of assured tenancies and high rent levels. BME HAs are a classic sub group demonstrating these attributes, reflecting their higher proportions of post-1988 development and their dependence on private finance.
- Those with high increases are typically large with both low proportions of assured tenancies and low average rents, many of which are LSVT HAs. This reflects the combined results of rent covenants ending and HAs then increasing rents or letting to new tenants at higher rents.
- In the decade since 1995 the gap between district average rents and the national average rent for two-bedroomed properties has been narrowing. By 2005 a quarter of all districts had RSL rents for two-bedroomed properties that were within 5% of the national average. This suggests clearly that the effects of rent restructuring are beginning to show.
- More districts now have RSL average rents that are lower than the equivalent rents for private sector and Local Authority dwellings than in 1992. This makes RSL lettings

more viable and lessens the risk of increased vacancies from tenants leaving the sector to rent from other landlords.

## **RSLs and rents**

### ***Fair and assured rents***

Most HA tenants pay rent under one of two different regimes. In the past, local rent officers set a fair rent according to particular criteria established locally. The HAs had no influence over these rents. The 1988 Housing Act that introduced assured rents superseded this system. These rents are set by the HAs themselves, to cover the costs of the loans that were taken out to develop the properties. Tenants who already had a contract when the Act came into force retained their right to a fair rent, so long as they stayed within the same HA. Those taking up tenancies after the Act pay assured rents.

A temporary ceiling is granted on rents increases for tenants whose homes are transferred from Local Authorities (LAs) under the LSVT programme, so average assured rents in such associations may be relatively low for up to five years. This may affect the overall assured rents average.

Residents of Almshouses do not pay rent so are not included in this analysis. However, they are expected in almost all cases to make a weekly payment towards the cost of maintaining the almshouses (weekly maintenance contribution) as well as paying for any additional support and services (e.g. heating and lighting) provided by the charity<sup>1</sup>.

There are also a small number of tenants paying rents under other regimes, mostly on short term contracts. These rents are excluded from the analysis.

### ***Rent regulation***

Requiring HAs to keep rent increases within well-defined limits is one of the key elements of the Housing Corporations regulatory regime. From 1 April 1998 the HC performance standards required large RSLs (those owning or managing more than 250 dwellings) to limit their aggregate charges 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) +1%.

The main reasons for HAs having rent increases that exceed the RPI+1% limit are transfers from fair rents to assured tenancies; investment in new development or existing units which then require higher rents to pay for them; existing financial obligations, including the need to service outstanding loan debt. To mitigate for the rise due to new stock, a separate question on rent increases was introduced in 2001 that asked for average rents excluding new stock.

The lowest rent increases have been associated, on average, with HAs that are small, have a large proportion of assured tenancies and high rent levels. BME HAs are a classic sub group demonstrating these attributes, reflecting their higher proportions of post-1988 development and their dependence on private finance.

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<sup>1</sup> For more information on Almshouses, see Sector Study 16b, available from the Housing Corporation website

Those with high increases are typically large with both low proportions of assured tenancies and low average rents, many of which are LSVT HAs. This reflects the combined results of rent covenants ending and HAs then increasing rents or letting to new tenants at higher rents.

### ***Rent restructuring***

In 2000 the Housing Green Paper identifies the problem of inconsistencies in rents charged by social landlords for similar properties in similar areas. These inconsistencies had emerged over time because of a number of factors, including when and where housing had been built, changes in policy and subsidies, and the individual rent setting policies of landlords.

The objectives of bringing in a new system for rent setting included greater transparency and clarity for tenants; bringing rents into line across a growing number of social landlords providing similar properties; introducing a market element into rent setting in order eventually to bring social rents more into line with private rents and to continue to support the need for sub-market rents that provide for those in need.

From April 2002 most RSLs have been required to calculate a target rent for each property, based on the formula set out by the Government (see *Quality and Choice: A decent home for all*, DETR, 2000) and to adjust the actual net rent to meet the target rent in real terms over a ten-year period. To avoid excessive year-on-year increases, rent convergence is to be achieved by either reducing rents that are above the target level by increasing the weekly rent by  $RPI + 0.5\%$  minus (up to) £2, or by increasing those below target level by increasing the rent by  $RPI + 0.5\%$  plus (up to) £2. At the end of this period rents for individual properties should normally be within a five percent band either side of the target rent.

HAs are not obliged to increase actual rents to meet target rents (or rent caps), providing that they are able to fulfil their commitments to tenants, lenders and other stakeholders, as well as meeting future repairing obligations on their stock. By the same token, where target rents are lower than actual rents, HAs can reduce actual rents to meet target in less than ten years, providing they can continue to meet their commitments.

The move towards target rents is covered more fully in the Dataspring Rents Briefing Paper 4: 'Understanding the rent-restructuring formula for housing association target rents'. Briefly, in 2005 Very large HAs reported the lowest proportion of average actual rents that were within 10% of target, but had made the greatest amount of progress since the previous year. Non-LSVTs were more likely to report average actual rents that were more than 10% above target rent than LSVTs, and BME HAs were more likely to report average actual rents that were more than 10% above target rent than non-BME HAs.

### **Methodology**

Findings in this paper are based on analysis of data from the Housing Corporation Registry and from the RSR and its predecessor, the HAR 10/1, between 1989 and 2005. The RSL type categories are provided by the Housing Corporation Registry. Size bands for the RSLs between 1989 and 2001 are derived by summing the numbers of self-contained rental units and hostel bedspaces (excluding supported accommodation).

From 2002 onward the structure of the RSR form changed considerably. Data from 2004 onwards is only taken from those RSLs filling in Parts A and B. This will exclude some RSLs who, for example, do not own stock and only fill in Part D that records the provision of other services and activities provided by RSLs that are not included in Parts A and B. The

size bands are then derived from the total general needs units and bedspaces owned plus total supported units and bedspaces owned plus total non-social housing owned (in 2002, Part A, column E, line 12 + Part A, column E, line 13 + Part B, column E, line 8). Size 0 denotes those RSLs registered but with no stock, for example the 'parent' RSL of a group structure or those that only manage stock.

RSL type code	RSL type description
ALMS	Almshouses
ABBS	Abbeyfield
BME	Black and Minority Ethnic
LSVT WHAS	Large Scale Voluntary Transfer: Whole Transfer (All Stock)*
LSVT WHSS	Large Scale Voluntary Transfer : Whole Transfer (Some Stock)**
LSVT PART	Large Scale Voluntary Transfer: Partial Transfer***
MF	Mixed Funded****

\* WHAS refers to LSVT areas where all the stock was transferred and all went to one newly created RSL

\*\* WHSS refers to a whole-stock transfer where stock was divided between more than one new RSL

\*\*\* PART refers to an RSL set up to take transfer stock in a district where only some of the stock was transferred to the HA sector.

\*\*\*\* These are all other RSLs that receive mixed funding (i.e. from public and private sources) but are not included in the other six categories

RSL size bands	RSL size description
0 units	
1-50 units	small (1-250 units)
51-100 units	
101-250 units	
251-1,000 units	medium (251-2,500 units)
1,001-2,500 units	
2,501-5,000 units	large (2,501-10,000 units)
5,001-7,500 units	
7,501-10,000 units	
over 10,000 units	very large (> 10,000 units)

In order to analyse the data, two relational databases, one covering the years 1989-2001 and the second running from 2002 onwards (when the approach to data collection adopted by the RSR changed) have been constructed from the individual returns for each year. These are supported by linking tables for selected variables available across both datasets, enabling time series analysis from 1989-2005 for those variables. Further information can be found in the Technical Briefing Paper in this series.

## Spatial analysis

Many variables collected in the RSR are only available at the national level. However, some key variables are collected at the Local Authority district level. These can then be aggregated up to give regional totals.<sup>2</sup>

## Availability of data on rents

Data on general needs stock by rent type (fair and assured) are only available at the national level. Data on rents are available from 1992 onwards. In 1992 the data related to dwellings with up to 3+ bedrooms. This changed in 1993 to 4+ bedrooms, so time series analyses start from 1993.

<sup>2</sup> Only data for districts that are in England are included. District level data have been harmonised to take account of local authority boundary changes that took place during the 1990s. The regions referred to are Housing Corporation Investment Regions.

National data refers to self contained units and bedspaces and includes all HAs, some of which are outside England. Data available at the local authority level is for self-contained units and only refers to districts in England. Hence there will be discrepancies between totals for the data from the two sources.

Before 1995 rents data were given along with the rent period. These are then recalculated on the basis of a 52 week year. Rents for which no period is indicated are excluded from the analysis.

## **Findings**

### **A. Changes in General Needs Rental Stock**

#### **Table 1: Changes in the numbers and proportions of dwellings with assured and fair rents by bedsize, 1993-2005**

In line with the increase in stock numbers generally, the rental stock numbers have risen considerably since 1989, reaching just over 1.3 million homes in 2005.

The numbers of self contained units and bedspaces with assured rents have risen steadily over the years from 1993 to 2004, although data suggest a slight decline between 2004 and 2005. At the same time, the numbers of dwellings with fair rents is falling as new lets are made with assured rents.

The numbers for 1-, 2- and 3-bed dwellings with assured rents have increased far more than the numbers of bedsits and 4+ bed dwellings, although the percentage increase in 4+ bed dwellings is high because of the low base in 1993 (5,002). In the case of bedsits, there has been an overall reduction in their numbers (fair and assured rents) and their share of all general needs rental dwellings has fallen from 8% in 1989 to 2% in 2005. This shows the impact of the reclassification of stock for older people. In the 2004 RSR general needs housing included some dwellings classified as sheltered housing for older people. In the 2005 RSR the sheltered housing classification was abolished and dwellings that met certain design criteria moved out of the general needs and into a new category, 'housing for older people'. This change affected numbers of bedsits and 1-bed dwellings in particular. The rise in the numbers of 2 and 3 bed dwellings reflects the profile of 'family' homes that have been transferred from the Local Authority sector while the decline in the number of bedsits is in part due to the deregistration of smaller HAs such as Almshouse and Abbeyfield HAs.

### **B. Changes in assured rents for general needs stock**

#### **Table 2: Changes in national average assured rents by bedsize, 1993-2005**

The national average assured RSL rent, weighted by bedsize, has increased steadily between 1993 and 2005. This general pattern is reflected in the breakdown of average rents by bedsize and the level for 2-bed rents is very similar to that for all bedsizes. Overall, rents rose by 60% (weighted by bedsize) during this period, although the rate of increase for bedsits was only 38%.

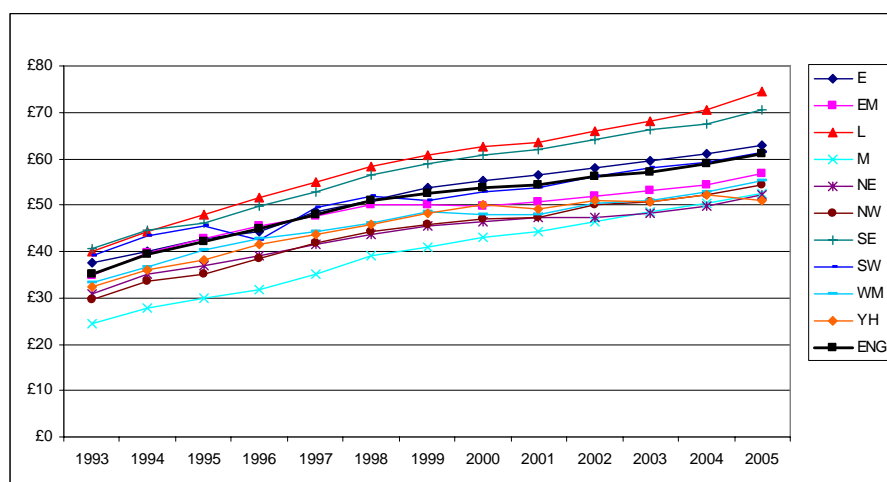
#### **Table 3: Changes in regional average assured rents for 2 bed dwellings, 1993-2005**

Data presented here are for districts in England only, therefore there is some difference between the England average rents and the national average rents in the previous section.

Average assured rents for 2 bed properties increased steadily in all regions between 1993 and 2005. However, Merseyside, which had the lowest average rent in 1993, experienced a particularly high rate of increase (115%).

In 1993 London and the South West had higher than average rent levels ( at 114% and 111% of the national average rent level), but by 2005 London and the South East were the two regions with particularly high average rents (122% and 115% of the national average rent level). By contrast, Rents in Yorkshire and Humberside were running at just 83% of the national level in 2005).

**Figure 1: Regional average assured rents for 2-bed dwellings, 1992-2005**



### Maps 1a-c: The percentage difference between the district average and the national average RSL rent for 2 bed self contained units: 1995, 2000 and 2005

Based on data for 2 bed self-contained dwellings, these maps show the percentage difference between the national average rent and the average rent in each district.

As indicated at the regional level in the table above, average rent levels are higher in the south of the country, driven by development costs, demand and in some cases better stock quality. The series of maps show how the variation in rent levels has decreased through time, with more districts now having rents that are within 5% of the national rent level. By 2005 (Map 1c) suggests that rent restructuring, a process that aims to improve the coherence of rents across the country, is beginning to make a real difference. The range of the percentage differences decreased from 98.01 in 1995 (from -34.7% to 63.3%) to 66.5 by 2005 (from -27.4% to 39.1%). However, higher rents are becoming more concentrated in London and the South East. These changes reflect policy with respect to rent restructuring.

### **C. Comparing Private Sector<sup>3</sup> and Local Authority<sup>4</sup> rents with RSL rents**

The differential (percentage difference) between RSL rents and PRS (or LA) rents is calculated as follows:

$$(RSL\ rent - PRS\ rent) / PRS\ rent * 100$$

Thus a negative differential shows that the RSL rent is lower than the PRS or LA rent.

#### ***Maps 2a-c: The differential between RSL rents and Private Sector rents; 1995, 2000 and 2005***

Map 2a illustrates how in 1995 the average RSL rent for a 2-bed dwelling was lower than the rent for a similar dwelling in the private rented sector in many districts in England. Nonetheless, there were some districts (coloured blue) where RSLs rents were, on average, higher than PRS rents. While this may represent more choice for prospective tenants, it indicates an increased risk to HAs trying to let properties in those areas.

The maps for 2000 and 2005 show how the situation has improved for RSLs, with both increasing numbers of districts with negative rent differentials and a much smaller range for those districts with positive differentials (down from + 32.9% in 1995 to +10.9% in 2000 and 5.5% in 2005).

#### ***Maps 3a and 3b: The differential between RSL rents and LA rents; 1999 and 2004***

These two maps give the equivalent picture for the difference between RSL and LA rents for 1999 and 2004. Again, the maps show how rent differentials are improving, with fewer districts in the positive (blue) bands and again the range has narrowed.

### **Summary**

Since the change from fair to assured rents the rental stock has increased significantly. As a result, a far greater proportion of rents were assured rents in 2001 than in 1992. LSVT has again had an impact here, together with different rates of development and lettings that will influence the number of new (assured) lets that are made in an area. Similarly, Abbeyfield properties still have a greater proportion of fair rent stock since they are, on the whole, longer established, whereas all tenancies in LSVT WHSS and LSVT PART RSLs pay assured rents.

The lowest rent increases have been associated, on average, with HAs that are small, have a large proportion of assured tenancies and high rent levels. BME HAs are a classic sub group demonstrating these attributes, reflecting their higher proportions of post-1988 development and their dependence on private finance.

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<sup>3</sup> Data on private sector (PRS) rents comes from The Rent Service. This refers to unfurnished properties and excludes oversized properties.

<sup>4</sup> Data on Local Authority rents from 1997/98 onwards comes from ODPM. In 2005/06 ODPM started supplying estimated rents data for the current financial year (as opposed to reported rents data for the previous financial year), thus creating a gap for 2004/05.



Those with high increases are typically large with both low proportions of assured tenancies and low average rents, many of which are LSVT HAs. This reflects the combined results of rent covenants ending and HAs then increasing rents or letting to new tenants at higher rents.

The increasing difference between RSL rents and those in the private rented sector gives an indication of housing pressure. In the South of the country there was a wider gap between the two than in part of the North, especially parts of the North East. This indicates the market pressure on the private sector in the south, a real contrast to some areas in the north that experience low demand. Here rent levels in the private sector are low, thus giving potential RSL tenants a wider choice of affordable accommodation, but increasing the likelihood of voids in RSL properties.

However, within the RSL sector rent restructuring is beginning to show in the decreasing range of rents between districts, although housing pressure and the related cost of development means rents still tend to be higher in the South.