

**Effects of Rent Restructuring on the Housing
Association Sector in England**

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ABSTRACT The implementation of restructuring social rents in April 2002 was the first explicit government policy to link property values to rent calculations of individual social housing properties in England. This paper explores the effect of rent restructuring in the housing association sector. By looking at the nominal and real rent changes in existing and new housing associations tenancies between 2001/02 and 2005/06, the study found that contrary to the widespread belief, rent changes caused by rent restructuring have neither always produced financial gains to housing associations, nor deepened the affordability problem to their tenants, nor motivated them to move on the basis of the rental differences within or between regions. However, the restructuring policy has sharpened the already apparent regional differentiation between the South and the North of England.

KEYWORDS: rent differential, affordability, residential mobility

Introduction

The implementation of the restructuring of social rents in England in April 2002 was the first time that central government imposed a rent setting regime on local authorities and housing associations ('Registered Social Landlord', RSL¹). The regime is designed to aggregate the different rent setting policies of local authorities and RSLs into a single national rent system. The new rent regime, which is based on local property values and local earnings, has raised major concerns regarding probable rent increases that tenants will face, especially if they live in high property value areas such as London and the South East (London Tenants Federation, 2002). Indeed, recent research on rent changes in the RSL sector (Solomou & Elliot, 2003, 2004; Solomou, 2006) has identified an upward movement of rents. However, these studies have focused on the annual movement of actual rents toward target rents, they have not addressed the issue of 'aggregate rent changes' over time, particularly in low property value regions where there is the possibility of RSL rents going down, rather than up. This paper attempts to explore these issues by examining the effects that restructuring has on real rent changes among RSLs at a regional level over the five-year period of 2001/02 to 2005/06. In addition, while many rent restructuring studies focused on the issues of RSLs' financial viability and RSL tenants' affordability (HACAS, 2002; Walker, *et al.*, 2002a;

Kiddle, 2002a), few have examined the link between changes in rent and residential mobility; this will be the focus in the second part of the paper.

After an overview of the rent restructuring policy and how it is being implemented in the social housing sector in England, this paper first outlines the sources of the data and methods of analysis on which the paper is based. It then examines national and regional rent changes in terms of both nominal and real rents, and assesses the impact of target rents on the rent levels of new RSL tenancies. In the final section, it evaluates, in the light of the differential regional impacts of rent restructuring, some of the likely impacts on investment strategies of RSLs in the north, affordability of housing association tenancies in the south, and turnover rates of RSL tenants.

Progress of Rent Restructuring Policy in England

Before Rent Restructuring

Traditionally, local authorities and housing associations in England were free to set their own rents in order to meet their management and maintenance costs. The primary concern of the central government was that rents in social housing were affordable² (which generally meant that they

were set at below-market level) for low-income households. In order to keep rents affordable, local authorities and housing associations employed 'rent pooling' or 'internal subsidy' to diminish anomalies between the rents on older and newer stock (Oxley, 1999, p. 675). This resulted in a flat rent structure with limited differentials between different types of property and between different locations. It was not until 1972 that the central government initiated explicit policies to bring about changes in the way in which the rent of social housing should be set (Marsh & Walker, 2006, p.197). Under the rent legislation of the 1972 Housing Finance Act (1972–75), it was stipulated that rents of local authority and RSL properties had to be set at affordable 'fair rents', the levels of which were to be determined by local Rent Officers based on what a tenant would pay and what a landlord would accept if there were no shortage of properties to let in the open market. Fifteen years later in 1988, the central government, in a series of housing reforms aimed to control public spending, withdrew from traditional areas of state provision and introduced financial deregulation (Stephens, *et. al.*, 2005, Table 1.1). Important changes to the financial regimes for the provision of social housing were implemented, which encouraged local authorities and RSLs to adopt 'market rents' that reflected the relative demand for the property in terms of size, quality and location.

In the local authority sector, the Local Government and Housing Act 1989 changed the strategies of local authority rent setting in three respects.

First, due to the rise of personal subsidies throughout the 1980s in the form of Housing Benefit (HB) to social tenants, legislation in the Act prevented local authorities from using their rental surpluses to maintain, modernise and improve their housing stock. Instead, these surpluses were returned to government for the payment of the additional HB cost for council housing. Second, Section 162 of the Act encouraged local authorities to charge rents closer to market levels by introducing the concept of *relative* rents (Marsh, 2001, p. 289; italic original). The Section stated that rents of different types of dwelling within an authority's stock should reflect the type of variations found in both the private and the RSL sectors. However, no official guidance was forthcoming on how to compare the absolute level of public and private rents; the resulting ambiguity of rent relativities meant that by 1993/94, only 27 per cent of authorities made comparison of their rent levels with those in the private rented and RSL sectors (Marsh & Walker, 2006, p. 204). Third, the introduction of a new financial regime to control local authority borrowing and capital expenditure under the Part IV of the Act (Malpass, 1992, pp. 19-21), together with the inability to exercise 'rent-pooling' policies, indirectly pushed local authorities to increase their rents substantially. For example, average rents in council housing rose from £21 per week in 1989–90 to £38.30 per week in 1995–96 (Walker & Marsh, 1998, p. 551). Even though central government issued guidelines to dampen the increases, the different maximum guideline rents for different

authorities continued the Section 162's intention to create a 'market-like' pattern of average rents, which reflected variations in the capital value of the stock in different areas (see Malpass & Warburton, 1993, p. 97). As a result, rents rose faster in areas where capital values were higher, thereby leading to the gradual replacement of the flat rent structure of the 1980s with a pattern of increasing differentiation in rents between regions, in particular, a widening rent differential between northern and southern local authorities. The difference in average weekly (unrebated) rents between London and Yorkshire and the Humber, for instance, was £19.46 in 1994, and by 2004, it had increased to £22.61 (ODPM, 2005, Table 715).

In the housing association sector, the Housing Act 1988 fundamentally changed the RSL rent-setting strategies. First, the Act introduced a mixed funded regime by substantially cutting the Social Housing Grant (SHG, previously known as HAG – the Housing Association Grant – before 1997) in order to push housing associations to use private finance to meet the difference between SHG and their operational costs (Cope, 1999, ch. 5; Malpass, 2000, ch. 10). To strengthen the RSL financial ability to meet loan requirements of private capital, the Act extended the application of contractual assured tenancies (a tenancy that allowed landlords to charge market rents and to regain possession much more easily than a secured tenancy which was protected by 'fair rent') in private lettings to RSL tenancies. This allowed housing associations the 'freedom' to

increase rents of new tenancies towards market levels. In pre-1989 secured tenancies, however, 'fair rents' still applied. Then, after the 1992 General Election, the traditional financing of RSLs was further reduced in response to a huge budget deficit, and government grants to cover maintenance costs were discontinued. In addition to these changes, the Housing Corporation (HC) as the RSL regulator introduced, as a way to squeeze grant rates, an SHG-bidding system to encourage inter-association competition. Consequently from 1988, private finance has gradually replaced government funding to become the major source of RSL income for stock renovation, new build and acquisitions (see Wilcox, 2004, Table 59). In order to pay for funding day-to-day activities, to build up reserves to support borrowing capacity and to establish sinking funds for future major repairs to their properties, housing associations have had to increase their rents substantially. Between 1991/92 and 1994/95, RSL rents rose rapidly and faster than private-sector rents (17.8 per cent and 15.08 per cent, respectively; Whitehead, 1999, Table 4). The increases in RSL rents led to a concomitant increase in HB claims, rising from a total of £1.3 billion in 1989 to £5.7 billion in 1996/97 (Cope, 1999, p. 127). This prompted the HC in 1996 to embark on a 'rent-influencing' strategy to stem rent increases and thereby control HB expenditure. At first, annual rent increases for newly funded property, and from 1998 for all property, was limited to 1 per cent above the Retail Price Index (RPI), but from 2002/03 onwards, this was

reduced to 0.5 per cent. Consequently, the overall rate of rent increase slowed with average RSL (assured) rents rising by just 7 per cent between 1996 and 1999 (Maclennan & More, 2001, p. 124).

Given that the government adopted different approaches to influence rent-setting regimes in the local authority and RSL sectors, and used different indices to restrict the annual rate of rent increase (GDP deflator for the local authority and RPI for RSL), a ‘disorderly’ rent pattern throughout the social rented sector has emerged. Within the RSL sector, rent patterns were especially chaotic owing to the wide variation in the histories, locations and financial viability of the social landlords and changes in the subsidies given to them. The divergent rental patterns between the two sectors was further compounded by the establishment of large scale voluntary transfer housing associations (LSVT housing associations) which were formed following the transfer of council housing stock from local authorities. These associations had to balance a number of potentially conflicting aims: firstly, they were obliged under the conditions of transfer, to provide a ‘rent guarantee’ to their tenants, typically with a maximum rent increase of RPI+1 per cent for the first few (usually five) years after transfer; secondly, in order to secure loans from the private sector, they were committed to charging rents which would guarantee repayment within the time frame of the loan; and thirdly, they could execute a ‘catching-up’ programme of rent increases, which were often inflation plus 1–3 per cent

(MacLennan & More, 2001, p. 129; Walker, 2004, p. 447). Local authority weekly rents were and still are on average £9 lower than those charged in the RSL sector (Walker, 2004, p.447). The difference in average rents between the local authority and RSL properties was a major barrier to the fulfilment of the government's objective to enhance the ability of social housing tenants to choose between landlords in the two sectors. There was also a growing concern of the shifting of HB-dependent households from local authority to the RSL sector to take the advantage of the rental difference (Ford, *et al.*, 1998).

The Policy

Faced with these muddled and conflicting social housing rent regimes, the government set out its proposals for restructuring social rents under the Housing Green Paper issued in April 2000 (DETR, 2000). The primary aim was to reduce 'unjustifiable' differences between rents of similar dwellings in the local authority and RSL sector locally, and thereby to achieve a coherent structure for social rents within 10 years (para. 10.1). This medium term objective was to be pursued in conjunction with the following long-term goals (Walker & Marsh, 2003, p. 2027; Walker, 2004, p. 456; Solomou, Wright & Whitehead, 2005, p. 3):

- (1) To eliminate an impediment to implementing a policy of choice based lettings³ and reforming HB in favour of a local housing allowance⁴;
- (2) To provide tenants with choices that will be more rational in the sense that a household's choice of dwelling, or decision about moving or remaining in the current dwelling, or considering a transfer within the social housing sector will be based on a pattern of rents that is itself more rational;
- (3) To give tenants a choice between paying a little less for a smaller home or a little more to get the benefit of an extra bedroom; and
- (4) To introduce a market element into rent setting and therefore make it easier to move towards a system that ultimately integrated private and social rents.

Pursuing the principle of the 1988 Housing Act that social rents should reflect the market values of properties, the rent-setting formula that was introduced following the Green Paper was based on two criteria: (i) property values to reflect the condition and location of properties; and (ii) average earnings to ensure that social rents were kept affordable. After assessing the possible impact on housing associations of different combinations (HACAS & KPMG, 2000), the government decided to opt for a 70:30 split between earnings and property values. The larger proportion

of the earnings used in the formula was to guarantee that properties with very high capital values would still have below market rents. In addition, a further component, number of bedrooms, was added to differentiate between properties of various sizes. The resulting formula was:

70 per cent * average net rent * relative local earning * bedroom weight +

30 per cent * average net rent * relative property value

(Details of each component in the formula are given in Appendix 1.)

Based on the above formula, local authorities and housing associations were required to calculate a target rent for each of their properties and to adjust increases in the actual net rent (rent excluding service charges) in order to meet the target rent in **real terms** over a 10-year period, that is to ensure that by 2011/12, rents are within +/-5 per cent of targets. In order to protect tenants from large or sudden rent increases, the Department for Environment, Transport and the Regions (DETR; or ODPM after 1 May 2001; or DCLG after 5 May 2006) set out to 'dampen' the rapid rent changes by reducing the maximum rate of overall increase in RSL rents and service charges from RPI+1 per cent to RPI+0.5 per cent per annum from 2002/03, plus not exceeding £2 per week per year, or by £20 over the full 10 year period (DETR, 2000, chap. 9).

Because of the differences in the age of the stock, average target rent of local authorities was estimated to be 5–10 per cent below those of RSL (DETR, 2000, p.47). Thus, in July 2004, during the three-year review of rent restructuring, the Office of the Deputy Prime Minister (ODPM; now Department of Communities and Local Government (DCLG)) proposed three policy changes to expedite the convergence of target rents between the two sectors from April 2005 (ODPM, 2004, pp. 51-52):

- (1) To increase the bed size weighting for three and four bed properties and to introduce an additional weighting for five and six+ bed properties, i.e., to increase the rent differentiation between properties of different size;
- (2) To adopt one common formula for both local authority and RSL housing, i.e., the inflation measure used in calculating local authority rent increases changes from the GDP deflator to the RPI, which was already used by RSLs; and
- (3) To remove the downward limit of individual rent cuts for local authority tenants, i.e., no rent reduction if target rent was below the existing ones.

In addition, rents of local authorities were allowed to increase slightly faster than RSL rents; for example, for the years 2002/03 and

2003/04, target rents for local authority properties were scheduled to increase by 1 per cent above inflation and in 2004/05 by 1.5 per cent while RSL target rents continued to be increased by 0.5 per cent above inflation (ODPM, 2004, p.26). The recommendations to impose a faster and greater rate of rent increases in the local authority sector immediately triggered a massive protest from council tenants (*Guardian*, 25 September 2005). In anticipation of the possible damaging effect on the General Election in May 2005, the government temporarily put on hold the changes of the rent-restructuring program and implemented them in April 2006.

Situation in the RSL sector

To ensure a smooth transition towards the rent-restructuring regime in the RSL sector, the government introduced several procedural adjustments and made financial aid available to housing associations. Firstly, the rent reform, which came into effect in April 2002, was applied only to general needs (GN) housing. For supported housing, the commencement date was postponed to April 2003 to synchronise with the start of a new funding arrangement for the provision of support services – the Supporting People Programme. Also, following a long campaign by supported housing providers who claimed that the rent formula did not adequately reflect the

higher cost of providing care for vulnerable people, RSLs providing supported housing were given a 10 per cent leeway on their target rents, 5 per cent higher than that for GN housing (*Guardian*, 26 October 2001). Further adjustment to the implementation of the new rent regime, which reflected concerns about the effects of high property prices on rents in parts of London and the South East in particular, was the imposition of rent caps in April 2002 for properties of different bed sizes (HACAS, 2002). For example, in 2003/04 the rent cap for bedsit and one-bed properties (for all regions) was £87.30; for two-bed, £92.43; for three-bed, £97.57; and for four+ bed, £102.70. These caps would increase over time by RPI+1 per cent per annum. Later, in September 2004, £15 million funding over three years from 2003/04 was awarded by ODPM to 10 Black and Minority Ethnic (BME) housing associations, all based in the northern England (*Housing Today*, 10 September 2004). This award was triggered by the realisation that some BME associations would face significant financial difficulties in meeting the 2012 rent restructuring targets, as they required an average *reduction* of 22 per cent in their average rents largely because their stock was over-represented in areas with low property values (HACAS, 2002). In addition, the award recognised that some BME housing associations were small and relatively young organisations which had not benefited from equity growth; indeed their properties were acquired during a period of relatively low grant rates, thus being heavily reliant on high

levels of private finance often at interest rates higher than average for the sector (HC, 2002).

Nevertheless, not all housing associations in the RSL sector were involved in the rent-restructuring scheme. The government accepted that a very small proportion of housing associations (for example, newly established LSVT housing associations) would not be able to complete their restructuring within 10 years due to financial reasons (HACAS & KPMG, 2000). These associations, with agreement from the HC, were permitted to defer the implementation of target rents although they were advised to achieve target rent levels by the end of the implementation period in March 2012 if possible. The overriding concern that RSLs must remain financially viable, a requirement stipulated in the HC's Performance Standards, has in fact given the option for some associations, in particular very small RSLs, not to adopt the new rent formula.

Rent Restructuring Study in England

Studies about rent restructuring

Analyses about the impact of rent restructuring generally covered one of the three broad themes: rent coherence within and between the two social

housing sectors; financial impact on social landlords; and impact of rent increase on social tenants. Before the start of rent restructuring, research about rent reform policies focused mainly on the possible implications of the reform on the finances of RSLs, in particular those housing associations that were thought likely to face rent reduction under restructuring. In fact, the findings of the HACAS Chapman Hendy and KPMG's (2000) study on 40 RSLs (covering over 225,000 dwellings) and the subsequent study of BME housing associations (HACAS, 2002, see also Zetter & Pearl, 2005) led to a series of policy adjustment, as mentioned earlier, in implementing the rent reform.

To date, only one study has addressed all three themes; it was undertaken by a group of researchers from the University of Birmingham and the University of Bristol, which involved six case study areas (London, South East, West Midlands, East Midlands, North West and North East) with a total stock of over 113,000 properties owned by eight local authorities and eight RSLs (Walker, *et al*, 2002a; Walker & Marsh, 2003). The study employed not only detailed evaluation of individual property values to model the impact of rent restructuring in different social housing markets, but also interviews with tenants, local authorities and RSLs to analyse the different impacts on particular types of households and social landlords. It identified that rental differences for similar properties between the local authority and RSL sectors would narrow over the 10-year

restructuring period at local area level, except those inside London. Because of the annual limits on rent changes after inflation of above or below £2, RSLs in London and the South East could not meet the target rents. Also, restructuring rents tended to narrow the differential between larger (those with three bedrooms or more) and smaller (those with two bedrooms or fewer) flats because there was a disproportionate increase in rents for smaller properties. In areas of low demand, rent increases under restructuring might act as a disincentive for households to work and those not receiving HB to remain in social housing.

For the impact of rent increase on social tenants only, Kiddle (2002a) modelled the effects of rent restructuring on the affordability of target rents for RSL tenants. She found that even with the protection of HB, single persons and childless couples were particularly susceptible to affordability problems due to the disproportionately large rent increases in smaller properties, especially those living in bedsits who would face an average rent increase of over £4.50 per week (p. 7). As might be expected, Kiddle's analysis suggested that the problem would be concentrated markedly in and around London, the South East, the southern districts of the East of England and southern and eastern districts of the West Midlands where property values were relatively high, but average earnings were relatively low (p. 12; see also Solomou, *et al.*, 2005, p. 2).

In the case of the convergence of rents within the social rented sector, Solomou's (2004) study of social housing rents in March 2003 found that average RSL rents were higher than average council rents, particularly in areas of the East Midlands and Yorkshire and the Humber (p. 10). Indeed, the ODPM (2004, p. 34) reported that on average, local authority property valuations were 4 per cent higher and RSL valuation 13 per cent higher than the figures in the 1999 English House Condition Survey (EHCS); as a result, the national average value for a RSL property was about 30 per cent higher than that of a local authority property compared to a difference of 20 per cent identified in the EHCS.

Studies of rent movement in the RSL sector

The major focus of rent restructuring studies in the RSL sector has been on the annual rate of rent increase (Kincey & Banks, 2001) and the progress of average rents towards the target rents (Kiddle & Banks, 2002; Solomou & Elliot, 2003, 2004; Solomou 2006). By 2004/05, with the exception of London, the difference between the average actual rent and the target rent in all regions was no more than 2.5 per cent. In London, average target rent was 11.5 per cent above the average actual rent (a reduction from the preceding when the difference was 14.7 per cent). In terms of different bed

sizes, it was found that for most regions in England, larger size properties were more likely to have had an actual rent that was higher than target while smaller size properties were more likely to have an actual rent that was lower than target, especially bedsits. Also, because of the requirement to progress towards target rents, the average gross rent increase of all GN tenancies was 3.7 per cent, which was greater than the HC's limit in rent increase of 3.3 per cent for 2004/05 (Solomou, 2006).

Aims and Methods

Rather than looking at rent changes on a yearly basis, this study is aimed to assess the situation of regional rent differentials in the RSL sector by examining the aggregate changes in net rent of (i) existing and (ii) new tenancies from 2001/02 to 2005/06. The years 2001/02 and 2005/06 were selected in order to look at rent changes before rent restructuring occurred in the former and just before the new bed size weights were applied in the latter. The study aimed to answer the following three research questions:

- (1) To what extent did rent restructuring affect the net rents of existing and new tenancies over the period of 2001/02 and 2005/06?

- (2) What were the regional changes in net rent of existing tenancies in real terms?
- (3) What were the effects of the regional rent differentials on the RSLs' financial viability, and RSL tenants' affordability and residential mobility?

The study used two main data sources. Data for net and target rents of *existing* GN tenancies (assured and secured combined)⁵ were drawn from the HC's Regulatory and Statistical Returns (RSRs) while data for weekly rents of *new* GN tenancies were from the GN datasets of the CORE system (the COntinuous REcording of housing association new lettings). Housing associations who own more than 250 homes and/or bedspaces (including shared ownership dwellings) are required to provide detailed information about GN housing rents – by property size for each local authority area – in the RSR, therefore, the rent analysis was limited to those associations with over 250 homes.

While the RSRs are the most comprehensive surveys about the housing association stock in England, their use did pose some difficulties in this analysis because of the changes in the definition of GN properties during the study period. In the 2005 and 2006 RSRs, sheltered housing was renamed as 'housing for older people', while the majority of them with special design features for older people remained as GN housing, those

described as “designated supported housing for older people” were re-categorised as supported housing. However, for the CORE data, the “designated supported housing for older people” was included in the GN category in 2004/05 but excluded in 2005/06.

To rectify the definitional inconsistencies within RSRs, and between RSR and CORE, data on net rents of existing tenancies in 2001/02 to 2003/04 was treated as exclusively GN tenancies even though some of the sheltered housing for older people became supported housing in 2005. This measure was also applied in handling the data of weekly rents of new tenancies recorded in CORE. Secondly, to ensure a like-for-like comparison between the two datasets, lettings made by RSLs who managed other RSL properties⁶ and lettings made by very small RSLs⁷ were excluded from the CORE GN datasets for analysis.

(Table 1 about here)

As might be expected, the shift of sheltered housing for older people from GN to supported housing contributed to the declining share of tenancies made to smaller size properties in all existing tenancies between 2001/02 and 2005/06. Table 1 shows a 2.4 per cent decline in bedsits and 8.2 per cent decline in properties with one bedroom. These falls were offset by large increases in larger units. Tenancies made to three bed properties

increased by 6.8 per cent from 29.5 per cent in 2001/02 to 36.3 per cent in 2005/06. Part of the percentage increase of larger size properties in existing tenancies, however, could be explained by the New Build Programmes, which focused in providing more family-sized dwellings to solve the shortage of affordable housing in high demand areas. At first glance, the re-categorisation of sheltered housing for older people might affect the comparison over the whole study period, but Marshall, *et al.* (2004) found that changes in average rent levels were not significant in the majority of cases in their comparative rent analysis between 2004 and 2005 (p. 2).

It should also be noted that rents of existing tenancies recorded in the RSRs were the weighted average rents of the total stock for different bed sizes of each individual RSL in one local authority area as of 31 March of the financial year, thus the information provided also included rents charged by RSLs for new lettings recorded by CORE during the whole period of that financial year. Although new tenancies accounted for only a very small proportion of all existing tenancies in the RSL sector – 9.8 per cent in 2001/02 and 6.4 per cent in 2005/06 as shown in Table 1, the study of the weekly rents of new tenancies gives us an indication of the effects of target rent on the rent levels paid by new tenants moving into newly-let and relet properties.

The Impact of Rent Restructuring on Rent Levels of RSL Tenancies

Changes of rents between 2001/02 and 2005/06 in England

Table 2 summarises the average weekly rents of existing GN tenancies (assured and secured combined) by bed sizes at both regional and national levels from 2001/02 to 2005/06. The figures indicate a clear north-south divide of rent levels in England. Average regional rents were the highest in London, followed by its surrounding regions: the South East, the Eastern region and the South West. London and the South East had average rents that were above the national averages in all of the categories of bed sizes that were used in the classification of GN properties: bedsit and units of one, two, three and four+ beds. In the East, regional averages for bedsits and properties with one bedroom were below national averages for the most of the five-year period. While regional average rents of all GN stock in the South West were higher than those of central and northern regions, they were mostly below national averages, particularly in the case of properties with one and four or more bedrooms. For regions in Midlands and the North of England, average rents were all below national averages. In 2005/06, Yorkshire and the Humber had the lowest regional averages within all smaller size properties (with two bedrooms or fewer) while the North East had the lowest for all its larger size properties (those with three or more

bedrooms). Since the introduction of rent restructuring, the rental gradient between the highest regions in the south (London and South East) and the lowest ones in the north (North East and Yorkshire) has become very steep. The rent differential for all GN properties between London and Yorkshire, for example, increased from £16.06 in 2001/02 to £24.17 in 2005/06, and particularly for those with three bedrooms, the gap grew from £20.75 to £30.70. The biggest rent gaps were found between the South East and the North East in which average rents for properties with four or more bedrooms in the former were £30–£31 higher than those in the latter within these five years.

(Table 2 about here)

Table 2 also shows a general upward trend of rents over time. However, not all regions followed the national pattern in rent increases; Yorkshire and the Humber was the only region that had incidences of rent reductions occurring in successive years. The average rent of three bed properties declined from £56.37 in 2001/02, the year before rent restructuring, to £56.15 in 2002/03, and rose slightly in 2005/06 to £57.74. The overall rent increase between 2001/02 and 2005/06 was in the average of only £1.38 a week, the smallest in England. The drop of weekly rent occurred despite the massive increase in the number of dwellings with three-

bedrooms from 18,779 in 2001/02 to 44,017 in 2005/06, suggesting that the additional stock was probably of lower-valued properties. Indeed, nearly half of three bed dwellings (45.3 per cent) in 2005/06 charged rents below £55, including 11,914 units with weighted average of £50.01, which were owned by one RSL located at Wakefield.

(Table 3 about here)

Next consider the extent of rent changes between 2001/02 and 2005/06 amongst GN properties as summarised in Table 3. Firstly, it shows that there were wide regional variations in the magnitudes of rent increase, ranging from £1.38 to £12.84. Given that London has the highest levels in both the relative local earnings and the relative property values in England, it is therefore not surprising to find that it had the highest average rent increases, over £11 a week over the five-year period. Outside London, the majority of RSL tenants faced an average increase of £5 to £9 in their weekly rents. In stark contrast, Yorkshire and the Humber's RSL tenants living in two, three and four+ bed properties paid less than £3 extra. Secondly, Table 3 shows that there was not a complete correspondence between the amounts of rent increase and the percentage increases in rent. Within the categories of larger size units, for example, the percentage figures in rent change for properties with three and four or more bedrooms

in the North East were the highest in England, but the absolute average amounts of rent increases were one-third below those of London. The combination of large percentage growth and small monetary increase reflects the relatively lower levels of target rents in the North East. London, on the other hand, had the highest average rent levels (see Table 2) as well as the biggest changes in rent, consistent with the fact that it has the highest target rent levels in England. Conversely, Yorkshire's tenants living in three bed properties enjoyed the lowest change in rent in terms of percentage figure and monetary value, an indication that this northern region had some of the lowest average capital values and earnings in England and therefore the lowest average target rents.

Table 3 also shows that there was an inverse relationship between the size of property and the percentage changes in rent, i.e., the smaller the GN property, the larger the percentage increase. This finding is not surprising and accords with those of previous rent restructuring studies (Kiddle 2002a; Walker, *et al.*, 2002a; Walker & Marsh, 2003). Overall, the average percentage increases in rent of smaller size properties were higher than those of larger size properties. Within these smaller size units, tenants living in bedsits were most likely to face the biggest percentage increase, in some instances, over 25 per cent from 2001/02 to 2005/06. In the case of one and two bed properties, the average rent increases were within the range of 12–21 per cent, except those of Yorkshire, which were below 10 per cent.

For the larger units, with the exception of those in Yorkshire, the ranges were 11–15 per cent and 9–16 per cent in three beds and four+ beds, respectively.

Changes of average real rent levels between 2001/02 and 2005/06

As mentioned earlier, the majority of the analytical work on rent restructuring in the RSL sector has looked at the annual rent increase – the combined effects of both restructuring and inflation. Hence, it is necessary to isolate the influence of the rate of inflation to examine the actual effect of restructuring on rent, particularly to find out what is the long-term trend of rent changes. All regional average weekly rents of existing GN tenancies were therefore converted to 2005/06 prices using September RPI for all items (ONS, 2006) to calculate the real rent changes. The September RPI was chosen because the HC used this index to set the acceptable changes in rent of the following financial year on newly funded RSL properties (since 1996) and all RSL properties (since 1998) in England, i.e., September 2004 RPI was used to set the rent limit for 2005/06.

It is perhaps reasonable to find that, once inflation was excluded, nominal rent increases translated into smaller real (i.e., rents in the 2005/06 market prices) increases. Table 4 shows that after discounting inflation, the

real rent increases in the five-year period of 2001/02 to 2005/06 were not large; only London's RSL tenants living in bedsits had a real rent increase of approximately £8 per week compared to the nominal increase of nearly £13. In terms of percentage changes in rent, regions with more than 25 per cent increases in the nominal rents of bedsits, i.e., London, the West Midlands and the North West, were reduced to 15 per cent in real terms. However, not all RSLs had real rent increase for all their GN stock in both monetary values and percentage figures. Housing associations in the East, the North West, and the Yorkshire and the Humber faced real rent reductions in some of their properties, on average ranging from -£0.39 to -£5.16 a week or -0.8 per cent to -6.8 per cent from 2001/02 to 2005/06. The biggest real rent drop was found in properties with four or more bedrooms in Yorkshire. In fact, the majority of its GN stock (except bedsits) experienced real rent decline: -0.8 per cent in one bed properties, -4.8 per cent in two beds, -7.4 per cent in three beds, and -6.8 per cent in four+ beds⁸. Since rents of nearly all Yorkshire's GN properties (96.2 per cent of total GN stock in 2001/02 and 98.9 per cent in 2005/06) declined over time, it was not surprising to find that the accumulated negative growth of these properties pushed the overall real rent increase down to -0.9 per cent in the period of 2001/02 to 2005/06, the only region in England that had a real fall in RSL rents after four years of rent restructuring.

(Table 4 about here)

Average annual real rent changes, 2001/02–2005/06

In respect of the annual change of average real rents, Figure 1(a) first shows that except for the negative figure in Yorkshire and the Humber, all English regions had a real rent increase of at least 1 per cent per year in the period 2001/02–2005/06. The Eastern region and the North West had the lowest annual real growth in rent (0.9 per cent), while London had the largest (1.7 per cent). In fact, none of the English regions, besides Yorkshire again, had the annual real rent increases that were below the HC's maximum annual limit of 0.5 per cent. But because of the negative growth in Yorkshire, the aggregate real rent increase averaged 4.5 per cent for the whole England, an annual growth rate of 0.9 per cent, which was still above the HC's limit.

(Fig. 1 about here)

Figure 1(a) also shows a general upward movement of the annual rates of real rent changes within region, and this is mainly owing to the fact that RSLs need to raise their rents at a faster rate (i.e., the 0.5 per cent plus

£2 per week) in order to meet the targets. In most instances, the annual percentage changes of real rents in 2001/02–2005/06 were greater than those in the previous periods of 2001/02–2002/03 and 2001/02–2003/04, an indication that rents in the mid 2000s were increasing more rapidly than those in early years, particularly during the years of 2003/04 and 2004/05. Because of the faster pace of rent increases in the later period, the extent of annual real rent reductions in Yorkshire and the Humber were significantly reduced from –0.9 per cent in 2001/02–2004/05 (or £2.37 real loss per week for each property; Tang, 2006, Fig. 1(a)) to –0.2 per cent (or £0.46) in 2001/02–2005/06. Thus, over time, it is anticipated that Yorkshire will begin to experience real rent increases, probably during the second half of 2000s.

Next, consider the annual real rent changes between properties of different sizes. Figure 1(b) shows that at the national level, even though the average real rents of all GN properties increased by 0.9 per cent each year, or £2.75 per week, from 2001/02 to 2005/06, it was the larger rent increases in smaller units (especially bedsits) that off-set the real losses (0.1 per cent annual decline in family-sized properties of three and four or more bedrooms). Clearly, for these large properties, the rate of rent increase could not keep pace with the inflation rate as well as the rise of maintenance and repair costs. In 2002/03, for example, it was reported that building and repair costs rose by 18 per cent (NHF, 2004). On the other hand, it might be

argued that the surplus generated from the rent increases in smaller size properties could be used to finance the improvements on larger units. Nevertheless, in order to cushion the adverse impact of restructuring on the operational cost of RSLs, the HC increased the bed size weighting for properties with three or more bedrooms from April 2006. It is expected that the new bed size weighting will increase not only the rent differentiation between bed sizes, but also the level of target rents for larger size properties; these changes will arrest the long-term rent decline in larger units. However, the new weighting will not eliminate the unjustifiable burden placed on tenants who are living in bedsits and have a much larger annual rate of increase than those in properties of two beds or more.

Meeting targets – average rents of new tenancies, 2002/03–2005/06

It is important to bear in mind that the rent restructuring policy is about using a new regime to set social rents in both the local authority and RSL sectors. The annual increase of rents in *existing* RSL tenancies is currently within the maximum limit of RPI+0.5 per cent plus £2 per week. It is only when existing tenants vacate their homes that RSLs can raise the rents of these units by charging the target rents; these increases are particularly substantive when secured (or fair rent) tenancies are replaced with assured

tenancies. Housing associations can also charge higher rents than those of existing tenancies when tenants move into newly built or purchased properties. In the long run, through relets in the existing stock and lets of newly developed units, average regional rents may increase to the levels that are higher than targets set by the restructuring formula. Thus, it is worthwhile to look at the movement of average rents in *new lets* tenancies, i.e., new tenancies made when the unit is being let for the first time as housing association tenancy, and see how far they met the targets.

(Table 5 about here)

The first half of Table 5 shows the regional rental differences of new lets tenancies with current and target rents in existing tenancies for the years of 2002/03 (when rent restructuring started) and 2005/06. Since property values of new GN housing units are always greater than those of the existing ones, it is not surprising to find that rents of new GN dwellings in most instances were higher than rents of existing properties. But what is striking is that London was the only region where average new let rents did not meet the targets during the four-year period. In fact, closer examination of the new let rents of the higher property valued regions revealed that not all RSLs charged their newly acquired GN dwellings at market level. For example, in 2005/6, only 7.2 per cent of new let properties (279 units) in

London, 1.8 per cent (36 units) in the East and 0.9 per cent (29 units) in the South East were charged above the maximum rent cap. This might be partly related to the vast majority of the housing association New Build Programmes were on sites of former council housing estates (although some were built on infill sites) for which land costs were exempted or charged at discounted prices (JRF, 1996), this allowed RSLs to keep average rents of new homes down. Elsewhere, new let rents were converging towards target rents of existing tenancies from 2002/03 to 2005/06, except the Eastern region and the West Midlands. However, for Yorkshire and the Humber, given that tenancies of newly let GN properties (994 in 2002/03 and 933 in 2005/06) constituted 9–10 per cent of total new tenancies (10,795 and 9,277, respectively) and new tenancies accounted for a small proportion in all existing tenancies (10.1 per cent and 7.3 per cent), the relatively higher rent levels in new lets, despite the fact that they overshot the targets in greater magnitudes, could not stop the overall real rent reduction in its existing tenancies.

The second half of Table 5 depicts an even more significant variation across regions in the differences between weekly rents of relets in new tenancies and the current and target rents in existing tenancies. In particular, average relet rents were below those of existing tenancies in the south but above in the other parts of England. The only exceptions were the South West and the Yorkshire and the Humber, in which relet rents of the

South West were higher than the current rents in 2002/03 but lower in 2005/06 and in Yorkshire, were lower in 2002/03 but higher in 2005/06. In terms of meeting target rents, only relet rents of the South West and the Yorkshire surpassed their regional targets in the first year of rent restructuring but dipped below the average targets three years later. Generally, the differences between rents of relets and those of existing tenancies decreased over the four-year period in most of the regions, apart from the South East and the South West.

(Table 6 about here)

In term of bedsizes, Table 6 shows that the differences between average weekly rents of new lets and rents of existing tenancies narrowed over time (shown in the first half of the table), except in the case of two bed properties. Most notably, the average weekly rent of newly-let bedsits in London was much higher than the corresponding rent for existing tenancies in 2002/03, and by 2005/06, it was very close to existing ones; as a result, the 2005/06 new let rent for bedsits failed to meet the restructuring target. Next, the second half of Table 6 shows that average relet rents were usually within £1 above or below the average rents of existing tenancies, except those of three bed properties which were £2–£3 above the existing rents. Because of the small gap between relet and existing rents in all of the

categories of different bed sizes, almost none of the average relet rents met their corresponding targets; the exception was three bed properties in 2002/03.

Differential Impacts of Rent Restructuring on Regions and RSLs

Regions and RSLs having real rent reductions

The previous section shows that during the first four-year of restructuring, Yorkshire and the Humber was the only region that experienced aggregate real rent reductions. Figure 1(a) shows that RSLs in this region faced an annual rent reduction of 0.17 per cent or an average of £0.46 real loss per week for each property between 2001/02 and 2005/06, and despite their small magnitude, this reduction had a far-reaching effect on their operations and investment strategies.

First, housing associations in Yorkshire and the Humber reduced their development programmes in order to remain financially viable. For example, the number of housing units constructed by RSLs in Yorkshire fell from 606 in 2001/02 to 317 in 2003/04, and by 2005/06, only 443 dwellings were built, merely 2.6 per cent of total housing starts, the lowest in England (DCLG, 2006, Table 231). On the other hand, the region together with

many parts of the North and Midlands faced the problem of low demand, such as empty properties, letting difficulties, high stock turnover, and low and declining housing prices (Bramley & Pawson, 2002). In 2002, 10.4 per cent of RSL dwellings in Yorkshire were classified as 'low demand' (Hall & Hickman, 2005, Table 1). The low investment and low demand did not provide a secure basis for the implementation of rent restructuring. Despite the greater 70 per cent weighting of relative earnings element in the rent formula, regional local earnings vary much less around the national average than do property values. Furthermore, the relative earning figures do not vary between RSLs but property values do vary significantly within the same county. Consequently, the 30/70 split between property values and earnings cannot be maintained in the target rents for individual properties within a locality (Solomou, *et al.*, 2005, p.9), and it is the property value element that largely determines the level of target rent. Hence, to increase the capital value of the individual RSL's asset base, it is necessary to undertake refurbishment activity of the existing stock, not new development in view of the excess supply of social housing in these low demand regions.

The government has introduced a number of policy initiatives designed to tackle the problem of low demand, which includes the *National Strategy for Neighbourhood Renewal* (launched in January 2001), the *Housing Market Renewal Fund* (in April 2002) and the *Sustainable Communities Strategy* (in February 2003). As these titles suggest, the

government aims to revive areas with low property values at the neighbourhood level, by including renewal of social housing (both of local authorities and RSLs) as part of the urban regeneration policy agenda. Thus, for RSLs in Yorkshire and the Humber, to renew (in most case, demolish) their stock, and to sustain longer financial viability and allow them effectively to maintain their social housing role, they are encouraged to merge with other RSLs or become a member of a group structure, or to form joint ventures with private developers.

Beyond Yorkshire and the Humber, some RSLs have also experienced real rent loss in their GN properties. Figure 1(b) shows that nationally, average rents of three and four+ bed properties fell in real terms annually between 2001/02 and 2005/06. This hit particularly hard those RSLs who have a larger proportion of family sized properties in their stock, particularly BME and LSVT housing associations. In 2002/03, for example, 41.2 per cent of GN dwellings (assured and secured tenancies combined) owned by BME housing association were family sized (with more than three bedrooms). The comparative figure for non-BME associations was 33.5 per cent. For LSVT, it was 39.5 per cent compared to the non-LSVT figure of 29 per cent.

Because of the different operational backgrounds, rent reductions in larger size properties produced different impacts on BME and LSVT housing associations. First, the difficulties faced by BME associations in

implementing rent restructuring has been acknowledged by the HC, and as mentioned earlier, grant aid were given to 10 housing associations that were based in northern regions to solve short-term financial problems. However, to sustain their long-term viability, the only alternative is to lose their independence and become junior partners of larger RSLs who want to increase their BME profile (HC, 2003, p. 13). The picture is different for LSVT housing associations. In general, average rent level of GN properties owned by LSVT housing associations was comparatively lower; for example, in 2005/06, the average weekly rent for all LSVT GN existing tenancies was £60.67, £7.17 below that of non-LSVT. Because of the rent guarantees associated with the stock transfer process, tenants living in the LSVT housing associations also faced a relatively smaller rates of rent increase. Between 2001/02 and 2005/06, average rents for all LSVT existing tenancies increased by 12.7 per cent compared to 19.5 per cent for non-LSVTs. As average rent levels for LSVT existing tenancies were much below their corresponding targets, it is anticipated rents will increase faster and higher than the inflation rate once the rent guarantee period expires.

Regions and RSLs having real rent increases

The most apparent impact for RSL tenants in regions facing rent increases is the affordability of GN housing. Considering first, existing tenancies, Table 7 shows that the average weekly rent to lowest quartile (LQ) weekly earnings ratio⁹ for England increased slightly from 0.27 in 2003/04 to 0.28 in 2004/05. The South East, the East and the South West had the regional rent to LQ earnings ratios that were above the national averages, and of these, the South West had the highest ratios for both years. In contrast, London had the lowest ratios because of its highest level of LQ earnings. Affordability was therefore a particular issue for RSL tenants who were living in GN properties in the South West given that their earnings were particularly low amongst the high value regions.

(Table 7 about here)

Next, consider the ratios between average weekly rents of new tenancies and average net weekly incomes collected by CORE when tenants move into newly built or re-let GN units (see the last four columns of Table 7). Since average rents of new lets tenancies were most likely to be higher than current rents in existing tenancies (see Table 5), it is not surprising to find that the rents/incomes ratios in the former exceeded the ratios in the latter. Also, the ratios for re-lets were larger than those of new lets because the regional average incomes of re-let tenants were lower than those of new

lets tenants and much below the average LQ earnings. But what is unexpected was to find that London was now the region that had the highest ratios, around 0.4 for both new lets and re-lets. It was also the region that had the biggest difference between average weekly incomes of new tenants and the LQ weekly earnings. Average incomes of tenants in the newly built GN units were 72 per cent of the LQ earnings in both years while the corresponding figures for re-letting tenants were 57.5 per cent in 2003/04 and 60.2 per cent in 2004/05. These findings suggested that RSLs in London, compared with other regions in the South of England, were increasingly accommodating families with very low incomes. In contrast, the levels of average incomes for new tenants in the South West were much closer to the LQ earnings. Thus, the findings for new tenancies were different from those for existing tenancies: it was the new tenants in London who suffered the most severe affordability problem.

(Table 8 about here)

However, for many tenants, the impacts of rent increase (both in nominal and real terms) were dampened by the current structure of HB. High rent meant low-income families had to depend on HB to pay rents, and the result was a growing number of tenants in receipt of HB. Table 8 shows the regional distributions of RSL tenants receiving HB in February 2002 and

2006, and compares these to the regional distributions of GN dwellings in the same year. Firstly, for the whole of England, the number of HB recipients in the RSL sector grew by 34 per cent from 913,000 in February 2002 to 1,224,000 in February 2006, showing a plausible link between rent restructuring and the deepening of HB dependency in the RSL sector. Secondly, the two regional distributions shown in Table 8 are remarkably similar apart from the fact that London had much higher shares of HB recipients than its share of the total number of GN dwellings. This situation reflected either tenants in London were paying more for their rents or they had a much lower level of incomes (see Table 7), and hence required more subsidy. On the other hand, data from CORE revealed that for the whole England, there was a declining trend in the number of new tenants who were eligible for HB. The proportion of tenants renting newly built units and eligible for HB fell from 59.9 per cent of all new let tenants in 2001/02 to 56.0 per cent in 2005/06, and for re-let tenants, from 61.2 per cent to 60.0 per cent¹⁰. These diverging trends of HB dependency between existing and new tenancies were possibly related to the different dominant household groups in these tenancies. An earlier analysis on the 2001 Census data found that, “older people” was the major household group in existing tenancies. Over 30 per cent of RSL accommodations consisted of households comprising at least one adult of pensionable age: 65 years old for men and 60 for women (Tang, 2005), and they were most likely the HB

recipients. But in new tenancies, single adults (those below 60 years old) were the dominant household group (48.2 per cent of all new tenants in the 2000/01 CORE) who had a higher chance to be employed full time or part time and therefore less likely to depend on HB to pay the rent. Since the extent of rent increases in bedsits and one bed properties were comparatively larger than other types of GN dwellings, pensioners not receiving HB were more likely to face affordability problems, and also those elderly singles/couples who lived in bungalows or larger properties, which had relatively high rents because of high valuations.

The whole RSL sector

The reform of social rents is based on the belief that tenants will respond to the rental pattern within their local area and make a rational choice about moving or remaining in the social housing sector. This study finds that rent increases under restructuring might act as a disincentive for households to move within or out of the RSL dwellings, preferring rather to continue to live there. Table 9 shows a slowdown in the mobility of RSL tenants in the first four years of rent restructuring. The turnover rate of the GN tenants for the whole of England reduced from 9.8 per cent in 2001/02 (the year before rent restructuring) to 6.4 per cent in 2005/06, an indication of a significant

slowdown in the mobility by RSL tenants (see also Jones & Sinclair, 2002, Table 4).

(Table 9 about here)

Here, London presents an interesting case. Over the five-year period, although RSLs in the capital had the largest numbers of both the GN stock and the lettings to new tenants, the turnover rate of RSL tenants continued to be the lowest in the RSL sector (see also Pawson and Ford, 2002, Tables 1–2). Part of the reason for this very low residential mobility was due to the high concentration of BME population in London’s housing associations, for example, in the 2001 Census, people from BME made up of over 32 per cent of RSL population in the capital compared to 11.3 per cent across England. In addition to their large family sizes and low levels of income (Tierney, *et al.*, 2004, Table 3), BME households’ mobility was further constrained by the shortage of larger size properties in the capital. Moreover, private rents and owner occupation costs were much higher in London, so despite the consistently highest level of rent and the biggest rent increase, RSL tenants could not move to other sectors.

Despite the fact that rent increases were comparatively lower, the residential mobility of RSL tenants in the central and northern regions (except the North East) reduced at a much faster rate than the national

averages. The turnover rates of West Midlands fell by 3.9 per cent, 4.8 per cent in the East Midlands, and more steeply by 5.3 per cent in the North West. For Yorkshire and the Humber, the only region that had the real rent decline, there was also a decrease in the number of new tenancies from 9,834 in 2001/02 to 9,277 in 2005/06, and the turnover rates dropped significantly from 11.7 per cent to 7.3 per cent, respectively. In fact, Table 9 shows that turnover rates of GN stock owned by non-LSVT housing associations were declining at a much faster rate than those of LSVT ones. Clearly, the differential between re-let rents and current rents (see Table 5), and the growing rent differentials between worse and better GN housing deter RSL tenants to move within or across regions. On the other hand, it was found that relocation decisions are comparatively insensitive to rent changes. Jones and Sinclair (2002), for example, noticed that the cost of rent did not affect RSL tenants' motivation to move to properties with lower rents. Similarly, Walker, *et al.* (2002b) found that moving decisions were more likely to be affected by higher levels of security on an estate, the condition of the property, being offered a house there rather than a flat and being offered a somewhat larger property (p. 686). These physical factors rather than the economic ones influenced significantly the preference to move.

The use of rent restructuring to encourage mobility through rent changes was further hindered by the continued influx of properties into the

RSL sector via LSVT activity. Between 2001/02 and 2005/06, the number of LSVT housing associations grew from 115 to 163, and the number of GN units transferred from local authorities to RSLs increased by 30.1 per cent from 539,556 to 701,840, respectively. By 2005/06, the transfer units accounted for 47.4 per cent of the total GN stock (excluded those owned by very small RSLs). Recall that the vast majority of transferred tenants enjoyed a relatively lower level of rent and were protected from excessive rent increases for at least five years after the transfer, thus tenants were most likely to stay in their present homes during the rent guarantee period. Table 9 shows that the turnover rates of GN stock owned by LSVT housing associations were significantly lower than those of non-LSVT, and apart from Yorkshire and the Humber, the mobility of tenants living in LSVT housing associations declined in the first four years of rent restructuring. Also, as mentioned earlier, the proportion of larger size GN units owned by LSVT housing associations was greater than that of non-LSVT ones (see also Kiddle, 2002, Table 5). The addition of more family homes in the GN stock automatically transferred larger households, who were occupying these units to the RSL sector and tended to be less mobile. Moreover, both the 2004 and the 2000 surveys of existing housing association tenants indicated that the profile of LSVT tenants tended to be much older because of the increasing proportion of household members who were retired were

drawn into the RSL sector from the transfers (Maydew, *et. al.*, 2006, p. 117, p.121), thus further reduced the turnover rate of existing RSL households.

Conclusions

Contrary to widespread belief, rent changes caused by rent restructuring have neither always produced financial gains to RSLs nor deepened the affordability problem to RSL tenants. This study found that because of the low capital values of their existing stock, some housing associations faced real rent loss despite the increase of the average rents in their GN properties. Also, because of the current HB structure, there was no affordability problem yet; and in some instances, affordability was actually improved when they were living in larger size properties in the low-cost northern regions. Even though a new and greater bed size weighting was introduced in April 2006 for properties with three or more bedrooms, restrictions on rents based on property values would lead to some RSLs, especially those smaller specialist and BME housing associations, making substantial losses if the rate of rent increase could not keep pace with inflation. This certainly had impacts on their abilities to undertake major repairs and improvements, exacerbating the low demand problem. It is therefore unlikely that the use

of property values in calculating target rent is sustainable over a longer period in these regions.

This study however confirmed the general belief that the rent restructuring policy has sharpened the already apparent differentiation between London and the South East and the low-cost regions in the North of England. Even though the rent formula takes account of the variations of local incomes and property values across the country and thus reduces the range of variations in rents within any single local housing market, the national and regional trends in the values of properties (and hence rent changes) override any ‘smoothing’ process that the restructuring programme intended for the housing association sector. While the strategy to promote sustainable communities in England (ODPM, 2003) had a specific programme of ‘housing market renewal’ in deprived areas in the North of England and the development of growth areas and affordable housing strategies in the South, rent policy on social housing is necessary to take into the account the geographic uneven patterns of economic development and the degree of regional variation in RSL stock and household profiles. Furthermore, many areas in both high- and low-valued regions are characterised by ‘two-speed’ housing markets (Hickman & Robinson, 2006, p.162), where areas of low demand may be located adjacent to high demand ones. While resource allocation to the RSL sector is determined at the regional level by the HC and the central government, the restructured rent

formula needs to incorporate an element (for example, to reflect the running cost), which allows RSLs more scope to tailor to their own circumstances.

The study also casts doubt on the government's assumption that a more market-like rent structure will motivate social tenants to move on the basis of the rental differences within or between regions. Purely in an economic sense, the large rental difference between average re-let rents in new tenancies and current rents in existing tenancies was a great deterrent to encourage RSL tenants to make moves. Furthermore, the increasing movement of 'residualised' households from local authorities to housing associations through LSVT further reduces the residential mobility within the RSL sector. At the broadest level, as housing associations move towards the role of the dominant providers of social housing, it is wrong in principle to price RSL housing in a commercial basis because RSL housing has gradually replaced council housing as a tenure of last resort and increasingly be directed towards meeting social needs of the marginalized households who cannot pay market rents in the private sector.

Finally, it must be stressed that this paper has merely scratched the surface in terms of demonstrating the effect of rent restructuring on the RSL sector. Given that the policy is entering into its fifth year, the real impact on RSLs and tenants has not yet been felt. There is a need to continue monitoring the extent of rent changes (or more precisely, the real rent changes), in particular the effects of the new bed size weighting for larger

size properties introduced after April 2005 on RSLs in northern England. Also, it is worthwhile to explore the actual extent of the affordability problem for RSL tenants in view of the possible introduction of the Local Housing Allowance to replace the HB. In connection with this, there is an urgent need for further research to examine more in depth the link between HB and residential mobility in the social housing sector.

Notes

¹ The category of RSL was introduced in 1996. Since most housing associations are RSLs, the terms 'housing association' and 'RSL' are used interchangeably throughout this paper.

² However, there is no official definition of what an affordable rent actually is, either in the form of an upper limit on the monetary sum or proportion of income, which tenants in social housing should pay.

³ Choice based lettings is based on the Delft model (Kullberg, 2002) and is aimed to provide applicants for social housing to exercise a wider choice of properties, with more transparent 'market' style information. Twenty-seven schemes were piloted between 2001 and 2003 (see Cole, *et al.*, 2001, ch. 3), and the government has set a target of adoption of the choice based lettings in 25 per cent of local authority areas by 2005 and 100 per cent by 2010.

⁴ Local Housing Allowance, introduced in October 2002, was intended to replace the current HB system. Unlike HB, Local Housing Allowance is paid directly to the tenant who will then pay the landlord. The amount of the allowance is not related to the tenant's own rent but to average rents in the locality, i.e., a standard amount is paid to households of similar size irrespective of their rent. This means that recipients incur all of the cost of any rent increase and gain all of the savings resulting from any decrease. It was piloted in 18 local authority areas for private tenants in 2003 and planned to be implemented nationally by March 2008.

⁵ GN tenancies are either assured or secured tenancies. Assured tenancies are tenancies started after 15 January 1989 and tenants pay market rents, which are fixed once a year. Secured tenancies are tenancies started before 15 January 1989 and tenants pay fair rent, which is fixed by the local rent officer once every two years.

⁶ The proportions of new lettings made by RSLs who managed other RSLs' properties in all lettings made in England, as recorded in the CORE GN dataset, were 4.1 per cent in 2001/02, 4 per cent in 2002/03, 3.7 per cent in 2003/04, 4.2 per cent in 2004/05 and 3.8 per cent in 2005/06.

⁷ The size of individual RSL was defined by calculating the total individual RSL asset base from Parts A and B of RSR. The formula was (Kiddle with Spenceley, 2005):

Total RSL asset base = Total social housing stock owned (GN, supported housing and staff warden units; all of which was reported in Part A)
+ Total leased housing (100 per cent and less than 100 per cent equity; all of which was reported in Part A)
+ Total non-social housing stock owned (all of which was reported in Part B).

Around 6 per cent of CORE GN entries were new lettings made by housing associations owning less than 250 units.

⁸ Currently, RPI issued by the Office for National Statistics (ONS) is only available at national level. Since April 2003, because of the request from the Chancellor of

the Exchequer to meet the needs for regional price data, the ONS started to calculate the relative regional consumer price levels. In 2004, average prices in Yorkshire and the Humber were 4.1 per cent lower compared with the UK average when based on RPI data. The corresponding figure for London was 7.1 per cent higher (Wingfield, *et al.*, 2005, Table 2). Although this study did not take this disparity into account, one could argue that while the national RPI might over-exaggerate the degree of real rent reduction in Yorkshire, it might also moderate the extent of real rent increase in London.

⁹ RSRs did not collect information on incomes of existing RSL tenants. This study used the LQ earnings as a proxy for the income level of existing tenancies (see also Dataspring, 2006). LQ earnings were extracted from the Annual Survey of Hours and Earnings, which replaced the New Earnings Survey in 2004. Because of the inconsistency in the presentation of the results in the distribution of weekly earnings, and at the time of writing (September 2006), the results of the 2006 annual survey were not available, the rent/income ratio analyses employed in this study were therefore limited to the years of 2003/04 and 2004/05.

¹⁰ These were self-reported figures, which needed to be treated with some caution. The extent of the dependence upon HB to pay all or part of the rent might be higher because some tenants were unaware of their entitlement to HB, and some had no knowledge that their rents were covered by HB which were given directly to the landlords.

Appendix 1. Description of components in the rent-restructuring formula in England

Component	Description
Average net rent (rent excludes service charges)	<p>Average national rent in April 2000: RSL – £53.50 per week increased each year by the HC’s guideline limit for rent increases (i.e., RPI+1% from April 2000 and RPI+0.5% from April 2002). Local authority – £45.60 per week, need to adjust each year by the average guideline increase before using in the formula.</p>
Relative local (county) earning	<p>Average earnings for the county/Average national earnings County earnings – based on the New Earnings Survey and represent county average gross weekly earnings of full-time male and female manual workers over the 1997–99 period, updated to 1999 prices. Average weekly national earnings in 1999 – £316.40.</p>
Bedroom weight for property size	<p>2002–05: 0.8 for bedsit, 0.9 for 1 bed, 1.0 for 2 beds, 1.05 for 3 beds and 1.1 for 4+ beds. 2006: 0.8 for bedsit, 0.9 for 1 bed, 1.0 for 2 beds, 1.1 for 3 beds, 1.2 for 4 beds, 1.3 for 5 beds and 1.4 for 6+ beds.</p>
Relative property value	<p>Individual property value/National average property value Individual value: derived from the property value of the ‘beacons’ (the typical properties having the same attributes of the assessed property within the area), which was valued by local surveyor based on market valuations of an Existing Use Value (assuming continued residential use and vacant possession) in January 1999, which was reported in the 1999 English House Condition Survey. National average property value in January 1999: RSL – £49,750. Local authority – £41,350.</p>

Source: adapted from Walker (2004) Appendix A.

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Table 1. Number of GN tenancies (assured and secured combined; excluded those of very small RSLs) in the RSL sector at 31 March 2002 and 31 March 2006.

	Total	<i>% of all tenancies</i>				
		Bedsit	1 bed	2 beds	3 beds	4+ beds
<i>2002</i>						
Existing	1,370,899	3.9	29.9	33.7	29.5	3.1
New	134,445	5.4	38.4	34.5	19.4	2.3
<i>2006</i>						
Existing	1,480,545	1.5	21.7	36.8	36.3	3.7
New	94,270	2.8	35.4	39.5	20.1	2.3

Sources: Part I of 2002 RSR, Part Ia of 2006 RSR, 2001/02 and 2005/06 CORE.

Table 2. Average weekly rent of existing GN tenancies (assured and secured combined; excluding those of very small RSLs) as at 31 March, 2002 to 2006.

	Lon	SE	E	SW	E Mid	W Mid	NW	NE	Y & H	ENG
<i>Bedsit</i>										
2002	£46.10	£44.72	£41.36	£42.09	£35.58	£36.51	£34.45	£34.58	£33.46	£40.49
2004	£50.52	£46.61	£42.38	£44.69	£38.80	£40.65	£38.42	£37.66	£36.06	£43.58
2006	£58.93	£53.16	£47.70	£47.36	£44.11	£46.28	£43.76	£43.03	£40.08	£51.43
<i>1 beds</i>										
2002	£55.12	£53.67	£48.48	£48.17	£44.09	£44.90	£44.66	£42.94	£43.25	£48.52
2004	£59.73	£56.65	£51.66	£50.64	£46.67	£47.16	£46.57	£45.29	£44.69	£51.11
2006	£67.03	£62.50	£55.92	£54.61	£51.74	£52.05	£50.01	£49.46	£47.44	£56.33
<i>2 beds</i>										
2002	£65.89	£64.24	£58.09	£56.24	£51.87	£50.32	£48.98	£47.18	£50.86	£56.28
2004	£70.65	£67.51	£61.12	£59.27	£54.21	£52.78	£51.59	£49.68	£52.12	£58.89
2006	£77.69	£73.50	£65.09	£63.64	£59.27	£57.74	£55.70	£54.89	£53.57	£63.73
<i>3 beds</i>										
2002	£77.12	£72.41	£64.74	£61.61	£53.83	£53.65	£53.52	£49.42	£56.37	£62.36
2004	£81.76	£75.64	£67.58	£64.68	£56.45	£56.02	£55.32	£51.93	£56.15	£64.10
2006	£88.45	£81.96	£71.63	£69.65	£61.78	£61.12	£59.50	£57.03	£57.74	£68.54
<i>4+ beds</i>										
2002	£88.56	£81.59	£75.06	£69.59	£62.51	£64.27	£60.78	£51.52	£68.13	£73.68
2004	£93.28	£84.66	£77.22	£72.12	£64.73	£66.72	£62.75	£53.85	£68.20	£75.97
2006	£100.34	£90.99	£80.94	£77.74	£69.60	£72.09	£66.55	£59.82	£70.19	£80.95
<i>All beds</i>										
2002	£65.21	£63.59	£57.37	£55.43	£49.85	£49.77	£48.96	£46.25	£49.15	£55.68
2004	£70.01	£66.77	£60.51	£58.38	£52.54	£52.40	£51.60	£48.84	£50.43	£58.27
2006	£78.07	£74.69	£66.16	£64.59	£58.90	£58.16	£56.56	£54.47	£53.90	£64.32

Notes: Lon = London; SE = South East; E = East; SW = South West; E Mid = East Midlands; W Mid = West Midlands; NW = North West and Merseyside; NE = North East; Y & H = Yorkshire and the Humber; and ENG = England.

Sources: Part I of 2002-04 RSR and Part Ia of 2005-06 RSR.

Table 3. Changes in average weekly rent of existing GN tenancies (assured and secured combined; excluding those of very small RSLs) as at 31 March, 2002 and 2006.

	Average weekly rent change 2001/02–2005/06									
	bedsit		1 bed		2 beds		3 beds		4+ beds	
	£	%	£	%	£	%	£	%	£	%
Lon	12.84	27.8	11.91	21.6	11.79	17.9	11.33	14.7	11.79	13.3
SE	8.44	18.9	8.83	16.5	9.26	14.4	9.55	13.2	9.39	11.5
E	6.34	15.3	7.44	15.3	7.00	12.1	6.89	10.6	5.88	7.8
SW	5.27	12.5	6.45	13.4	7.40	13.2	8.04	13.0	8.15	11.7
E Mid	8.52	24.0	7.66	17.4	7.40	14.3	7.94	14.8	7.10	11.4
W Mid	9.77	26.8	7.14	15.9	7.43	14.8	7.48	13.9	7.83	12.2
NW	9.31	27.0	5.35	12.0	6.73	13.7	5.99	11.2	5.77	9.5
NE	8.45	24.4	6.52	15.2	7.71	16.3	7.61	15.4	8.30	16.1
Y & H	6.62	19.8	4.19	9.7	2.72	5.3	1.38	2.4	2.06	3.0

Notes: Lon = London; SE = South East; E = East; SW = South West; E Mid = East Midlands; W Mid = West Midlands; NW = North West and Merseyside; NE = North East; and Y & H = Yorkshire and the Humber.

Source: Compiled by the author from Part I of 2002-04 RSR and Part Ia of 2005-06 RSR.

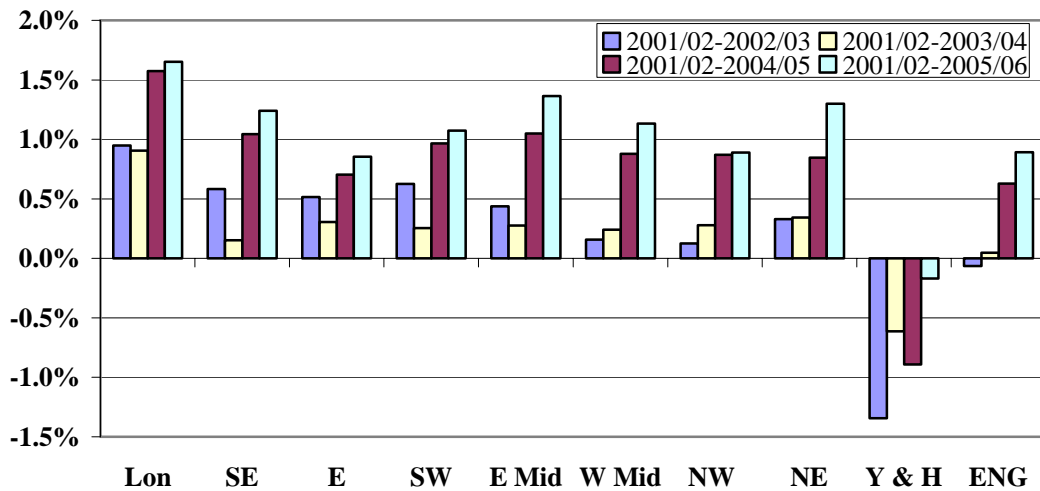
Table 4. Changes in average weekly rent of existing GN tenancies in 2005/06 market prices as at 31 March, 2002 and 2006.

	Average weekly rent (in 2004/05 prices) change 2001/02–2005/06									
	bedsit		1 bed		2 beds		3 beds		4+ beds	
	£	%	£	%	£	%	£	%	£	%
Lon	7.95	15.6	6.07	10.0	4.81	6.6	3.16	3.7	2.40	2.5
SE	3.71	7.5	3.15	5.3	2.46	3.5	1.88	2.3	0.75	0.8
E	1.96	4.3	2.30	4.3	0.85	1.3	0.03	0.0	-2.08	-2.5
SW	0.81	1.7	1.34	2.5	1.44	2.3	1.51	2.2	0.78	1.0
E Mid	4.75	12.1	2.99	6.1	1.91	3.3	2.24	3.8	0.47	0.7
W Mid	5.90	14.6	2.39	4.8	2.10	3.8	1.79	3.0	1.02	1.4
NW	5.66	14.9	0.62	1.2	1.54	2.8	0.32	0.5	-0.67	-1.0
NE	4.79	12.5	1.97	4.2	2.71	5.2	2.38	4.4	2.84	5.0
Y & H	3.08	8.3	-0.39	-0.8	-2.67	-4.8	-4.60	-7.4	-5.16	-6.8

Notes: Lon = London; SE = South East; E = East; SW = South West; E Mid = East Midlands; W Mid = West Midlands; NW = North West and Merseyside; NE = North East; and Y & H = Yorkshire and the Humber.

Source: Compiled by the author from Part I of 2002-04 RSR and Part Ia of 2005-06 RSR.

(a) By regions



(b) By bed sizes

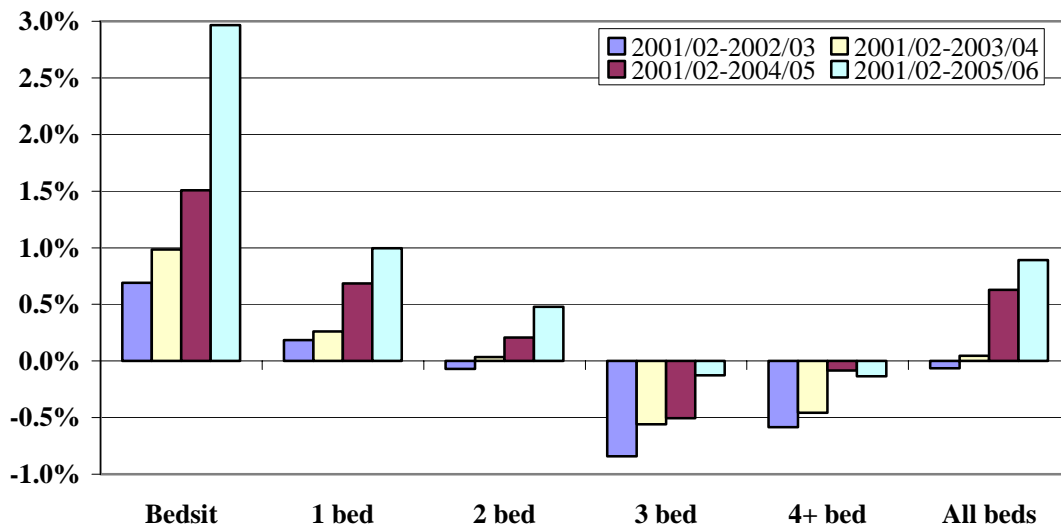


Figure 1. Annual changes of average real rents in 2005/06 market prices of GN existing tenancies in England, 2001/02 to 2005/06.

Notes: Lon = London; SE = South East; E = East; SW = South West; E Mid = East Midlands; W Mid = West Midlands; NW = North West and Merseyside; NE = North East; Y & H = Yorkshire and the Humber; and ENG = England.

Source: Compiled by the author from Part I of 2002-04 RSR and Part Ia of 2005-06 RSR.

Table 5. Differences of average rents of new tenancies with current and target rents of existing tenancies on 31 March, 2003 and 2006: by regions in nominal prices.

	Lon	SE	E	SW	E Mid	W Mid	NW	NE	Y & H
<i>Rent in new lets tenancies – rent in existing tenancies</i>									
2003	£7.55	£5.27	£3.93	£5.96	£5.56	£8.12	£8.44	£4.83	£8.72
2006	£7.36	-£0.08	£5.74	£1.34	£3.12	£9.11	£1.93	£4.28	£8.14
<i>Rent in new lets tenancies – target rent</i>									
2003	-£2.90	£4.60	£0.96	£6.80	£3.30	£5.29	£6.71	£2.51	£8.30
2006	-£0.93	-£0.70	£3.34	£1.86	£2.75	£6.77	-£0.06	£2.38	£5.21
<i>Rent in relets tenancies – rent in existing tenancies</i>									
2003	-£1.52	-£1.56	-£1.75	£0.44	£1.04	£2.75	£1.15	£0.83	£2.75
2006	-£0.95	-£3.13	-£1.68	-£1.70	£0.11	£1.35	£0.18	£0.31	-£0.42
<i>Rent in relets tenancies – target rent</i>									
2003	-£11.97	-£2.23	-£4.72	£1.28	-£1.23	-£0.07	-£0.59	-£1.49	£2.33
2006	-£9.24	-£3.75	-£4.08	-£1.18	-£0.26	-£1.00	-£1.82	-£1.59	-£3.35

Source: Compiled by the author from 2002/03 and 2005/06 CORE, Part I of 2003 RSR and Part Ia of 2006 RSR.

Table 6. Differences of average rents of new tenancies with current and target rents of existing tenancies on 31 March, 2003 and 2006: by bed sizes in nominal prices.

	Bedsit	1 bed	2 beds	3 beds	4+ beds	All beds
<i>Rent in new lets tenancies – rent in existing tenancies</i>						
2003	£10.77	£6.92	£6.38	£9.66	£10.02	£9.22
2006	£2.31	£5.63	£7.15	£9.65	£7.17	£7.32
<i>Rent in new lets tenancies – target rent</i>						
2003	£6.25	£3.51	£3.06	£6.76	£8.60	£6.07
2006	-£1.15	£3.14	£4.70	£6.13	£3.51	£4.43
<i>Rent in relets tenancies – rent in existing tenancies</i>						
2003	£1.42	£1.48	£1.83	£3.17	-£0.14	-£0.61
2006	-£0.41	£0.18	£0.97	£2.02	-£1.06	-£1.82
<i>Rent in relets tenancies – target rent</i>						
2003	-£3.10	-£1.93	-£1.49	£0.28	-£1.56	-£3.76
2006	-£3.87	-£2.31	-£1.48	-£1.49	-£4.71	-£4.72

Source: Compiled by the author from 2002/03 and 2005/06 CORE, Part I of 2003-04 RSR and Part Ia of 2006 RSR.

Table 7. Average weekly rent of new and existing tenancies as a proportion of average weekly incomes, 2003/04 and 2004/05.

a) 2003/04

	Existing tenancies		New lets tenancies		Relets tenancies	
	LQ earnings	Rent/earning	Income	Rent/income	Income	Rent/income
		ratio		ratio		ratio
Lon	£284.0	0.25	£204.4	0.39	£163.3	0.42
SE	£238.2	0.28	£230.0	0.31	£187.7	0.35
E	£219.2	0.28	£222.9	0.29	£179.6	0.32
SW	£197.9	0.29	£211.6	0.31	£171.4	0.34
E Mid	£202.9	0.26	£202.5	0.29	£162.8	0.33
W Mid	£206.5	0.25	£207.7	0.29	£157.9	0.35
NW	£207.3	0.25	£185.7	0.30	£159.7	0.33
NE	£190.6	0.26	£183.0	0.30	£152.7	0.33
Y & H	£197.5	0.26	£193.5	0.29	£150.7	0.33
ENG	£217.3	0.27	£210.7	0.32	£166.1	0.34

b) 2004/05

	Existing tenancies		New lets tenancies		Relets tenancies	
	LQ earnings	Rent/earning	Income	Rent/income	Income	Rent/income
		ratio		ratio		ratio
Lon	£281.5	0.26	£202.7	0.40	£169.6	0.43
SE	£230.0	0.31	£237.4	0.31	£195.7	0.34
E	£218.7	0.29	£235.0	0.30	£188.6	0.32
SW	£198.4	0.31	£224.3	0.29	£180.1	0.33
E Mid	£203.2	0.28	£210.6	0.32	£172.4	0.32
W Mid	£209.2	0.26	£215.5	0.30	£165.9	0.34
NW	£209.8	0.26	£197.4	0.29	£169.3	0.32
NE	£199.2	0.26	£225.0	0.25	£163.8	0.32
Y & H	£198.4	0.26	£197.8	0.31	£163.3	0.32
ENG	£216.9	0.28	£217.9	0.33	£175.2	0.34

Notes: LQ earnings = the lowest quintile gross weekly earnings for employees on adult rates.
Income of new lets tenancies and re-lets tenancies = average net weekly income excluding child tax credit, HB, council tax benefit and interest from savings, but including child benefit, occupational pension and other state benefits.

Sources: ONS (2004, Table 8.1a), ONS (2005, Table 8.1a), 2003/04 and 2004/05 CORE.

Table 8. Regional distribution of RSL tenants receiving HB against regional distribution of GN existing tenancies, 2001/02 and 2005/06.

	2001/02			2005/06		
	HB recipients		GN tenancies	HB recipients		GN tenancies
	'000	%	%	'000	%	%
Lon	174	19.1	17.9	218	17.8	16.8
SE	144	15.8	16.4	169	13.8	14.2
E	70	7.7	9.0	110	9.0	9.8
SW	92	10.1	10.1	107	8.8	8.6
E Mid	46	5.0	5.8	63	5.2	4.8
W Mid	116	12.7	12.7	144	11.8	12.4
NW	152	16.6	16.1	225	18.3	18.5
NE	59	6.5	6.0	80	6.5	6.3
Y & H	59	6.5	6.1	108	8.8	8.6
ENG	913	100.0	100.0	1,224	100.0	100.0

Notes: HB recipients = the number of RSL tenants receiving HB in February 2002 and 2006.

GN tenancies = the number of existing tenancies on 31 March 2002 and 2006.

Sources: Compiled by the author from DWP (2002, Table HB 1.7), DWP (2006, Table HB 1.7), Part I of 2002 RSR and Part Ia of 2006 RSR.

Table 9. Turnover rate of GN stock (assured and secured tenancies combined; excluded those of very small RSLs) in England as at 31 March, 2002 and 2006.

	LSVT			non-LSVT			All RSLs		
	2002	2006	2002-06	2002	2006	2002-06	2002	2006	2002-06
Lon	6.8%	4.1%	-2.7%	7.1%	5.1%	-2.0%	7.1%	5.0%	-2.1%
SE	7.6%	6.2%	-1.5%	10.9%	7.7%	-3.2%	8.8%	6.8%	-2.1%
E	7.4%	4.9%	-2.5%	11.4%	8.1%	-3.3%	9.6%	6.3%	-3.2%
SW	9.2%	6.0%	-3.1%	12.5%	8.9%	-3.6%	10.4%	7.0%	-3.4%
E Mid	6.6%	5.8%	-0.8%	15.7%	9.0%	-6.7%	12.7%	7.9%	-4.8%
W Mid	9.4%	7.0%	-2.3%	14.0%	8.6%	-5.4%	11.6%	7.7%	-3.9%
NW	9.8%	4.1%	-5.8%	11.0%	6.4%	-4.6%	10.7%	5.4%	-5.3%
NE	4.1%	4.2%	0.1%	12.5%	8.8%	-3.7%	8.9%	6.0%	-2.9%
Y & H	1.6%	5.4%	3.8%	16.0%	10.4%	-5.6%	11.7%	7.3%	-4.4%
ENG	7.8%	5.5%	-2.3%	11.1%	7.2%	-3.9%	9.8%	6.4%	-3.4%

Sources: Part I of 2002 RSR, Part Ia of 2006 RSR, 2001/02 and 2005/06 CORE.