

De-regulation to re-regulation: Rents in the housing association sector in England

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Local authorities (LAs) and housing associations (HAs)

	Council housing by LAs	Social housing by HAs	Total number of social housing
1976	5 million; 95% of all social housing	281,000	5.3 million; 31% of all dwellings
2006	2.1 million; 53% of all social housing	1.85 million	3.9 million; 18% of all dwellings

Source: *UK Housing Review 2007/08* Tables 17a and b (<http://www.ukhousingreview.org.uk/>)

HAs in England, 2007/08

- 1,700 registered social landlords owning 2,296,368 units for rent
- A large number of HAs (1,144) owned < 1,000 units each, 2% of total owned stock in the sector
- Less than 400 HAs owned > 1,000 units, but they owned 94% of total owned stock
- 48 super-league HAs owned > 10,000 units, owned 36% of total owned stock

- 455 HAs operated within group structure arrangements, and they owned 1,764,086 units, 77% of the total stock

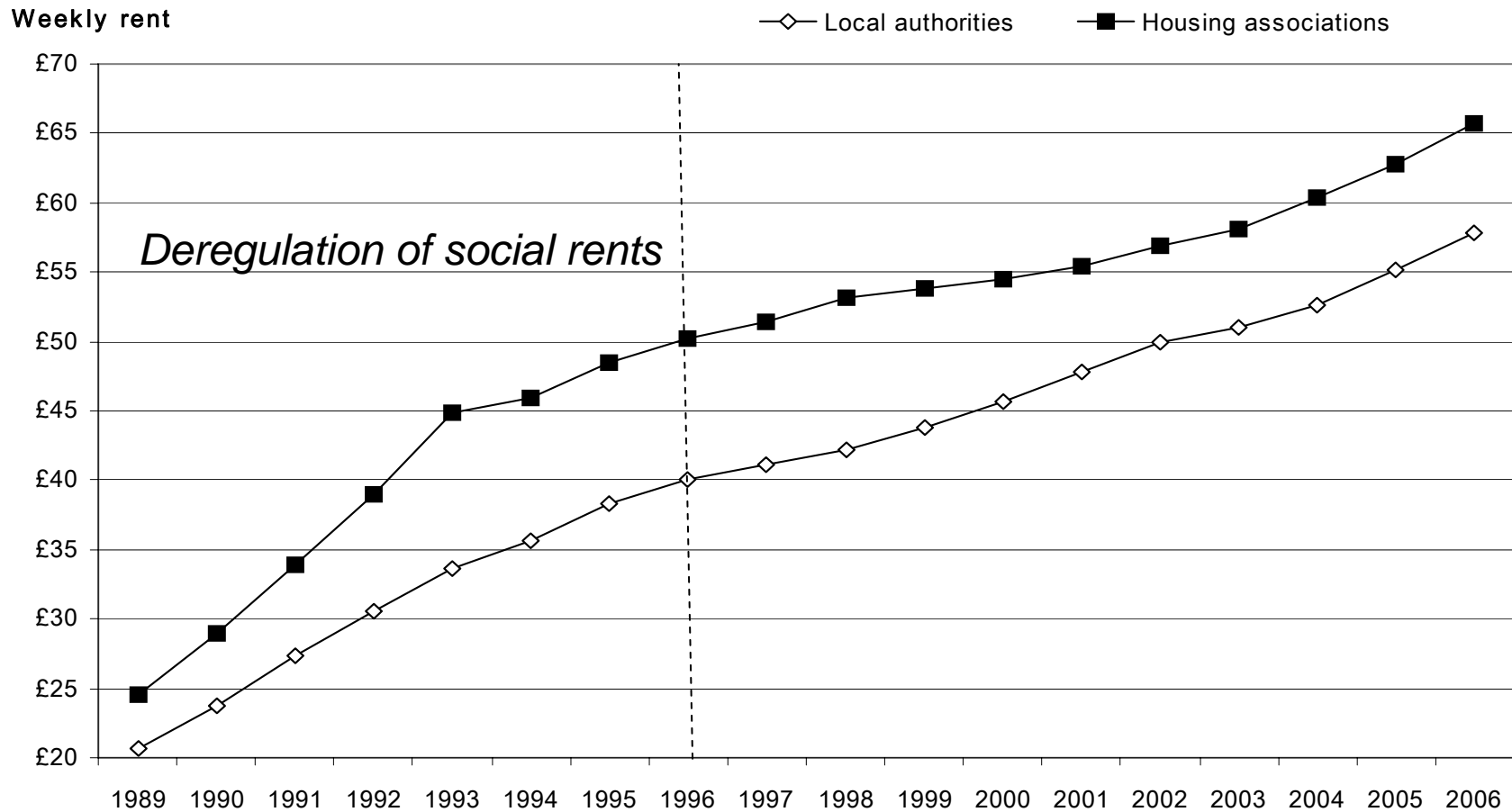
HA rent setting before de-regulation

- Historically, all HAs were allowed to set their own rents
- Rents were set on historic cost principle so that annual rental income was sufficient to cover expenditure taking account of subsidies from central government
- 1972 Housing Finance Act
 - ‘fair rents’ were applied to all *individual* properties
 - ‘fair rents’ were determined by local Rent Officers based on what a tenant could pay and what a landlord could accept if there were no shortage of properties to let in the open market

De-regulation – HA rents close to market rents

- 1988 Housing Act
 - Re-privatised HAs back to their pre-1974 position
 - Introduced a 'mixed funding' regime for new development – public + private finance
 - Withdrew funding for future major repairs
 - Introduced assured tenancy for new lettings
- HAs were free to set rents for assured tenancies
 - Overall rental income had to cover costs and build reserves
 - Average assured rents were below market, but some individual rents were very close to private rents

De-regulation – spiralling social rents, 1989–96

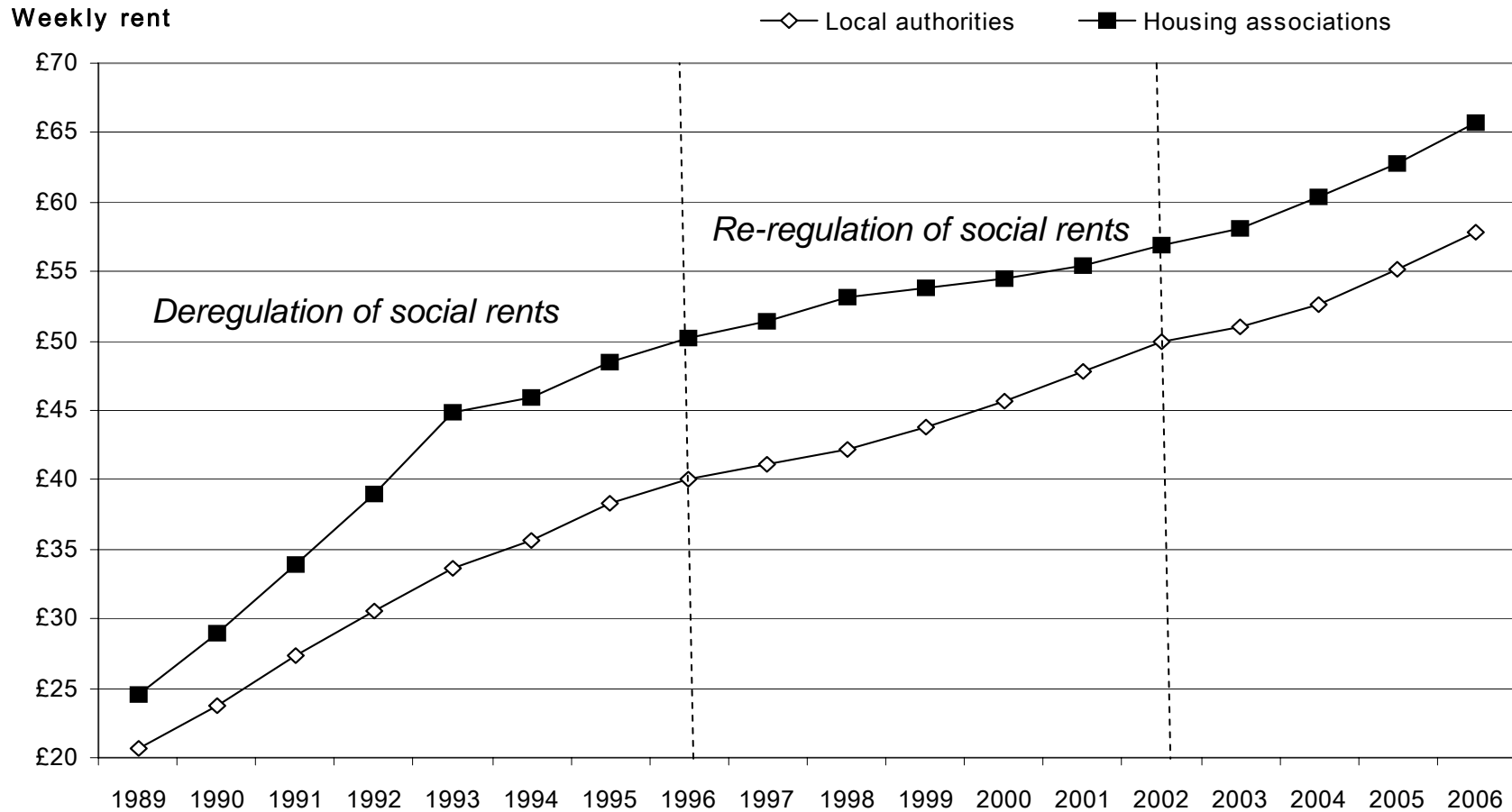


Source: *UK Housing Review 2007/08*, Table 72 (<http://www.ukhousingreview.org.uk/>)

Re-regulation – curb the growth of HA rents

- 1996 Housing Act resumed the regulated regime in the HA sector – registered social landlords
- ‘Rent bidding’ – competition for allocations depended not only on the grant requested, but also on the rent levels specified
- Annual growth of rent (for both assured and secured tenancies) no more than retail price index (RPI) + 1%

Re-regulation – controlled growth of social rents, 1996–2002



Source: *UK Housing Review 2007/08*, Table 72 (<http://www.ukhousingreview.org.uk/>)

Re-regulation – social housing quasi-market

- Housing Green Paper *Quality and Choice: A Decent Home for All* (DETR/DSS 2000) – introduced ‘market’ principles at the demand-side of social housing
- Chaotic rental pattern gave inappropriate price signals for social tenants to exercise choice
 - HA sector: pre-1989 ‘fair rents’ and post-1989 assured rents; rents between mainstream and stock transfer HAs
 - LA and HA sectors: Consumer Price Index for LAs and RPI for HAs

Rent restructuring policy – target rent formula

- Housing Green Paper *Quality and Choice: A Decent Home for All* – introduced target rent formula

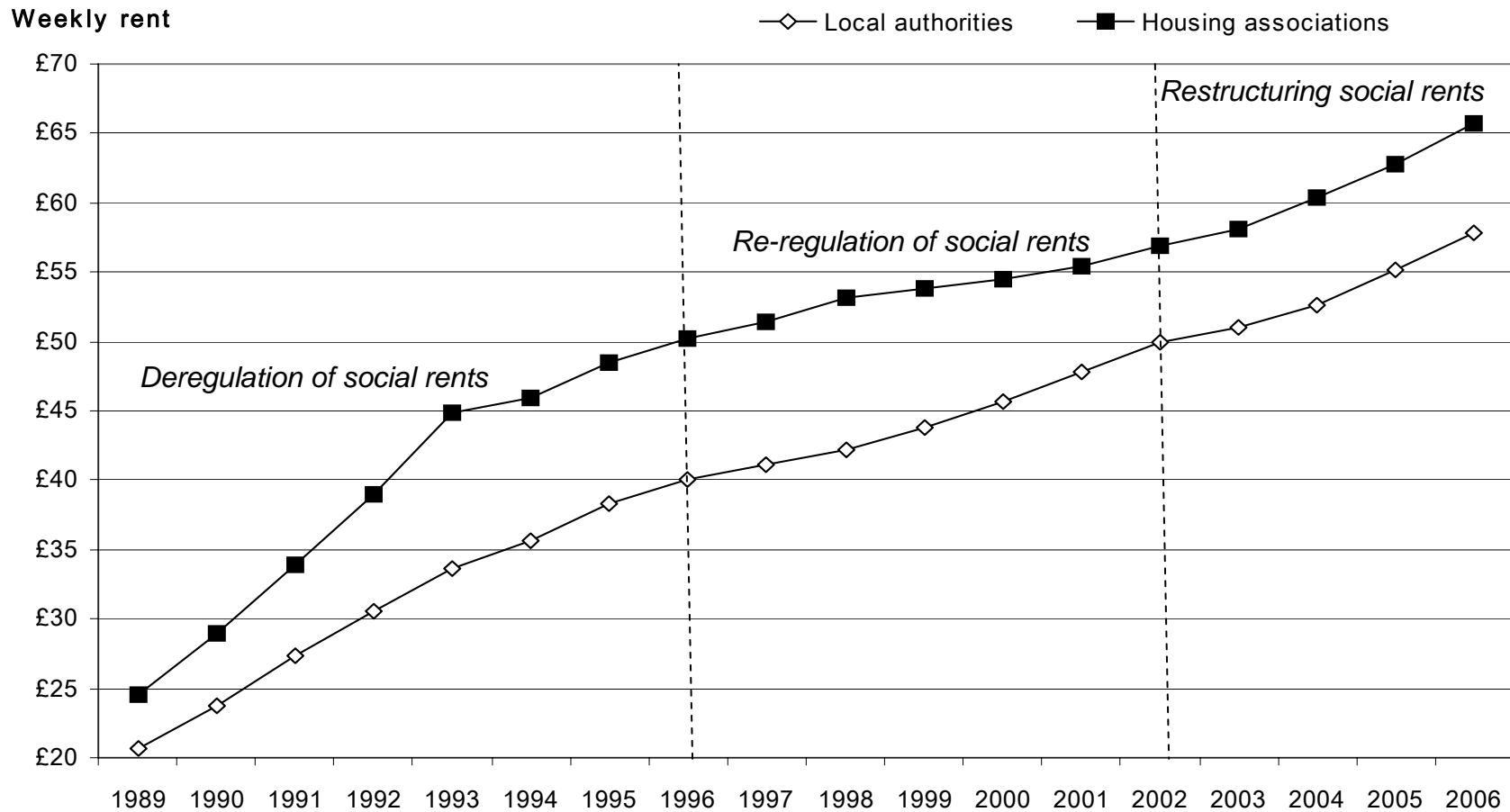
$$70\% \times \text{average net rent} \times \text{relative local earning} \times \text{bedroom weight} \\ + \\ 30\% \times \text{average net rent} \times \text{relative property value}$$

- Bedroom weight
 - 2002–05: 0.8 for bedsit, 0.9 for 1 bed, 1.0 for 2 bed, 1.05 for 3 bed and 1.1 for 4+ bed
 - 2006: 0.8 for bedsit, 0.9 for 1 bed, 1.0 for 2 bed, 1.1 for 3 bed, 1.2 for 4 bed, 1.3 for 5 bed and 1.4 for 6+ bed

Rent restructuring policy – schedule and rent increase

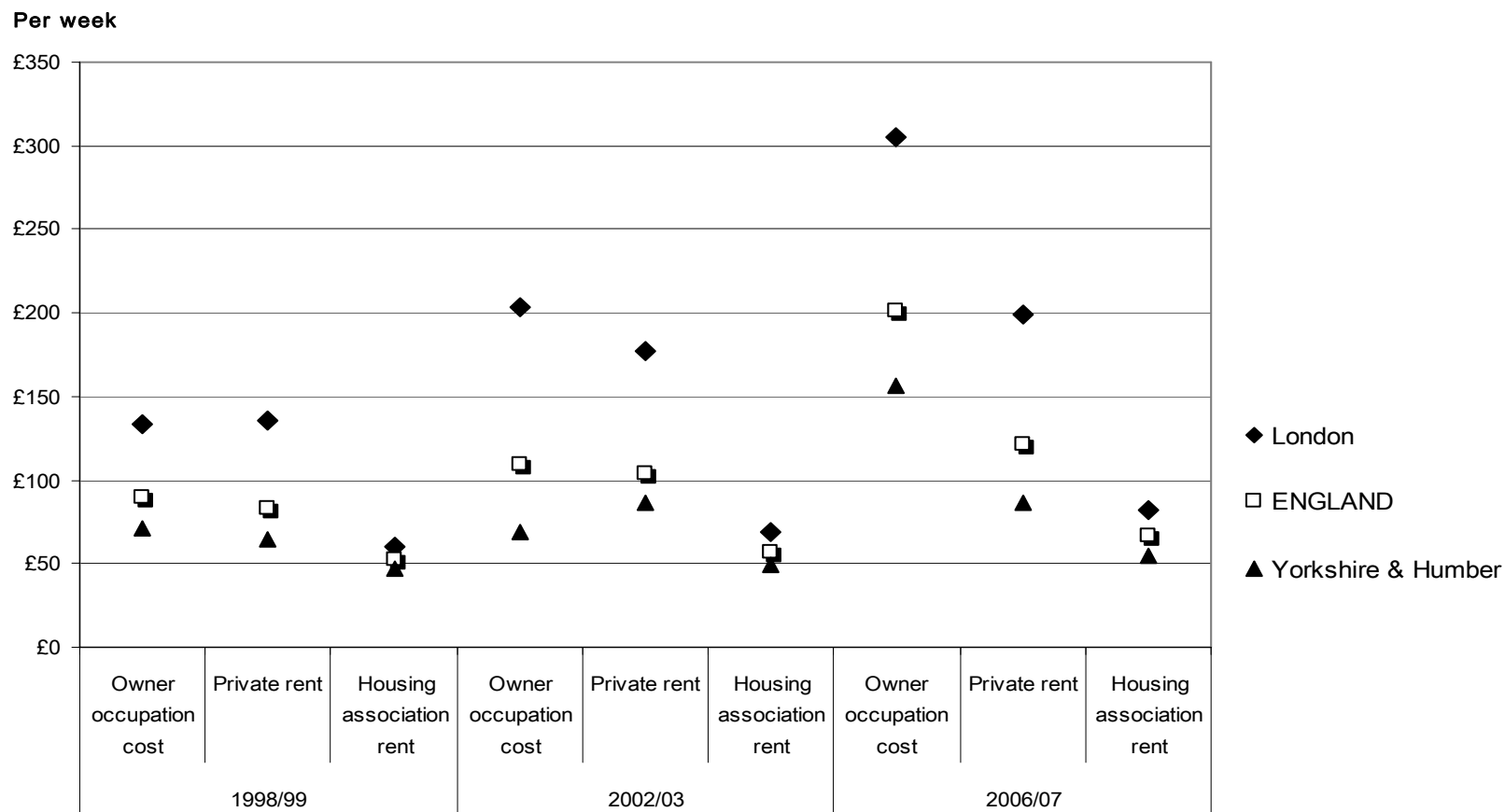
- All HAs and LAs were required to calculate target rent for each of their *individual* properties
- A 10 year trajectory for HAs – individual rents have to be $\pm 5\%$ of targets at the end of restructuring period (2012/13)
- Maximum rates of rent increase:
 - Overall: RPI + 0.5%
 - Individual: RPI + 0.5% + £2 per week
- Rent caps for properties in high cost regions and larger size properties – increase annually by RPI + 1%

Restructuring social rents, 2002–2006



Source: *UK Housing Review 2007/08*, Table 72 (<http://www.ukhousingreview.org.uk/>)

HA rents and rents in market tenures, 1998/99–2006/07



Sources: Udagawa, Tang and Martindale (2008) Fig. 2.1; Udagawa and Tang (2008a) Table 2.3; Udagawa and Tang (2008b) Table 2.2.

HA rents by bedsizes, 2002/03 and 2007/08

2-bed = 1.00



Source: Based on calculations from 2002/03 and 2007/08 RSRs.

HA rent-to-income ratios for new tenants, 2002/03 and 2007/08

Region	All new tenants				Working tenants			
	Rent/income		Rent/ (income+ housing benefit)		Rent/income		Rent/ (income+ housing benefit)	
	2002/03	2007/08	2002/03	2007/08	2002/03	2007/08	2002/03	2007/08
London	0.41	0.43	0.32	0.34	0.25	0.27	0.24	0.26
South East	0.35	0.34	0.29	0.29	0.24	0.24	0.23	0.23
South West	0.34	0.32	0.29	0.28	0.24	0.23	0.23	0.22
East Midlands	0.34	0.32	0.28	0.28	0.23	0.23	0.22	0.22
East	0.32	0.33	0.28	0.28	0.22	0.23	0.22	0.22
West Midlands	0.34	0.33	0.29	0.28	0.23	0.22	0.22	0.21
Yorkshire and the Humber	0.34	0.32	0.28	0.27	0.23	0.22	0.22	0.21
North West	0.34	0.32	0.29	0.28	0.23	0.22	0.22	0.21
North East	0.33	0.31	0.28	0.27	0.22	0.21	0.21	0.21
ENGLAND	0.35	0.34	0.29	0.29	0.23	0.23	0.22	0.22

Note: HA rent, income and housing benefit were based on those new tenants who declared their income in the CORE.

Source: Based on calculations from 2002/03 and 2007/08 CORE.

Average per unit costs for all HAs, 2006/07

	London	South East	South West	Central	North
Income measures					
Rent income per unit (£)	3,870	3,621	3,198	2,995	2,796
Voids %	2.4%	2.0%	1.6%	1.9%	2.5%
Bad debts %	1.1%	0.9%	0.6%	1.0%	1.3%
Cost measure per unit (£)					
Operating costs	3,317	2,697	2,683	2,720	2,862
Operating costs less depreciation plus capitalised major repairs	3,593	2,648	2,656	2,890	3,275
Management costs	952	667	624	706	730
Routine and planned maintenance costs	900	884	831	880	883
All major repair costs	786	546	848	830	1,218
Service and support costs	482	365	276	412	318
Other costs	473	186	77	62	126
Total costs as % of rental income	93%	73%	83%	96%	117%

Source: Housing Corporation (2008) Table 3.

Target rents and financial viability of HAs

- HAs in the north
 - Lower target rents because of lower property values
 - Target rents not viable for HAs' financial sustainability
- HAs in London and South East
 - 12 LAs in London had actual rents > 5% below targets in 2007/08
 - Changed their business models: purely rental \Rightarrow rental + shared ownership schemes – £577 million profit from shared ownership during 2008
- All HAs
 - Management costs per unit rose by 8.3% vs. general needs rents increased by 4.9% in 2007/08

Concluding remarks – HA rents in England

- Quasi-market principles – related to characteristics of the property and tenants' income, rents are below market and affordable
- Rental pattern mirrored those in market tenures between areas, but not between property sizes
- No element of management and maintenance costs in the target rent formula
- Constraints of target rents and RPI rent increases

Concluding remarks – economic recession

- Deflation risk to rental income in 2010/11
 - Potential increased in rental arrears – rent increase of 5.5% in 2009/10
- Unsold shared ownership properties
 - 9,000 unsold shared ownership properties transferred to rental units with the support of grants from Homes and Communities Agency
- Further increase of housing benefit expenditure
 - Between 2002/03 and 2006/07, 30% increase of the number of housing benefit claimants and 25% in expenditure

Concluding remarks – regulation vs. flexibility

- Rents should cover costs of providing rental housing which vary between areas and HAs – a “one-model fits all”!?
- A flexible approach to rent structures for different HA groups and locations
- A flexible approach to affordability for different household types and different regions
- Too much regulations change HAs into a bureaucracy
- HAs responsive to regulations, no tenant involvement in formulating and reviewing rent policy

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<http://www.dataspring.org.uk>