

## CHAPTER 8

# RENT

### 8.0 RENTAL INCOME, 1855-1965

#### DEFINITION OF THE SERIES

Rent is defined by the C.S.O. [73, p. 473] as the gross receipts from ownership of land and buildings less actual expenditure by the owners on current repairs, maintenance and insurance. It is measured before provision for depreciation. It includes imputed rent for owner-occupied dwelling houses and farms, houses provided rent-free by employers, and non-trading property owned and occupied by public authorities. No rent is imputed in respect of the fixed assets used in local authority roads and public lighting. Imputed income from owner-occupied trading property is not regarded as rent, but is estimated together with trading profits. The rent figure is thus something of a hybrid: neither the rental value of all buildings and land, whether owner-occupied or not, nor yet the rents actually paid by tenants, but a mixture of the two which falls whenever a trader buys the premises in which he operates.

For houses and farms the imputation is based mainly on rateable values; for council houses and other public authority housing and non-trading property it is measured by the annual loan charges,<sup>1</sup> except for national health service hospitals and the assets of local authorities employed in education, for both of which the imputation is based on an assessment of the rateable value. Where rents paid are subsidised by public authorities, the full economic rent is included in the estimates, i.e. the subsidy is regarded as part of the rental income derived from the property. Income obtained from the provision of ancillary services (e.g. cleaning or the hire of furniture) is included if it cannot be distinguished from rent proper (as when property is let furnished).

For 1920-38 the estimates correspond broadly to the above definition except for the addition of income from royalties on patents and mineral rights, ground rents etc. This income was treated as an operating expense in Chapter 7.1 but does not appear elsewhere in the present estimates as income; its inclusion with rent of land and buildings is in accordance with international recommendation.<sup>2</sup> There are also certain minor dif-

ferences in the measurement of imputed rents; these are detailed below.

The pre-1920 estimates differ from those for 1920-38 by the inclusion of imputed income from owner-occupied non-farm trading property (other than mines, gasworks, waterworks, railways and other 'concerns No. III, Schedule A' - see p. 165) and the exclusion of royalties etc. These differences are exactly offset by compensating differences in the pre-1920 estimates of trading profits (see Chapter 7.2). As usual, Southern Ireland is included in the pre-1920 series.

The estimates for the whole period 1855-1965 are shown in column (6) of Table 1.

#### METHODS OF ESTIMATION

##### 1938, 1946-1965

The Blue Book estimates for these years represent the total for the following five groups of property [73, pp. 474-5]:

- (a) Land and buildings owned by persons, companies or public corporations and used by persons as consumers, i.e. excluding trading premises and including dwellings, private schools and hotels - whether or not in owner-occupation
- (b) Land and buildings owned by the Central Government, whether or not in owner-occupation
- (c) Land and buildings (including dwellings and excluding roads) owned by local authorities, whether or not in owner-occupation
- (d) Farm land and buildings, whether or not in owner-occupation

<sup>1</sup> Equal to interest on borrowed money, repayments of principal other than out of sinking funds and payments into sinking funds. For certain Central Government property a broadly equivalent measure is used, equal to depreciation (at historical cost) and interest on capital employed.

<sup>2</sup> United Nations [107], para. 239. The latest edition of the C.S.O. handbook [73, p. 473] refers to the inclusion of ground rents with rents but makes no mention of royalties. Neither item is referred to in the corresponding section of the earlier edition [74, p. 332].



TABLE 8.1 RENT, BY TYPE OF PROPERTY, SELECTED YEARS 1920-38 (£M.)

	1920	1925	1930	1935	1938
1. <i>Rent of land and buildings</i>					
(a) Privately owned land and buildings used by persons as consumers	141	175	201	226	244
(b) Central Government land and buildings	4	5	5	6	7
(c) Local authority land and buildings	17	35	55	63	71
(d) Farm land and buildings	27	27	22	21	25
(e) Privately owned land and buildings let to trading concerns or public authorities	16	29	58	76	88
Total	205	271	341	392	435
2. <i>Royalties, ground-rents etc.</i>	19	19	21	21	25
Total	224	290	362	413	460

SOURCE: See text.

- (e) Land and buildings (other than farms and houses) owned by persons, companies or public corporations, if (but only if) they are let to trading concerns (public or private) or to public authorities

The main component of (a) is privately owned dwellings and the measurement of rental income is based on estimates of the stock of dwellings classified by type of occupancy and on information about rents obtained from special surveys. Estimates for (b) and (c) are based on the published accounts. For (d) the information is obtained from the regular Ministry of Agriculture enquiries used in estimating farm incomes. The estimate for (e) was based until 1963 on the Schedule A assessments, with an addition for assessments under Schedule D in respect of rents in excess of the Schedule A value, and a deduction for maintenance claims in excess of the statutory allowance. From 1963, after the abolition of income tax under Schedule A, a different method is used, and the estimate is obtained as a residual after deducting the other components from an estimate of total rent built up from Schedule D assessments on rent received by persons and companies and an allowance for the imputed income from owner-occupied dwellings and farm land and buildings (included in items (a) and (d)).

#### 1939-1945

The estimates for the war years were obtained by interpolating between the 1938 and 1946 Blue Book figures on the basis of a series which approximates moderately well to the coverage of the Blue Book estimates. This series was constructed from the following ingredients. Firstly, the estimates for net rent of land and buildings once published for this period by the C.S.O. [77], p. 200, and the *National Income White Paper*, [65, 1950, Cmd.

7933, p. 9]. This represented the net rental value of all land and buildings as assessed for Schedule A together with rents in excess of the unchanged Schedule A valuation which were assessed under Schedule D. Since the net value was derived from the gross by a statutory deduction which bore no relation to the actual value of repairs, the series was converted to a gross basis by adding back the actual Schedule A repairs allowance.

Secondly, an estimate of repairs etc. was deducted from this gross series. It is based on Ministry of Works data on the value of construction work done:<sup>1</sup> the two relevant categories are described as 'war damage clearance and repairs' and 'other work including conversion, adaptation, maintenance and repair (other than war damage repair) of houses'. It was assumed that until 1944 most of the former category consisted of demolition and clearance but that from 1945 it was mainly maintenance of surviving buildings. Finally, an addition was made for loan charges on local authority non-trading property.<sup>2</sup>

#### 1920-1938

For this period the series consists of rent of land and buildings, plus income from royalties, ground-rents etc. For the former, new estimates have been made for this period for each of the five groups of property listed above for 1946-65. For the two major groups ((a) and (e)) the estimates of gross rental income are based on Schedule A gross values. The deduction from the gross rent for maintenance and repairs is rather approximate and is discussed in a separate note at the end of this section. The five individual components are shown for selected years in Table 8.1.

<sup>1</sup> *Annual Abstract of Statistics* [9], No. 86, Table 169.

<sup>2</sup> *Ibid.* Table 255.



*Privately owned land and buildings used by persons as consumers.* This is the most important of the five constituents and starts from the estimates of the gross expenditure by the personal sector on rents (not including rates and water charges) made by Stone and Rowe [249, I, p. 221] and used in Chapter 2.3. As already noted (p. 45), this series is based on Schedule A gross values and so the rent imputed for owner-occupied dwellings implicitly includes occupiers' maintenance costs. Two deductions must be made. Firstly, the Stone and Rowe estimates cover all dwellings and it is necessary to exclude those owned by local authorities, since they are covered separately below. The deduction made is based on the actual rents received by local authorities as given for England and Wales in the *Annual Reports of the Ministry of Health* [13]<sup>1</sup> and for Scotland in the *Statistical Abstract* [35, e.g. No. 83, p. 242]. This should agree broadly with the Schedule A gross value of these houses.

Secondly, an estimate of the expenditure on repairs and insurance by private landlords and owner-occupiers must be deducted. In the absence of any reliable data on the actual annual level of expenditure on repairs an amount equal to one-sixteenth of the gross rent was deducted each year.<sup>2</sup> For insurance a figure of £4 m. for 1938 (kindly supplied by the C.S.O.) was extrapolated by the Stone and Rowe series for personal expenditure on 'other insurance' (i.e. other than life insurance) [249, II, p. 102].

*Land and buildings owned by the Central Government.* This series is taken from the estimates of Central Government income and expenditure in Chapter 4.2. Actual rents are as given in the published accounts; and the imputed rent of buildings owned and occupied by the Central Government is measured by the rateable value of the property on which contributions in lieu of rates were paid to the local authorities.

*Land and buildings owned by local authorities.* This series covers local authority houses and non-trading property owned and occupied by local authorities. The rental value is measured by the loan charges and is the same as the series described in Chapter 5.2. It may be noted that the estimate automatically includes any housing subsidies, whether from the Central Government or the local authorities, since the latter are, by definition, equal to the excess of the loan charges on housing over the sum of actual rents received plus subsidies from the Central Government less actual expenditure on repairs.

*Farm land and buildings.* Owner-occupied farm buildings are included here but tenant farm houses are excluded since they are covered by the estimates below for private dwellings.<sup>3</sup> The series is equal to Bellerby's estimates of net rent [119, pp. 357-8] plus an adjustment to add back depreciation. This adjustment is based on

our estimates of the depreciation (at historical cost) of farm buildings [162, p. 70].

*Privately owned land and buildings let to trading concerns or public authorities.* The Stone and Rowe estimates of the gross rental income of dwellings were obtained by calculating the appropriate proportion of the total Schedule A gross annual values (adjusted for divergences from actual rents paid in years between reassessments) [249, I, p. 209]. By reconstructing their estimates it is possible to derive the balance of gross rental income, i.e. that part of the adjusted Schedule A gross values<sup>4</sup> which does not consist of occupied or empty dwellings. This residual was adjusted to a calendar year basis to give the gross annual value of all non-dwellings.

Owner-occupied trading property must then be excluded from this series. The net annual value of such property is estimated in Chapter 7.1, and this estimate was raised by 1/5th to get the corresponding gross annual value. When this has been deducted the balance represents the gross annual value of trading property rented to trading concerns or public authorities, and the final step was the deduction of 1/6th each year to cover repairs and insurance.<sup>2</sup>

Finally, the estimates from Chapter 7.1 of royalties, ground-rents, etc. are added to these five constituents of rental income.

*Repairs and maintenance.* The purpose of this note is to supplement the unduly brief references made above to the estimated deduction for repairs to buildings. The present estimates can be summarised as follows: one-sixth of the gross rent was allowed in the case of privately owned dwellings and rented trading property and the same fraction was provided for in excluding owner-occupied trading property. For 1935 this would be:

	£ m.
Privately owned dwellings	46
Trading property: rented	15
owned and occupied	14
	<hr/> 75

<sup>1</sup> From 1935/6 a 'change in the method of accounting' relating to the treatment of rates on local authority houses reduced both income and expenditure for housing by about £5 m. [13, 19th Report, p. 155]. Earlier years were therefore adjusted to the new basis. The final series was converted to a calendar year basis in the usual way.

<sup>2</sup> See further the note on repairs below.

<sup>3</sup> See Stone and Rowe [249, I, pp. 209-10].

<sup>4</sup> For 1919/20 to 1922/3 it is also necessary to exclude Southern Ireland from the totals published in the *Inland Revenue Reports*. This can be done from the data given in the 68th Report [30], p. 83.



For farm land and buildings the amount allowed for repairs in Bellerby's estimates would be about £15 m.; and work done on local authority buildings by their own employees (as shown in the 1935 Census of Production [42(d)] Final Report, Pt. iv, Section 1, p. 7) would add another £8 m. With a small allowance for government buildings the total repair bill allowed for or implied in the present estimates for 1935 would thus be not less than £100 m.

The first source which should be considered in evaluating this figure is the allowance for repairs granted for tax purposes. This was intended to cover also maintenance, insurance and management and was not, in general, based on the actual cost of repairs etc., but may nevertheless provide a very rough guide to the level of expenditure. Following the recommendations of the 1920 Royal Commission on Income Tax the statutory allowance was raised with effect from 1923/4 to the following:

Gross value	Allowance
Not exceeding £40	one quarter of the gross value
Exceeding £40 but not £50	£10
Exceeding £50 but not £100	one-fifth of the gross value
Exceeding £100	£20 plus one-sixth of amount by which gross value exceeds £100

This allowance was granted automatically, and if it could be shown that actual expenditure was greater than this a claim could be made for relief from taxation on the excess expenditure.<sup>1</sup> The Schedule A allowance would thus be likely to represent an upper bound since any cases where there was an excess on which the taxpayer failed to claim relief would almost certainly be outweighed by cases where actual expenditure fell short of the statutory allowance. For 1935/6 the total Schedule A allowance for repairs to land and buildings was £112 m., i.e. 12 % more than the amount allowed for in the present estimates.

Two sources of information are available regarding the *actual* level of expenditure on repairs, but neither provides an adequate basis for an accurate and comprehensive estimate. Firstly, an enquiry into the expenditure of families with an annual income of £250 or more in 1938 revealed an average net weekly expenditure on 'decoration of house' of 3s. 3¼d.; and this represented some 16 % of the cost of rent (or purchase instalments), rates and water charges.<sup>2</sup> However, in the comparable survey conducted at about the same time for families with incomes of less than £250 per year

(some 20 % of whom were owner-occupiers) outlay on repairs was not large enough to warrant listing as a separate item of expenditure.<sup>3</sup>

The second source is the Census of Production, but unfortunately the exclusion of small firms particularly affects the reported estimates of repair work. Some allowance for this was made in writing up the results of the 1935 Census, leading to a total of £95 m. [42(d), 1935, *Final Report*, Pt. iv, Section 1, p. 9]; but this adjustment still leaves roughly 145,000 construction workers unaccounted for and the correct total would be somewhat higher.<sup>4</sup>

All this suggests that the present estimates for repairs may be too low and the estimates for rent correspondingly too high, but the extent of the error involved is very uncertain. It should be noted, however, that the rent estimate for 1938 is appreciably lower than the corresponding Blue Book figure (see p. 180, below).

The above comments have related to the attempt to establish a benchmark for repairs for one year. No information is available relating to year-to-year changes in the level of repairs; and in view of the large changes which occurred in the volume of new building work it seemed that any attempt to base an annual series on an indicator relating to both new and repair work (e.g. employment or unemployment in the industry) would be likely to produce errors at least as great as those resulting from the assumption that repairs were a stable fraction of gross rent.

#### 1915-1920

The series for these years is the sum of three items. For land and buildings, the Schedule A gross annual values for 1914/15 to 1920/1 adjusted between reassessment years as suggested by Stone and Rowe [249, 1, p. 209] less the Schedule A allowance for empty property [30, e.g. 64th Report, p. 117] and an allowance for repairs etc. For buildings this was taken as one-sixth of the gross value at the beginning and end of the period but reduced to 5 % during the war years. For land (including farm land and buildings) an estimate of the cost of

<sup>1</sup> In the case of owner-occupied trading property the actual level of expenditure would be claimed as an allowable deduction under Schedule D and the excess would not, therefore, appear in the Schedule A allowance.

<sup>2</sup> P. Massey, 'The Expenditure of 1360 British Middle-class Households in 1938-39', *J. R. Statist. Soc.*, cv, 1942 [207], p. 159.

<sup>3</sup> 'Weekly Expenditure of Working-class Households in the United Kingdom in 1937-38', *Ministry of Labour Gazette* [87(b)], December 1940, pp. 300-5.

<sup>4</sup> Cf. Feinstein [162], p. 214. I. Bowen and A. W. T. Ellis, 'The Building and Contracting Industry', *Oxford Economic Papers*, 7, 1945 [125], p. 112, suggest a figure of £101 m.



repairs, tithes etc. was derived by interpolation between Bellerby's implied estimates for these items for 1914 and 1923 [119, pp. 357–8]. This estimate thus covers categories (a), (d) and (e) of the post-1920 estimates and also includes owner-occupied trading property. For local authority non-trading property the figures for loan charges were taken from the *Statistical Abstract*, and for Central Government property a notional addition was based on the estimates obtained for 1920 and 1914.

#### 1855–1914

The estimates for this period share with those for later years a common origin in the Schedule A assessments. The starting point is, however, the net rather than the gross value; the actual series used is shown in column (1) of Table 7.16 and its derivation from the tax assessments is described in detail in Appendix 7.2 (see, in particular, p. 166). The series covers owner-occupied houses and trading property. Four further adjustments have now to be made to this series, the first three of which follow from the use of the net annual value.

First, it is necessary to add back any amount deducted for depreciation. No specific provision was allowed for this by the Inland Revenue, but it was intended that the statutory one-sixth allowance for repairs, which was made in arriving at the net annual value should provide not only for repairs but also for depreciation.<sup>1</sup> It appears, however, that this was assumed to be provided for on the annuity method,<sup>2</sup> and for buildings with a life of 80–100 years the amount put aside annually would be very small even at a low rate of interest. In view of this factor, and considering also the 1907 Census of Production data on the actual level of repairs,<sup>3</sup> it seemed unnecessary to make more than a small adjustment to the net annual value, and a rather arbitrary 2% of the gross value was added back each year to cover depreciation.<sup>4</sup>

The second and third adjustments are required in order to reinstate amounts which were deducted from the gross value only because the recipients of the rent were not subject to tax: rents received by charities, friendly societies etc. and rents received by persons with incomes below the exemption limit. The former deduction was stated separately in the *Inland Revenue Reports* [30, e.g. 56th, p. 102] for most years of the period; for the latter, see Appendix 7.3, particularly pp. 174–5.

Finally, it is necessary to include an imputed rent for buildings owned and occupied by public authorities. From 1902 the amount of the loan charges relating to local authority housing and non-trading property (other than roads) can be calculated for England and Wales from the summary data published in the *Statistical Abstract* [35, e.g. No. 62, pp. 56–7]; and estimates were

added for Scotland and Ireland, for which only an unclassified annual total of loan charges is available. This series was extrapolated back to 1884 by reference to the loans outstanding on non-trading property (other than highways) of local authorities in England and Wales;<sup>5</sup> and from there back to 1874 by reference to an unclassified total for local authority loans outstanding in England and Wales.<sup>6</sup> For earlier years even this is not available (though there is one figure for loan charges in England and Wales for 1868 [88, Appendix C, Table 1, p. 95]) and the series was pushed back to 1855 on a conjectural basis. The estimates are obviously not very accurate but in the least reliable years (up to 1880) the item represents 3% or less of the estimate for rent.

For Central Government property the estimate was again based on the contributions paid in lieu of local rates.<sup>7</sup>

#### CONSISTENCY AND RELIABILITY

The series divides into three segments: 1855–1920, 1920–1938 and 1938–64, and two estimates are given for each of the link years 1920 and 1938. At both links there is a change of definition which breaks the continuity of the series and in 1938 there is also a significant difference in estimation.

The present estimate is compared with the Blue Book estimate for 1938 (after adjustment for royalties etc.) in Table 8.2.

TABLE 8.2 COMPARISON WITH BLUE BOOK ESTIMATE OF RENT IN 1938  
(£M.)

1. Present estimate	460
2. Less Royalties, ground rents etc.	25
3. Present estimate on Blue Book definition	435
4. Blue Book estimate	470
5. 3 as percentage of 4	93

SOURCE: 1 and 2: Table 8.1.

4: 1967 Blue Book [75], p. 2.

<sup>1</sup> See Stamp [247], pp. 194–6.

<sup>2</sup> See, for example, Stamp [247], p. 196.

<sup>3</sup> Cairncross [143], pp. 109–10, estimates actual repairs at £38.5 m. compared with a Schedule A allowance of only £33 m.

<sup>4</sup> The above considerations suggest also that no addition is needed for possible overstatement of the actual level of repairs. Cf. p. 179, above.

<sup>5</sup> *Report of the President of the Local Government Board on Local Taxation* (Fowler Report), H.C. 168, 1893 [83], Appendix C, Table VIII.

<sup>6</sup> Fowler Report [83], Appendix C, Table VII.

<sup>7</sup> See, in particular, Stamp [247], pp. 30 and 39–41, and also Fowler Report [83], Appendix B, p. 91.



As noted above the signs are that the present estimate may if anything err on the side of being too high, and it is possible therefore that the Blue Book series is also too high and overstates the decline in rents between 1938 and 1946.

The two estimates for 1920 can be directly reconciled as follows:

	£ m.
1. Estimate on pre-1920 basis	259
2. <i>Less</i> Southern Ireland	11
3. Owner-occupied trading property	43
4. <i>Add</i> Royalties, ground-rents etc.	19
5. Estimate on post-1920 basis	224

Items 3 and 4 are a significant source of discontinuity when the estimates for rent are considered alone, but do not affect the national income estimates since there

are exactly offsetting breaks in the estimates of profits in Chapter 7 (see p. 157).

The estimates rest on the reasonably secure and consistent foundation of the Schedule A assessments throughout the period up to 1963 but allowance must be made both for the possible divergences between actual rents and Schedule A gross values and for the more serious errors in the adjustments, most notably in the estimate for repairs. In the light of these considerations the following reliability grades may be assigned to the rent series:<sup>1</sup>

1855-1938	B
1939-1945	C
1946-1965	B <sup>a</sup>

<sup>a</sup> See C.S.O. [73], p. 42.

<sup>1</sup> See Chapter 1.4 for further description of the reliability grades.