

**LEEDS CITY COUNCIL'S RESPONSE TO THE COMMONS SELECT COMMITTEE  
ON COMMUNITIES AND LOCAL GOVERNMENT INQUIRY INTO THE PRIVATE  
SECTOR**

**January 2013**

## **CLG Enquiry into the Private Rented Housing Sector**

### **1. Background**

2. The private rented sector (PRS) is an important sector in providing homes for individuals and families. It allows flexibility and economic migration, offers life long homes, and provides people with a good quality home in which they can lead their life. Unfortunately it is still saddled with a relatively poor image with some landlords being seen as greedy, charging high rents for poor housing and throwing vulnerable occupiers out on to the street at the first opportunity. Nothing could be further from the truth. Whilst there are poor landlords and criminal landlords the majority of the sector is of a good standard and well managed.
3. It is important to reiterate that there is no single private sector housing market as it made up of different sectors catering to different housing needs. In this respect it is not dissimilar to the owner occupied market. Sub markets dictate the quality and condition of the offer and the level of management provided by owners or agents.

### **4. Quality of PRS Housing**

5. A significant part of the PRS is self regulating based on these markets. The top end of the market in Leeds where rents can run into thousands of pounds a month does not require regulation by the Council as quality and standards must be maintained to maintain market position. The position is not dissimilar in a lot of the outer higher rental markets within the city. Clients expect higher than basic legal minimum standards and the market has to provide these. The clients are also more likely to take up any dispute with owners or agents directly rather than complain to the local authority. Here reputations are important to owners and agents so good management of quality homes is essential for business.
6. The poorer quality PRS stock tends to be concentrated in the inner city in the older housing stock. Stock condition surveys confirm this to be the case for all private sector housing, but as 55% of the PRS is located in the pre 1919 stock this issue is exacerbated. However, even within the pre 1919 PRS sector, markets dictate quality of the stock. Within the traditional student market quality is dictated by the market. Standards have been increased due to the client group demanding higher standards and having a sufficient supply of properties to enable them to make a choice, resulting in the poorer standard housing in this market not being let, adversely affecting landlords income.
7. With the loss of the PRSG there has been a reduction in any financial assistance that could be made available to the sector. Using intelligence on stock condition, health indices etc there may be the potential to look at the savings between housing investment and improvements in health and well being as an invest to save model. A report by Sheffield Hallam University showed that for every £1 invested into energy efficiency or falls prevention in the Leeds Housing Stock resulted in a £2 saving to city.

## **8. Rent Levels in PRS**

9. Rental levels vary greatly within Leeds from a few hundred pounds at the lower end of the market to thousands of pounds a month at the top end. Market sectors and locations tend to dictate rents.
10. There is an increasing issue of affordability across all sectors of the private rental market. Even within traditional affordable rental markets for the average household private rents are taking an increasing amount of incomes. In some areas, based on 25% of spending being on housing cost, household incomes would need to be £30k per annum compared to actual average incomes in these areas of £24k. These areas were traditionally markets for the average household, so rents are now taking a greater proportion of their income. This is on top of fuel and food costs. This will be exacerbated by overall reductions in benefits as a result of welfare reform.
11. The interaction between housing benefit and rents has mainly been at the lower end of the rental market. However this is not the case for everyone with increasing issues of affordability for those who have made their home and life in the more suburban markets of the city but who require housing benefit to help with costs. With the impending introduction of welfare reform and proposals to reduce the welfare bill it is likely that rental levels in these markets will become unaffordable to those who rely on housing benefits to help pay for their home. This has the potential to cause migration of households into new areas and potentially new markets. It also has the potential to see increased investment by the PRS into areas of the city which have been predominately owner/occupied increasing the transient nature of areas and their sustainability.
12. The main interaction between rents and housing benefit has been at the lower end of the market especially as the way in which housing benefit is calculated has changed in terms of reduction of the rent percentile level at which it is awarded. It is difficult to regulate the rental market without some sort of Government interventions. However the current model is resulting in an increase in a lack of affordable rented accommodation as rents increase and amount of a person's income required to meet that rent increases. This situation is likely to increase with the introduction of the proposed welfare changes.

## **13. Regulation of Landlords**

14. Firstly what is a rogue landlord? How does someone become defined as a rogue landlord?
15. There has recently been an increase in reluctant landlords due to the current economic conditions and the lack of movement in the selling of properties. Owners who have to move for employment or who inherit properties are increasingly turning to the PRS as they are increasingly unable to sell their houses due to market conditions or negative equity.

16. Part of the issue with the PRS is due to a lack of knowledge and understanding of the business. Individuals enter the sector with little knowledge of their responsibility or of business planning as to the cost of renting a property. The perception is that it is easy money that can be made with very little effort. Education is a tool by which landlords should be helped to understand the rental business. The Council has its own web site which it uses to provide guidance to owners and tenants around this type of information. There is a place in this for CLG and the landlord organisations to provide more help and assistance. LCC already works closely with NLA and RLA on their landlord foundation courses, helping promote these and linking them to licensing scheme conditions. This could be web based information or courses which would offer help and advice. Ideally these would be free but used as a marketing tool to encourage landlords to join organisations to improve their business skills and knowledge of the market.
17. Strategically working with landlord associations at a local level can help with regulation of the sector. By engaging and forming partnerships with PRS representative clear policies and strategies can be developed for the sector and gain the support of the landlords themselves. Standards and policies can be agreed and when implemented they have the backing of the landlords themselves as the minimum requirements for the sector.
18. Accreditation schemes can also help to regulate the sector. To be successful there needs to be a market advantage to be a member, this also needs to include incentives such as parking and refuse concessions to encourage membership. Therefore accreditation does not work in all sub markets. For the Leeds Landlords Accreditation scheme the main area of success has been in the student market. If an owner is not a member then letting of their property will be difficult. However this is not the same in other sub markets where there is no perceived advantage to being accredited. The scheme needs to gain significant market advantage city wide by obtaining membership across all markets. This needs to be done in partnership with Landlords organisations, promotion of the scheme to the sector, especially the tenants so that they are asking for their landlords to be members. Accreditation schemes allow owners to learn about the sector, future developments and to become better landlords. Leeds has its own Landlords accreditation scheme which has been recognised nationally. Currently there are 337 members and the number is increasing. This covers over 14,000 bed spaces in the city.
19. A robust enforcement policy allows the targeting of resources to deal with those landlords who despite having the defects to their properties pointed out by the local authority do not resolve the issues without more formal enforcement. Having a triage system allows enforcement to be targeted to landlords who refuse to undertake the works required via informal means. This allows enforcement to be targeted and resources deployed where required. All staff involved in enforcement are highly professional and competent in taking action. The teams involved last year took 97 prosecutions against owners for non compliance with legal notices, failure to obtain a licence or breaching their licence conditions. In addition, the service responded to 3,303 requests for service, carried out over 2,000 property

inspections and served 1,360 separate enforcement notices, including 22 prohibition orders. However this approach relies on tenants to complain about their housing conditions. Unfortunately, those who are in worst need generally don't complain due to fear of losing their home, lack of knowledge about their rights or a lack of options in relation to their income.

20. As part of the enforcement process we would welcome or up to date date on the enforcement of the HSHRS as the current guidance is now considered out of date.
21. Consideration should be given to revising the existing powers of entry process. To have to serve and re-inspection a property when invited in by a tenant is laborious and a waste of resources. Any enforcement concordat show offer any landlord the right to put any defects right initially, unless there is serious risk. The need to serve a section 239 Housing Act 2004 notice should be removed.
22. Intelligence allows the authority to identify where the poorest quality housing stock and levels of associated PRS are located. By dedicating resources to address these areas, tenants who would not usually make contact with the authority are proactively protected. To achieve the best outcomes such proactive targeting of locations should be as part of a wider intervention involving the Planning, crime and grime teams, Anti-social behaviour, Police etc. The intervention should not just be about enforcement but should also include education and improving management standards so that once the actions are complete the improvements remain sustainable.
23. Mandatory licensing of HMO's has shown that this can improve the conditions within this property type. The issue in terms of poor standards is with those HMO's which do not require a licence. These and those properties owned in the areas described above are the main causes for concern. The Rugg Review considered registration of the PRS as a whole. This would allow better regulation, improved standards and would bring an element of professionalism to the sector. A consequence may be that it reduces the supply of homes as single or small portfolio holders do not see the business case or it puts off those who are currently renting out of necessity due to the current economic climate.
24. There has also never been any link between property standard and housing benefit. There are arguments for and against this in terms of affect on supply for vulnerable individuals, rent levels etc. that can be made especially with the introduction of universal credit.
25. **Regulation of letting agents**
26. As with the sector as a whole this varies from market to market. At present anyone can set up as a managing agent without any experience or training. This leads to a spectrum of quality in the sector, with the best being very good at their business and the worst causing considerable hardship and difficulties to customers of the sector.

27. The average management fee for the city is 10% of rent. This is for basic management and precludes a finders fee which is paid on top of this amount. Discussions with landlords indicate that management costs with agents tend to be closer to the 20% level due to the add-ons charged.
28. Tenants with choice and their own financial means to make that choice will shop around to get best value. This is especially the case in the professional and student market where there are considerable options to allow choice. There is also a tendency for agents in this type of market to be a member of a professional organisation and to have the appropriate training and professional qualifications.
29. Leeds has seen an increase in the number of managing agents who deal with the lower rental end of the market. Here the offer is generally cheaper than the city normal which brings with it associated problems in terms of poor management and getting repairs done. There have been a number of cases where agencies have set up, quickly changed names or ownership or closed down only to re-open a few weeks later under a different name but with the same owner. This practise tends to be within the lower rental areas where the most vulnerable and socially excluded client groups reside though necessity rather than choice.
30. Leeds has considered an accredited Managing Agents scheme. Unfortunately, there was little appetite from the managing agents themselves and resources did not allow the scheme to be progressed. The scheme as with landlords would have been voluntary and would not have fully addressed the issue of the poor managing agents in the sector. This is perhaps an area that should have an increased priority and would benefit from Government led policies..
31. Again the option of proper regulation of the managing agents sector could be considered with legal minimums for entry into the market. Even this will not help some tenants whose properties are self managed by landlords who do not give agreements and whose only contact with the tenant is via a mobile phone with rents collected on a Monday night in cash.
- 32. Regulation of HMO's, including discretionary licensing**
33. Leeds has the largest number of mandatory licensable HMO's in the country, around 3000 properties at any one time. This has created resource issues around the five year re-licensing process due to the volume of applications. It was not helped this year due to the potential changes in the process which came in but during the period of re-licensing rather than at the start and this in effect was too late for over 90% of landlords in Leeds.
34. The standard of accommodation in mandatory HMO's has been found to be better than in other types of HMO's. Landlords expect to have a compliance check and to comply with the licence conditions. It is in the non licensable HMO's where standards are the worst due to poor conversions, a lack of

planning enforcement, tenants not bringing problems to the Council's attention, etc. Leeds has considered additional licensing as an option but decided against it based upon an option appraisal which showed the preferred option to be proactive work in targeted areas with a dedicated resource. Having introduced selective licensing it was determined that the lessons from this scheme would be learnt before any additional licensing schemes would be introduced. Article 4 Direction has been adopted by the City in 2012 which will help to manage future development of the sector under certain circumstances.

35. Leeds received Secretary of State approval to introduce a selective licensing scheme in the city. The designation commenced in October 2009. It is perceived to have been a success by all parties, however we are just in the process of conducting a review to determine what has worked over the initial 3 years, what do we need to do over the next 2 and how do we ensure continued improvements in the area. The business case for selective licensing cost the Council at least £80k to produce. A consequence of this is that any further additional licensing scheme would require up front funding by the Council, which is difficult to justify in the current financial climate.

36. As a result of the cost of additional licensing the Council is looking to use an alternative approach of proactive locality working targeting the poorer areas as described above.

### **37. Tenancy agreements and security of tenure**

38. The landlords use assured shorthold tenancy agreements (ASH) as part of their letting. These are generally 6 or 12 month agreements depend upon the market. It is very rare that anything longer than a 12 month agreement will be in place. This gives limited security to tenants to allow longer term planning for their home and life.

39. Again this is market dependant and will depend upon the relationship between the individual landlord and tenant. Whilst there may be a 12 month agreement in place this can be rolled on year after year where both the tenant and owner agree. This minimises costs to the owner and provides an element of stability to the tenant. This type of relationship can be seen to occur across all markets'

40. There is always a risk of retaliatory evictions when enforcement action occurs. One option may be reduce the right of repossession/eviction were the LA has served notice due to the presence of a category 1 hazard.

41. The way managing agents charge their fees can affect security of tenure. Managing agents charge a finders fee for new tenants, usually a months rent, so it is in their interests to increase turn over of tenancies. In the more unscrupulous agencies this could be a way of operating. It would be down to the owner to do their homework on agencies before engaging them to manage their property as it will affect their income streams as well tenants lives.

42. Longer tenancies is an issue that the PRS have considered. However there are concerns about repossessing their properties if a tenant fails to pay or causes damage. The current ASH allows them not to renew in these cases and is quicker and cheaper than court action. Longer tenancies may also restrict those who use the market to be mobile.

#### **43. Homelessness duty and the PRS**

44. Leeds engages with the PRS to assist homeless individuals/families to find suitable homes. Through its Housing Options Service the Council has a Private Sector Letting Scheme. The scheme encourages the PRS to offer up properties to those on the Local Housing Register by offering incentives. Landlords offer accommodation to an agreed standard and the Council following a homelessness assessment, places a suitable individual/family into the accommodation. The scheme offers the landlord damage liability for the first tenancy period, direct housing benefit payments and support of the tenant by the Council. After the initial tenancy period it is up to both parties to agree to continue the arrangement. The scheme offers the landlord a “probationary” period to consider a vulnerable tenant whilst offering the tenant a home. The scheme does not discharge all of the Council’s homelessness duty but is successful in finding homes for those in need.

45. The Council is currently considering it’s option to discharge its homelessness duty to the PRS under the Localism Act. This is at an initial stage and the option will be explored fully prior to any decision being made in respect of the tenancy policy by the Council. However are considers regarding the standard of accommodation. Any accommodation should be free from a any category 1 hazard and fit for purpose in terms of size standards etc. Currently Leeds has an inspection regime for its private sector letting scheme to ensure properties met the require standard prior to occupation. Prior to any discharge of duty to the private sector such an inspection regimen would be essential to ensure standards of accommodation for tenants.

46. To increase the supply of property available to the Council a private sector leasing scheme is being explored in partnership with the PRS. This work is on going with a view to determining a suitable scheme, subject to the financial model being workable, in the new year.