

Report of the Director of City Development

Inner North West Area Committee

Date: 2nd April 2009

Subject: Review of Private Rented Sector Housing

Electoral Wards Affected:

Specific Implications For:

Ethnic minorities

Women

Disabled people

Council Function

Delegated Executive Function available for Call In

Delegated Executive Function not available for Call In Details set out in the report

Executive Summary

The Private Rented Sector (PRS) is an important part of the housing market in England. The authors assess the sector by examining the composition of the PRS, supply and demand, improving the quality of the associated properties, management and maintenance, and what are the views and priorities of landlords within the sector. From this the review suggest several avenues in which policy should travel, and draws a conclusion.

The over arching conclusion of the authors is that the flexibility of the PRS ought to be protected, and that legislation should not seek to change its characteristics but flow with the market. In other words, legislation should encourage the growth of the PRS and not put measures in place that may hinder this. With regard to local policy associated with Leeds, this would have an implication on how the area of housing mix is managed and lobbying CLG for changes to the Use Classes Order.

From recent research (the ECOTEC report) and the Glassworks Inquiry, it is evident that large concentrations of Houses in Multiple Occupation (HMOs) can have a negative impact upon the balance of the population and service provision. Therefore, if legislation is to be adopted to actively encourage the growth of the PRS (as is suggested by the review) it is important to have mechanism in place to control this spacially to avoid fragmented communities. For this reason, the local planning authority should continue to carefully assess planning applications and lobby for tighter planning controls.

1.0 Purpose Of This Report

- 1.1 This report is intended to advise Ward Members of the contents of the Private Rented Sector Review that has been commissioned by the Minister of Housing. The research was conducted by Julie Rugg and David Rhodes from the Centre for Housing Policy based at York University. For information, a full copy of the final report can be viewed by following the web link: <http://www.york.ac.uk/inst/chp/Projects/PRSreview.htm>
- 1.2 The purpose of the review was to consider the contribution and potential of the Private Rented Sector (PRS) in the context of change within the housing market. When discussing the implications of PRS it is necessary to be aware of the function that this element of the housing market provides, and that in some quarters the potential of the PRS to meet a range of needs is being promoted. The report argues that private rented accommodation could be a flexible and well functioning part of the housing market. With this in mind, it is important to consider the inferences of the report in relation to Leeds and how this should be managed to maintain and promote community cohesion.

2.0 Background Information

- 2.1 The introduction of short hold tenancy in 1988 through the Housing Act has been attributed to the recent growth of the PRS. In addition to this, the recession in the early 1990s brought a slump in house prices that meant landlords had an opportunity purchase additional residential property. This growth was further supported by the offer of buy-to-let mortgages, which provided financial incentives to purchase property to let, that came online in 1996. Lastly, this expansion was also encouraged by an increase in the percentage of the population requiring private rental.
- 2.2 Leeds has a diverse demand for private rented accommodation that ranges from luxury apartments to houses in multiple occupation (HMOs). Within the inner north west area of Leeds the majority of the provision afforded by PRS tends to be shared housing that would have originally been a part of the traditional housing stock. However, there are a small number of properties that have been built for the purpose of being privately let.
- 2.3 The ECOTEC report and the Glassworks Inquiry have demonstrated that high concentrations of shared housing leads to a loss of family housing stock, demographic imbalance, transient communities, and difficulties experienced in delivering local services. There are planning policies in place to manage the concentrations of development for privately rented accommodation in Leeds, which is associated with the Area of Housing Mix (AHM). However, this can be undermined by the vast majority of shared housing in this area not requiring planning permission. Use Class C3 groups together uses as a dwelling house by a single person, any number of persons living together as a family, or by no more than 6 persons living together as a single household. Planning legislation does not imply that any excess of 6 people constitutes a breach of planning control. Therefore, Planning Inspectors have not been particularly supportive in the past of the Local Planning Authority refusing proposals containing 7 or 8 people in one dwelling if they are living as a single household.

3.0 Main Issues

The Research & Content

- 3.1 The research that frames the conclusions of this report did not incorporate any quantitative data that was specifically compiled for this review. The research techniques that have been employed are stakeholder meetings and an 'analysis...of large scale datasets including the Surveys of English Housing (SEH), the English House Condition Surveys (EHCS) and the Census to understand in more detail the demand and supply side characteristics of the PRS.' [Rugg & Rhodes: 2008]. The data analysis has identified the complex nature of PRS, and the stakeholder meetings have apparently clarified a number of concerns regarding the efficiency of policy that impacts upon the PRS. From the analysis of the secondary data,

Rugg and Rhodes conclude that there are gaps in the research of the PRS to date that has led to policy being 'fragmented and contradictory'.

- 3.2 The contribution of the PRS to the housing market is examined first off. The review then moves on to consider the potential of the sector in number of areas that have been previously criticized for under-performance. This element of the report also discusses legislation that is relevant to the PRS. Finally, the review makes several recommendations in relation to policy direction and draws a conclusion.

Contribution

- 3.3 The Council of Mortgage Lenders (CML) indicated towards the end of 2007 that there were 1,024,300 buy-to-let mortgages. From this there is a common assumption that there has been a large increase in buy-to-let landlords. Analysis of the data suggests that a large proportion (46 per cent of gross advances) of the take up of buy-to-let mortgages in 2007 were re-mortgages to allow existing landlords the opportunity to refinance their existing portfolios. The number of smaller landlords has increased as has the degree of investment.
- 3.4 The trend in the type of private landlord has altered over recent years. The period between 1993 and 2006 showed that the proportion of individual landlords has increased, and there has been a drop in the number of companies and organizations/partnerships. Individual landlords tend to have a small holding of properties, which was quantified in 2006 with 44 per cent owning one property and 27 per cent renting out two to four properties. In addition, to an individual viewing buying-to-let as investment there are also social factors that lead to being a landlord if only for a short term. For example, those that can not sell their property may consider renting it in the interim. However, it is clear from studies that there are clearly investment motives in small scale 'landlordism'. As the perception of a property as an investment has become more wide spread, and the means to buy property for renting has become easier, there has been an increase in the number of new landlords. Due to the informal nature of some residential lettings it is difficult to quantify the number of landlords. From the 2006 EHCS an estimate of 1.2m private landlords has been made.
- 3.5 The PRS can be divided into several sub-markets. The tenants of each sub-market tend to have an expectation, and so landlords will supply what is necessary to meet the demand of the niche market they are aiming at. Landlords with a larger number of properties who manage their business more strategically are more likely to target a number of different groups (students and professional for example). An increase in the growth of supply to one sub-market may equate to a decrease in another. The growth of the PRS is usually the consequence of a tenure shift and not due to purpose built property.
- 3.6 The proportion of each of the sub-markets within a particular area will vary from one to another. Between the 1991 and 2001 census Leeds had the highest number of housing in multiple occupation out of the five unitary authorities in West Yorkshire. A number of other variations within the PRS sub-markets were identified within the region, which indicates that dissimilarities can be localized even amongst neighbouring authorities.
- 3.7 The sub-markets that the review details are; young professional; students; housing benefit; slum rental; tied market; high income, high renters; middle aged, middle market renters; immigrants; asylum seekers; temporary accommodation; and, older tenants and regulated tenancies.
- 3.7.1 The proportion of young professional (20 – 34 years old) choosing to rent a property has increased between 1993/94 and 2006/07. However, this transition within the 20-24 year bracket has not risen smoothly. In other words, in some years between 1993/94 and 2006/07 there has been a fall in numbers.
- 3.7.2 The sub-market associated with students has varied over time. Education policy aimed at promoting further education has increased the amount of students on fulltime courses from approximately 1.4m to approximately 1.9m over a ten year period. An outcome of this is that the PRS has expanded to accommodate the increase to the student population. Along

side the traditional shared housing form of accommodation, corporate landlords have emerged and have developed large purpose built properties with luxury bed spaces.

- 3.7.3 A proportion of those accessing the PRS have their rent fully or partially paid by housing benefit. This sub-market has declined from 34 per cent to 19 per cent between 1993/94 and 2005/06. It is difficult for those on benefit to find private rented accommodation, as landlords tend to be unwilling to wait for benefit applications to be processed, do not appreciate rent being paid in arrears, and rent is paid every four weeks instead of a calendar month. The advantage that tenants receiving housing benefit have to landlords is that they tend to stay at the same property for longer than 5 years.
- 3.7.4 At the bottom end of the spectrum slum rental exits for those that are extreme needs, and is characterized by short term lets. Tenancies are often deserted for reason of feeling unsafe; health and safety; theft; and, so on. In some cases landlords evict their tenants with little or no notice. Housing benefit is paid regardless of the quality of the property, and tenants who access this sub-market feel they have no other choices. An assessment on how the 2004 Housing Act has impacted upon this market is currently underway.
- 3.7.5 The tied market is where a property is associated with the entitlement of someone's employment. The 2001 census indicates that this type of accommodation applied to 5.3 per cent of private renting. The majority of this element of the PRS is found in rural areas, and with this, as you would expect, there has been a decline since the 1991 census.
- 3.7.6 A high proportion of high income renters are housed in corporate lets. This particular type of arrangement between the tenant and landlord and are found in specific areas, such as inner London. Research suggests that this type of sub-market can be susceptible to financial market fluctuations due to high rents and long periods without tenants.
- 3.7.7 Middle age, middle market renters are usually in the PRS temporarily owing to a life change (a new job, and so on). For this reason those that fall into this group are likely to stay within the sector temporarily. Between 1993/94 and 2006/07 the SHE notes a marginal increase in the numbers of 35 to 44 year olds and 45 to 54 year olds falling into this group.
- 3.7.8 The PRS tends to be utilized by immigrant populations as social housing and owner occupation are not instantly available. This statement is supported by the 2001 census, which indicates that 53 per cent of those that had arrived in the UK within a year of the census were living in privately rented accommodation. Demand for rental property in London by immigrants is high and this is also true for rural areas. Immigrant groups differ from one another considerably, and so do their housing needs. Researchers have noted that rents have not increased, which could be explained by there being is a large supply of properties. Alternatively, or as well, this group is displacing others in the PRS or/and these dwellings are being used more intensively.
- 3.7.9 The demand for property from those within the asylum seekers sub market tends to organize spatially. Research focusing on Leeds in 2005 found that 1,879 asylum seekers were located within four post codes. The monitoring of property standards has not been done extensively. One small study found that 26 out of 154 dwellings were deemed unfit for habitation by environmental health officers.
- 3.7.10 The temporary accommodation sub-market has been created as a consequence of a Local Authorities duty to house a particular household. Local Authorities often use the PRS for this, which are generally leased from a landlord or registered social landlord. Grants are available to support the use of temporary accommodation, so rents are inflated.
- 3.7.11 Older tenants (aged sixty and over) tend to be associated with regulated tenancies. In recent years there has been a decline in the proportion of older tenants. As the population continues to age it is possible this sub-market group will increase in numbers. Housing specifically designed for this group is generally low maintenance, with securities and amenities on site. Girlings is one corporate landlord that has targeted this market. They buy a home and offer the occupier an assured tenancy, which provides them with a higher income and security of staying in their own home.

Potential

- 3.8 The main advantage of the PRS is its flexibility '...in terms of high level of supply responsiveness to diversity of demand...' [Rugg & Rhodes: 2008]. Currently there are many negative views of the sector, and is not being considered as valid option by many of

those looking for a home. Many commentators consider that the PRS could accommodate a higher proportion of households that are on a low income and those that can not afford to own a property. The review assessed whether the sector can comprise a framework to deliver new and affordable housing; how to secure an increase to institutional development; the necessity to improve professional in housing management; improving property quality; providing sustainable tenancies; homelessness prevention; and, managing problems of private renting.

- 3.9 The review concludes that, with regards to affordability, the PRS has been relatively successful in meeting the needs of those that can not afford owner occupation but earn too much to be considered for social housing. In terms of contribution to supply, the evidence base linking buy to let mortgages with new build property is limited. However, the authors do feel confident in suggesting that the PRS tends to generate new property within niche markets where a high density of units is appropriate. The obvious example of this purpose built student accommodation. To increase supply and the amount of “affordable” housing, those working in the sector have proposed alterations to the planning regulations that would require a certain proportion of a new development to be let. Furthermore, central government should offer concessions to the developer that builds for the purpose of letting the accommodation. However, while considering this it is worth noting the US example. There are policies in place ‘where rental yields can be offset against tax liability if properties are let’ [Rugg & Rhodes: 2008] at a cost that is affordable. These arrangements have a time limit, and once this has expired the properties are withdrawn from the affordable market.
- 3.10 A criticism of the PRS is the industry’s failure to secure high levels of institutional investment. The reason for this has been attributed to the lack of large corporate professional landlords, and that the majority of the sector is considered to be managed by “amateur” small scale operators. Commentators argue that taxation vehicles are required to encourage large scale landlords, and to move the sector away from business arrangements that are tied to mortgages. The review concludes that small scale landlords do not necessarily equate to financial instability. Small businesses tend not to account for management cost within their rents, and even when taking into account economies of scale, larger landlords will generally have higher management cost. The authors also conclude that policies should be introduced to assist professional landlords of all sizes to enlarge their portfolios. The suggestions include alterations to stamp duty and capital gains tax.
- 3.11 Discussion of the PRS is often dominated by the concept of the “rogue” landlord, and so legislation has been written to prevent exploitation by them. As previously outlined, there is a demand for privately rented property at the bottom of the sector. For this reason market forces are not adequate to “police” the management quality of landlords. Increasing the number of corporate landlords or encouraging the use of managing agents is often suggested as ways of improving management standards. Research indicates that levels of satisfaction are not higher among larger landlords. Currently, managing agents are not licensed and do not necessarily have a high standard of professionalism. For this reason calls have been made for mandatory licensing. In Scotland, such a system has been met with dissatisfaction due to time delays, software problems, and the necessity for multiple applications if the landlord operates in more than one authority. Management practices of landlords can be improved through accreditation schemes, and the expansion of this practice could lead to a market advantage. However, such schemes would not impact upon those operating at the bottom of the market. The review concludes that a patchwork of policy is suitable considering the nature of the supply, but the current legislation is not effective at tackling the minority of bad landlords.
- 3.12 The PRS has the worst standard of property when compared with social housing and owner occupation according to the EHCS. If a property has a category 1 hazard they fail the decent home standard. EHCS indicates that 50 per cent of properties within the PRS fail this standard. This survey also shows that gross rental yields were higher on properties that were below par. However, research has shown that voids and bad debts reduce the net return. What is unclear is a landlord’s awareness to these differences and how they

formulate their management on maintenance. In addition, the survey also suggests that landlords are not necessarily knowledgeable about legislative requirements.

A principle factor with regards to the condition of the housing stock within the PRS is that the properties tend to be considerably older. Therefore, the cost of bringing the units up to a modern standard is higher than the other sectors within the housing market. A resolution to this problem is immediate tax relief. Others suggest that standards will only be improved if the regulatory framework is altered. It is argued that this approach would place an extra burden on Local Authorities. An accreditation scheme could take on the burden of inspection and enforcement, which has been successful with some sub-markets of the sector. Alternatively, an enhanced role for managing agents is an option provided they are regulated. This could aid with policing the wider market, if legislation dictated that agents were only permitted to manage properties that meet the decent home standard. A method of improving the dwellings at the bottom of the sector would be to introduce competition, by altering the benefit system to allow those receiving housing benefit greater choices.

- 3.13 The issue of tenancy sustainability is discussed in the review, as a number of commenters consider that the PRS only provides insecure, short term housing. The common form of tenancy is an assured shorthold tenancies (ASTs), which is initially involves a fixed term of six months. This form of tenancy is favoured by landlords as the recovery of possession is relatively uncomplicated, so the turn over of tenants is high. Once written notice giving two months notice has been served there is little a tenant can do, which places them in an insecure position. Data on this matter is distorted by the fact that those utilizing the sector are there on a short term basis. The stability of the sub-markets of the sectors vary from one to the other. Those in the lowest income quartile are more likely to stay at the same address for five years or more.

Evidence shows that over half of ASTs last a year, and a fifth last at least three years. Therefore, the image that tenancies are short term and tenants have to relocate every six months is not quite accurate. A number of changes have been suggested to the existing legislation to avoid landlords evicting tenants due to them complaining about maintenance. The Law Commission has posed simplifying the existing arrangements, and others support the idea of remodeling the current regime to develop into more consumer contracts where terms are agreed between the parties from the outset. However, concern has been expressed regarding the proposal to remove the six month fixed term that accompanies this.

ASTs are attractive to landlords due to the flexibility of the arrangement to remove a tenancy if they fail to pay the rent or do not maintain the property. From the tenants view, this arrangement can be desirable as many only intend to stay in a particular property for a short amount of time. Tenancies are ended by the tenant in the majority of cases. Problems are occurring for the households that are seeking a home in the tenure long term. It is assumed that tenancies generally end against the wishes of the tenant. The review explores if this assumption is true, and why tenancies may end. From the authors research it appears that tenancies tend to fail for particular reasons, such as rent appears and anti-social behavior. Considering this, maybe intervention should be focused on these aspects rather than on the tenancy framework that in the most part is working.

- 3.14 The PRS is often considered to have the potential to play a greater role in resolving homelessness. There have been a number of policies since the 1980s that aim to prevent homelessness by aiding their access to the PRS. Recently local authorities have been using the PRS to house people under homelessness legislation.

Landlords can be unwilling to deal with those in receipt of housing benefit, and so there can be a large demand in the low income sub markets due to under supplied. There are a range of incentives available for existing housing benefits landlords to enlarge their portfolios and encourage others into the sector, which the authors conclude that the demand is being under supplied. An increase in the use of the sector for those that a local

authority has a legal responsibility can reduce the supply for those that don't fall into this category; for example, single people, and couples without children. This introduces a further level of competition for those at the bottom end of the sector. Furthermore, there are concerns about those within the lower income sub markets being able to afford the rents in the sector and not be able to compete with those on a higher income.

- 3.15 Local authorities have several tools available to aid in managing problems that occur when there are large concentrations of demand for rented accommodation in a particular area. Student rentals are an example of this as they tend to be orientated in close proximity to higher education institutions. Many permanent residents in these locations argue that the high concentration of student rentals in a relatively small location undermines the local community, increases house prices, and subjects them to anti social behavior. The authors of the report argue that this phenomena is not common, as census data demonstrates that 59 out 8000 wards in England had densities 'where a student household reference person comprised ten per cent or more of all household reference persons in the ward.' [Rugg & Rhodes: 2008] Regardless of this, there are calls to alter the Use Class Order so local planning authorities could have greater control over HMO numbers within a particular area. It is argued within the review that this is unnecessary and that many of the problems that are described are in fact policing concerns. Furthermore, it is argued that the environmental anti-social behaviours are covered by existing environmental health regulations.

Concentrations of low quality rentals produce a high turnover of tenancies in an area. Other local authorities have properties overcrowded with migrant workers. This can have severe implications on public health matters. Forming appropriate policies to resolve these problems can be difficult as there are many factors and variations that can be present with each case. For example, a particular group of people may only be present for seasonal work and the workers may chose to live with a large group to keep costs down.

The way in which local authorities manage the PRS is a large proportion of this discussion. The authors conclude that there was general agreement that the appropriate mechanisms were available but their execution depended on whether they were able to resource them.

Policy Direction of Travel

- 3.16 The last section of the review focuses on how policy should be developed, which relate to the trends identified in the others parts of the report.
- There is a need for a 'sound evidence base', as policy is currently founded on a lack of understanding of the PRS and poor quality data sets.
 - Policy should be developed to prompt landlords, letting agents, and local authorities to have 'a better understanding of managing rented housing. Mandatory regulations could be introduced that would have the effect of guaranteeing high standards of management.
 - Initiatives should be develop to encourage smaller landlords, good landlords, to expand and 'grow' so they can move into letting as a full time vocation. In addition to this, policy to help larger corporate landlords grow would attract more institutional investment.
 - Policy objectives should seek to equalize the rental choice so the PRS can be viewed as equal to the social sector for long term accommodation. To avoid "incentive inflation" social letting agencies could be developed to handle the private renting necessary for the local authority to fulfill its statutory obligation.
 - 'Light touch licensing and effective redress' would allow local authorities to focus their resources on the worst landlords, and allowing them the opportunity to ensure the appropriate sanctions are in place. Every landlord would be required to have a license that could be revoked if statutory requirements are not complied with.
 - There is a presumption that 'tenancy frameworks are problematic', which is there is little evidence to support. The previously suggestion measures will promote private renting for both tenants and landlords.

4.0 Implications For Council Policy And Governance

4.1 The implications of the conclusions reached by this review with regards to council policy are that the local authority should not refuse planning applications on the basis that the development may further alter the balance of the population, or pursue alterations to the Use Classes Order in relation to HMOs. The other inferences of the review would be pitched at a national level, and so are not relevant for the bounds of this report. Before recommending that the present policy stance should be abandoned, it may be worth considering the following:

- Is it appropriate to change policy direction on the basis of one review that builds its conclusions on mature datasets? In addition, the review states that there is a distinct lack of detailed information regarding the PRS so it would be premature to alter our course at the present time.
- Planning Policy Statement One (PPS1) requires that when a local planning authority is assessing a development the impact of that proposal on 'the social fabric of communities...is taken into account.' Therefore, this is a material consideration and ignoring it would be contrary to policy. In addition, PPS1 states that 'Planning decisions should be taken in accordance with the development plan...' and so at the present time Unitary Development Plan (UDP) policy H15 (Area of Housing Mix policy) is relevant and must be taken into account.
- Alterations to the Use Classes Order are unlikely to be onerous to Local Planning Authorities or landlords; particularly as this alteration would not apply to existing rented accommodation. Through the consultation process Planning Authorities could link up with associated environmental health departments, which may assist with their responsibilities.
- The review discusses that anti-social behavior can be resolved through legislation that applies to the police service and environmental health. However, large concentrations of one particular population can have a self-perpetuating effect that introduces an intensity of problems that these services can not cope with. Considering this, is it appropriate to actively encourage the growth of a sector that is not managed spatially?
- The review concludes that regulations should be relaxed to release the burden on local environmental health teams, and to allow them more time to handle the 'bad landlords'. It is questionable whether the burden is due to legislation or poorly funded departments. If it is the latter, the answer is surely not to relax legislation but to lobby for more funding. Other regulations will have different burdens.

4.2 Considering the above, I would suggest continuing to lobby Communities and Local Government (CLG) to further investigate changes to the Use Classes Order in terms of examining Northern Ireland's experience, and designing and testing of legislative change at this time. In addition, development within the area of housing mix should continue to be stringently assessed against policy H15. During the summer the Core Strategy will be available for public consultation. This is a broad strategic document that will contain statements relating to the development of the city, and I would suggest that it is important to ensure that this strategy addresses the key issues associated with the Inner North West Area.

5.0 Legal And Resource Implications

5.1 The resource implications are associated with officers working in conjunction with community organizations to continue lobbying CLG for changes to the Use Classes Order, and looking closely at large applications for cluster flats. In addition, it is important to continue developing on and sharing good practice.

6.0 Conclusions

- 6.1 The role of the PRS in providing convenient accommodation to a range of sub-markets is important. However, the growth of the PRS should not be at the cost of local communities. It is an established fact that for a community to function sustainably they need to be a demographic balance. Therefore, while encouraging the PRS to grow this growth must be managed effectively so it does not put adverse pressure on communities and services.

7.0 Recommendations

- 7.1 Members are asked to note the contents of the report and comment as they feel appropriate. It is recommended that the pursuit of legislative change is continued, and that local planning policy is reviewed in relation to HMOs through the Local Development Framework (LDF) process. However, it is also suggested that this approach is assessed as and when new research is released.

Background papers: None