



STRESSED: A REVIEW OF LONDON'S PRIVATE RENTAL SECTOR

Margarethe Theseira

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BIOGRAPHY

Margarethe Theseira's expertise lies in understanding the dynamics of how urban areas operate. For the past decade, she has been researching issues that Londoners encounter, from transport to housing through to the use of digital and smart technology to improve everyday living. She was Senior Manger of the GLA Intelligence Unit and has been an independent GIS consultant with clients from the public and private sectors. Margarethe holds a PhD and an MSc degree from Cranfield University and a BSc degree from the University of Liverpool.

She was recently awarded an Honorary Senior Research Fellowship at the Bartlett School of Planning, University College London.

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The views in this report are nevertheless solely mine and all errors and omissions are my own. Finally, I would like to thank our partners, First Base London, L&Q, and Thames Valley Housing, without whom this project would not have been possible.

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EXECUTIVE SUMMARY

More and more Londoners are moving into the private rental sector. Against this background this report looks at how the sector works for landlords and tenants, the problems it faces and how these can be addressed. It shows a sector exhibiting increasing signs of stress, with demand rising faster than supply, rents increasing, over-crowding on the rise and standards not improving at the levels of other types of tenure. Moreover, these developments are hitting low- to middle-income tenants hardest. This report argues in particular that there is a pressing need to raise standards in the quality of homes for rent and the services offered to tenants, and makes recommendations as to how this could be achieved.

A positive contribution

About half of Londoners live in homes they own, and a quarter live in subsidised social housing. The final quarter rent their homes on the open market. The make-up of this last group, in terms of income, broadly reflects the make-up of London as a whole. Private renters, however, tend to be younger than social renters or owner-occupiers: 60% are under 35 years of age and only 4% are older than 65.

Private renting works well for many people, and for many it is a tenure of choice. The large majority of private renters – 82% – say that they are satisfied with their accommodation. The private rental sector makes an important contribution to London's and the UK's economy, providing homes in particular for mobile young students and workers, including many from overseas, and in a way that is highly efficient in terms of space (there is much less under-occupation in the private rental sector than in the owner-occupied or social rented sectors). As our analysis also demonstrates, renting is not always the bad deal that people assume. It is actually more expensive, on average, to service a mortgage and maintain a privately-owned home than it is to rent (though owner-occupying can offer a sense of

security and capital appreciation over the long-term). For landlords, renting a property can be a reasonably profitable long-term investment or an efficient way of using an empty property.

If the proportion of Londoners renting privately has risen in recent years – from 18% a decade ago to 25% in 2011 – it is not particularly large by historical standards. In the early 1960s more than 45% of Londoners lived in private rented accommodation.

Frustrated aspirations

Yet there is growing disquiet about the sector and it is notable that commitments to reform it featured prominently in the campaigns of all the mayoral candidates in last year's Greater London Authority elections. There is no denying that the sector faces a number of challenges.

First, the growth in the number of Londoners renting rather than buying a home has not been fuelled by a growing preference for renting over buying. Most of us still aspire to own a home – a preference that has changed little over the past two decades. The problem is that an increasing number of us can't afford to buy our first property. Some 70% of London first-time buyers are given support from others, largely from the 'bank of mum and dad'. For lower- to middle-income earners who don't have recourse to this support, owning a home is an increasingly distant dream.

Against this background, policy needs to continue to find ways of increasing the supply of affordable homes to buy and not just to rent. While it's impossible to say precisely what an ideal mix of tenures in London would be, it seems clear that continued growth in the private rental sector, at the expense of growth in owner-occupation, would result in increased frustration for the many Londoners who want to own their own home.

Growing cost of renting

At the same time there are issues within the private rental sector itself.

First and foremost, renting in London is becoming increasingly expensive. While some widely quoted figures exaggerate the levels of increase, rents are certainly increasing faster than the cost of living, while earnings have fallen. As a proportion of household income (excluding Housing Benefit), rental costs have increased overall from 21% in 2001/02 to 27% in 2010/11. The increase in rents has been particularly steep for lower- and middle-income groups. Households on modest weekly incomes of £400–£549 before tax have seen the costs of their rent increase by 14 percentage points over the last decade. People in this group paid a full 41% of their income in rental costs in 2010/11. In light of this, it is hardly surprising that over-crowding has also risen significantly. In 1995 less than 6% of private rental sector households were overcrowded but by 2010 the figure had doubled to 12%. The rise in renting costs is pushing many renters into poverty. Once housing costs are taken into account, the number of people living in poverty in the capital doubles from one million to two million.

While there has been surprisingly little research into the relation between London's housing 'offer' and its competitiveness, the rising cost of accommodation and the shortage of homes that lies behind it is likely to be detracting from its economic performance. Seventy percent of businesses say that the cost of housing in London is a major barrier to growth.

The coalition Government is in the midst of introducing reforms aimed at driving down expenditure on Housing Benefits and reducing what it argues are unjustifiably large subsidies paid to benefit recipients living in expensive, high rent areas. Given that London has the highest rents in the country, these reforms are naturally falling particularly heavily on the capital; the DWP has estimated that nearly 160,000 London households will be affected. The evidence suggests that the reforms are unlikely to do much to drive down the cost of rents, as the Government originally hoped. Instead low-income renters will have to move to less expensive areas in Outer London and beyond:

— 40% of London landlords have reported that they plan to cease letting to tenants on Housing Benefit, whereas only 6% said that they would seek to negotiate a lower rent with tenants.

— 30% of London landlords have reported that they are no longer renewing some Housing Benefit tenancies compared to 14% in the rest of Great Britain.

The root cause of increased rental costs is, of course, the growing gap between demand for new homes and their supply. Since the early 2000s new homes have come onto the market at about two thirds the rate that new households have been formed.

Poor standards

If the first large problem facing the private rental sector is that it is becoming increasingly expensive, the second is that standards are too often poor and there are an increasing number of complaints about them.

A disproportionate number of private renters are in homes that fail to meet the official Decent Homes Standard, meaning that they fail one or more tests of safety, insulation, energy efficiency or amenity.¹ A quarter of Londoners live in homes that fail to meet this standard, but a third of private renters do so. Moreover, nearly half of private rented homes fail even the most basic tests of health and safety. 356,000 London private rental sector homes were reported as having Housing Health and Safety Rating System (HHSRS) Category 1 hazards in 2011/12. The cost of removing these hazards has been estimated at £1.98 billion for London alone. According to Shelter, complaints about the most serious hazards have increased by 25% in the last two years.

Other Shelter data has revealed that the number of complaints made by tenants about landlords in London grew by almost 50% between 2008 and 2012.

There are similar issues with letting agents. In 2011 the Property Ombudsman dealt with 7,641 letting enquiries, an increase of 26% on 2010 figures. A survey by Which? found that one in five tenants and one in six landlords were dissatisfied with the service they received from letting agents.

Inevitably, low income tenants are most likely to live in unsafe, unhealthy and poorly-maintained properties, and are more vulnerable to abuse by unscrupulous landlords and letting agents.

The roots of the problem

On our analysis, the problems with London's private rental sector can be traced back to four underlying issues.

First, the failure of the supply of new homes to keep up with the demand has driven up prices, while also allowing landlords and letting agents to compromise on standards.

Second, the private rental sector is dominated by small scale landlords, most of whom only make a very modest return on their properties once all costs are taken into account. Many are not in a position to invest in the upkeep or improvement of their properties. Tax regimes in many other countries do more to encourage landlords to invest in their properties.

Third, many renters and landlords have a very imperfect grasp of their rights and responsibilities. As has already been said, most landlords operate on a small scale, with the majority renting out only a single property, and so have a limited understanding of the rules governing the sector. Renters tend to be young, and many of them are from overseas.

Finally, local authority enforcement teams, who are responsible for upholding housing quality standards, have long tended to be relatively poorly resourced and many have recently faced cuts. In 2010/11 local authorities intervened to address Category 1 hazard violations in less than 2.5% of cases.

Policy context

The national and London Governments have recently introduced a range of reforms aimed at encouraging the building of new housing and addressing poor standards in the private rental sector. These include policies to: remove planning burdens; encourage lending; promote greater institutional investment in the supply of new rental homes; and make it easier for tenants and landlords to get redress from letting agents. The Department of Communities and Local Government has issued guidelines on how local authorities should deal with 'rogue landlords'. The Greater London Authority is introducing a voluntary landlord accreditation scheme and Newham has introduced a compulsory landlord registration scheme. Some of these will prove helpful – though voluntary schemes have had little take-up where they have been tried elsewhere, and compulsory schemes could reduce the number of homes available for rent. It is also worth pointing out that with London's private rental sector dominated by small scale landlords, reforms that improve the standards they offer are likely to have a much greater impact, at least in the short and medium term, than reforms that attract more professional, institutional investors into the sector.

Recommendations

Building on these initiatives, we suggest four broad ways of both making renting more affordable and improving standards.

Increasing supply

Clearly, by far the most effective long-term way of making private renting more affordable in London is to build more homes in all tenures. The Government in particular is keen to promote increased institutional investment into the private rental sector, on the grounds that this could help increase supply and offer a better and potentially more affordable product. The Government has introduced a number of policies to encourage institutional investment. While it's important

that policy does not favour institutional developers and investors or their tenants without clear public benefit, the arguments for trying to secure more institutional investment appear strong. We suggest central and London Government explore the case for providing further support, perhaps in the form of a subsidy.

Raising awareness of rights and responsibilities

With London's private rental sector dominated by small scale landlords and young tenants, few in the sector are confident as to their rights and responsibilities. A greater knowledge of the rules governing the sector should improve adherence to them and reduce the need for their enforcement. We therefore recommend that more resources should be directed to campaigns promoting awareness of what tenants can expect of their landlords and vice versa.

Improving enforcement

With a growing number of people moving into the private rental sector, widespread violation of basic housing standards, and local enforcement teams facing cuts, there is a strong case for a formal strategic review of enforcement, either at a national or a pan-London level. This would examine if and where extra resources could be found to fund enforcement and how existing resources could be used most effectively.

Encouraging greater investment in existing properties

Finally, there is a case for reforming the way small landlords are taxed. Currently there is very little incentive for them to invest in improving their property. Learning lessons from some of our European neighbours could go a long way towards improving the standards of London's private rental sector.

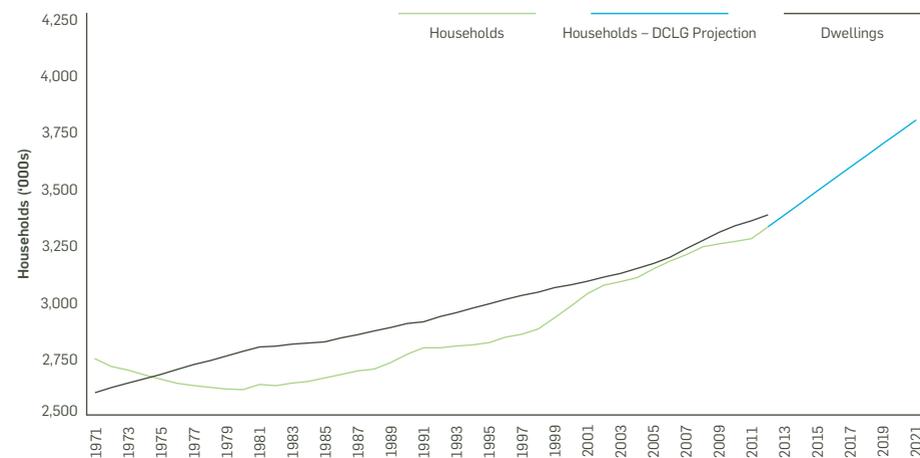
1 INTRODUCTION

Trend-based projections show London's population growing by nearly two million people over the next 30 years, to just over ten million residents by 2032. Where are all these new Londoners going to live? Housing supply in London is limited and has not been expanding at a rate sufficient to meet housing requirements over recent years.

Figure 1 shows the household-to-dwellings balance for London that highlights the extent of housing stress in recent years. A healthy market requires a vacancy rate of between three and four percent. London has been below this level since 2001. From 1971 to 1981, London experienced the fastest rate of housing stock growth in the past 40 years, at a time when households were being actively encouraged to move out of London. In the 1980s, investment priorities moved to private sector stock improvement, and the Government began to liberalise the financial markets. In the 1990s, there was a significant growth in consumer spending power, and immigration into London grew rapidly.² Since the start of the millennium, London has experienced much faster growth of households than dwellings and the current

Figure 1: London household-to-dwelling balance

Source: DCLG live tables 403 and 406 and ONS census data.



situation is comparable to that experienced in the 1960s when housing investment was still addressing post-war shortages. Moreover, the situation is almost certain to worsen as output levels are now running at less than two thirds of projected household formation rates.³ The latest round of Department of Communities and Local Government (DCLG) projections shows a rapid increase in the expected number of households within London over the next decade.

The housing market is notoriously slow to react to market signals, given the long lead-in times and high costs for new developments. This situation is unlikely to change in the near future, with housing expected to continue to be a scarce resource and prices expected to rise in the long term as demand increases. While there has been surprisingly little research on the relationship between London's housing offer and its competitiveness, the rising cost of accommodation and the shortage of homes that lies behind it will certainly be detracting from its economic performance. Already 70% of businesses say that the cost of housing in London is a major barrier to growth.⁴ Fundamentally, unless we start to build more housing within London the attractiveness of London as a place to live, work and study will be much reduced as housing becomes increasingly unaffordable and people are priced out of the city.

It is within this broader context that we focus on what role London's private rental sector plays in providing homes for Londoners, the challenges that arise from an increasing number of people living in this tenure and recommendations as to how to improve the outcomes for this part of the housing market.

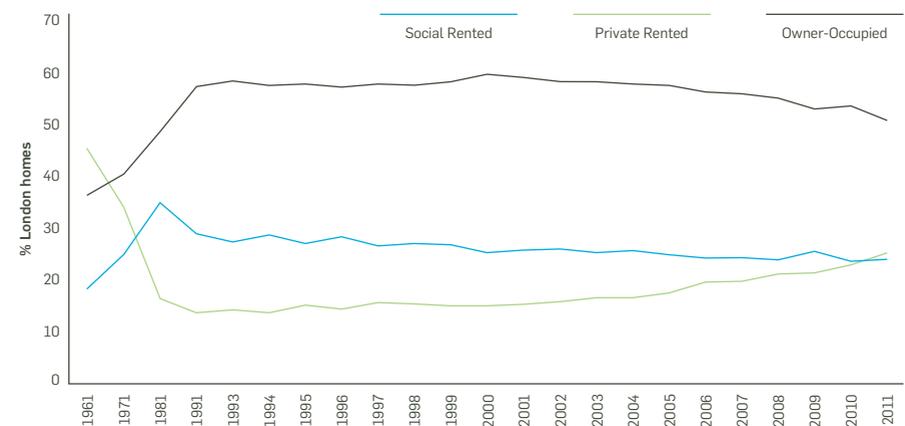
This report will explore the size of the private rental sector, factors that have contributed to its growth, and why it will remain a significant tenure and important for London's residents. It will then set out the challenges that are faced by this tenure, review recent public sector policy and make recommendations as to how the challenges can be met.

1.1 How large is the private rental sector in London?

In 2011, half of London's homes were occupied by those who owned them (either outright or with a mortgage), the social rental sector and private rental sector now account for approximately a quarter of households each. Fifty years ago, the private rental sector was the dominant form of tenure for London households, at 46%, but declined rapidly until 1981, when it accounted for 17% of households. Between 1981 and 2001 there was little change in the proportion of households living in the private rental sector. However, since 2001 this proportion has increased, and at a rapid rate since 2009. The growth in the sector in London has been driven by the relative difficulty of accessing owner-occupation due to high house prices, constraints on mortgage lending, and people's concerns that the market may fall further. London also has a relatively high proportion of mobile workers, immigrants and students who typically seek private rental lodgings to meet their housing need. There are around 725,000 dwellings in London that are privately rented.⁵

Figure 2: London's changing tenure trends

Source: Office for National Statistics census data and DCLG English Housing Survey.

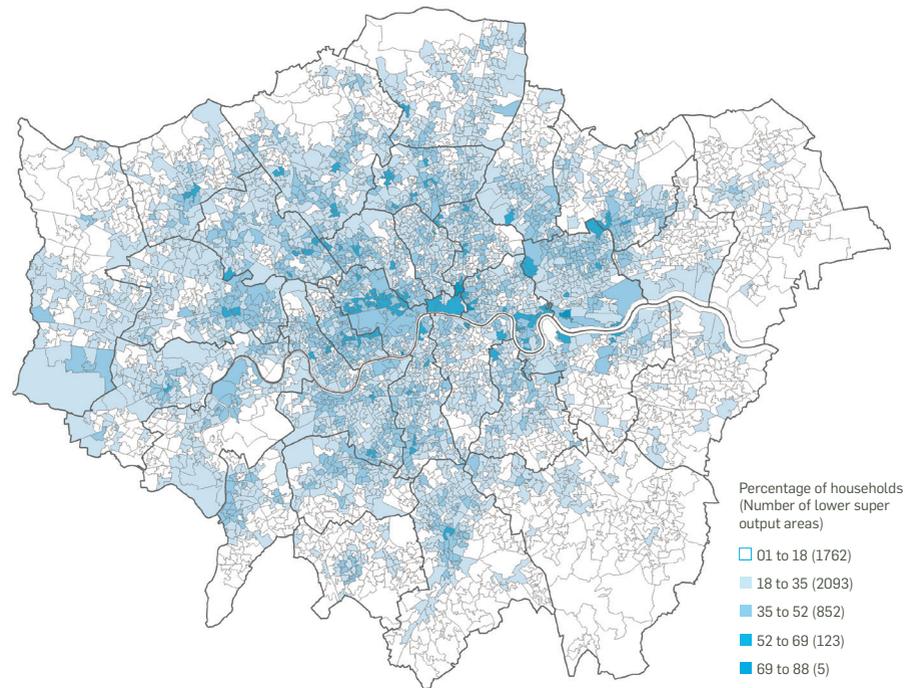


1.2 Where in London is the private rental sector most prevalent?

There are distinct geographic differences between the locations of private rental homes. The proportion of households in private rental accommodation ranges from 41% in Westminster to 11% in Havering. For Westminster and Newham it is the dominant form of household tenure. Figure 3 shows the percentage of households in the private rental sector, highlighting the concentration of private rental in Central London boroughs. The largest numbers of households in rented accommodation can be found in Westminster, Wandsworth and Tower Hamlets and the fewest in Bexley, Havering and the City of London (the City of London has very little housing overall).

Figure 3: Percentage of households in private rented sector

Source: 2011 Census Tenure by Households. Contains Office of National Statistics and Ordnance Survey data
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2 OVERVIEW OF THE PRIVATE RENTAL SECTOR

2.1 Why has the private rental sector grown so rapidly in recent years and is this trend likely to continue?

This section outlines the reasons behind the rapid growth of the private rental sector in London, including legislative changes which enabled a growth in buy-to-let mortgages; the shortage of social housing; credit restrictions stemming from the banking crises, which meant the withdrawal of high loan-to-value mortgages; lack of certainty in the economy, meaning that people are postponing purchasing properties; and changes to the welfare system. London also continues to attract migrants and students who will typically move into rented accommodation when they first arrive in the city.

England's private rental sector has increased significantly since deregulation in the 1980s but when comparing different European countries there are very few clear relationships between regulation and scale of the sector. For example, Germany and Switzerland, where the largest private rental sectors are found, have both had fairly stable systems of regulation and maintain large sectors. However, regulatory stability is not enough to protect the sector, as is shown by the case of the Netherlands where the sector has shrunk despite consistency of regulation.

As English dwellings are not tenure-specific it is possible for rapid change to take place. The size of the private rental sector is not just an outcome of regulatory regimes but also of the relative attractiveness and accessibility of other tenures and the availability of other investment opportunities.⁶

The revival of the private rental sector in England is often associated with the 1988 Housing Act which abolished rent regulation for new leases and introduced the possibility of fixed-term 'assured shorthold tenancies' with a minimum term of six months. Shorthold tenancies allowed the landlord to evict tenants by giving two months' notice without having to provide a reason. This enabled the development of 'buy-to-let' mortgages as the lenders' risks were reduced as they would be able to sell the property on default of the loan.

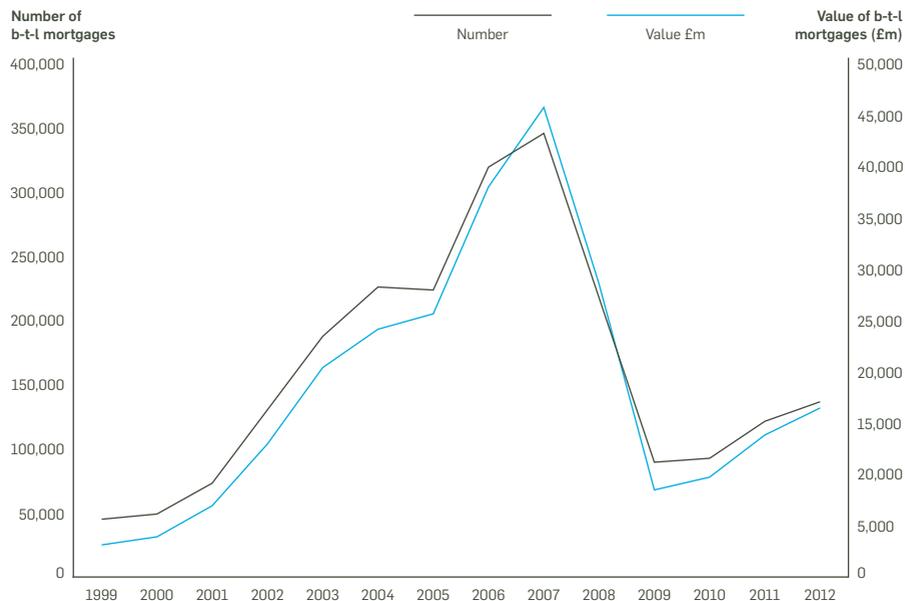
Demand for private renting is underpinned by the shortage of social housing in London and the difficulty for first-time buyers of accessing owner-occupation because of tightened mortgage availability. As the recovery from the recession has yet to materialise, people may also be postponing buying houses as they await clearer signs that house prices will not fall in the near future, and are reluctant to commit to major purchases when job security is perceived to be an issue. London also continues to attract migrants and students and these households normally first locate in the private rental sector.

Buy-to-let mortgages

The introduction of ‘buy-to-let’ mortgages enabled large numbers of individuals to invest in privately rented housing with the result that in 2010, 89% of landlords

Figure 4: Trends in buy-to-let mortgages

Source: Council of Mortgage Lenders



were individuals and couples.⁷ Many of these landlords were motivated by the prospect of capital gains rather than by rental income. The availability of buy-to-let has therefore helped to shape the private rental market structure in the UK.

Buy-to-let mortgages were first launched in the UK in 1996 and offered potential landlords credit at interest rates closer to home ownership mortgages than those for small businesses. They proved a popular product and by the end of 2006 there were 840,000 buy-to-let mortgages outstanding with a total balance of £93.2 billion. However, between 2007 and 2009, the financial crisis led to a sharp decline in gross buy-to-let lending – down from £44.6 billion in 2007 to £8.5 billion in 2009 – and in net lending which fell from £27.4 billion to £7.5 billion over this period.

In 2012, buy-to-let lending accounted for £16.4 billion, 11.5% of total gross mortgage lending for the year, up from 9.8% in 2011 and at its highest level for four years. A total of 136,900 buy-to-let loans were provided during 2012 – half of these were for remortgage. The total number of buy-to-let mortgages outstanding at the end of 2012 stood at 1,445,300 accounting for 13% of all mortgages.

In terms of loan performance, 1.14% of buy-to-let loans ended the year in arrears of more than three months, compared with 2.03% of owner-occupier loans. On the other hand, the annual repossession rate at 0.48% was higher than the equivalent owner-occupier rate of 0.27%.⁸ It appears from these figures that home owners are finding it more difficult to service their mortgages than buy-to-let investors. The higher repossession rates may indicate that lenders are demonstrating more forbearance towards owner-occupiers than buy-to-let mortgage holders.

Buy-to-let data is not available at a regional level but the value of mortgage lending in London for 2012 was £26 billion, some 21% of the value of all mortgage lending in the UK.⁹

Constrained access to finance

Immediately following the credit crunch, mortgage lenders reduced the number of products available and removed products with high loan-to-value ratios. The larger deposits required by home buyers will have constrained the choice of tenure for many and restricted them to the private rental sector. Recently released figures show that the number of first-time buyers in London is increasing, with just over 37,000 purchasing a home in London in 2012. This indicates that demand on the private rental sector may begin to diminish once again as people choose to purchase rather than rent their homes. However, first-time buyer affordability is still tighter in London than elsewhere in the country as shown below, so this may be relatively slow to take effect.

Half of all first-time buyers in London bought properties priced between £125,000 and £250,000. This was a similar proportion to the UK at 47%. However, while in the UK around 40% of first-time buyers typically bought properties for less than £125,000, in London only 4% of first-time buyer purchases were in this band. At the other end of the scale, 8% of first-time buyers in London bought properties valued at more than £500,000, compared to just 2% in the UK.¹⁰ London first-time buyers are also more likely to have assistance when obtaining a mortgage; some 70% of buyers are given support by others.¹¹

Table 1: First-time buyer affordability

Source: 2012 Quarter 4 figures from Council of Mortgage Lenders Table ML2

Affordability measure	First-time buyers in:	
	London	UK
Income multiplier	3.59	3.26
Mortgage payments as % of income	21.2	20
Loan to value ratio (%)	75	80

Movement between types of tenure

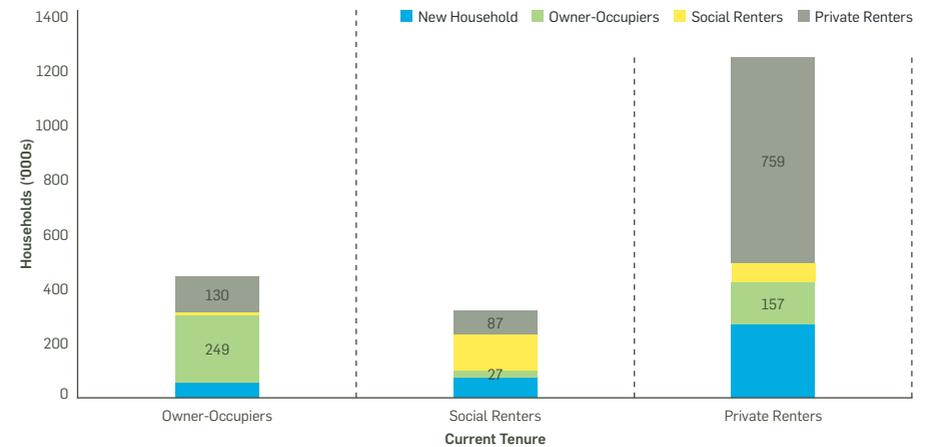
For the majority of newly formed households (68%) the private rental sector provides their first home. However, the transitions between tenures are more complicated than a direct progression from private rental into owner-occupation. For England as a whole, more households moved from owner-occupation to private renting than in the reverse direction over the past year (157,000 compared with 130,000).

To achieve the level of growth in the private rental sector of recent times, there must have been both a substantial shift in households from owner-occupation to private renting and a significant share of net additions to stock going into this tenure.

Home owners who may be wary of buying a new home in a falling market or who are unable to afford their current home, may move to a rented dwelling and let their existing home. In this instance, they cease to be an owner-occupier and join the private rental sector with the effect of adding another tenant as well as another landlord to the private rental sector.¹²

Figure 5: Movements of English households, within and between tenures 2010–11

Source: Department of Communities and Local Government, English Housing Survey 2010 to 2011: Household Report, 5 July 2012



Projections of private rental sector

Private renting in London has been growing particularly strongly from 2000. Is this growth likely to continue into the future?

Recent projections have taken into account three economic scenarios: *weak*, where there is no real growth to 2025, worsening credit conditions and a very slow recovery in the housing market; *cautious recovery*, where only by 2018 is there real economic growth and some improvement in both the mortgage and housing markets; and *robust recovery* after 2015 rising to 2.3% real growth in 2025. Unless the economy picks up, London will become more dependent on rented housing, and the worse the economy performs the more likely it is that this housing will be in the private rental sector.¹³

In summary, the revival of the rental sector is often related to the 1988 Housing Act which abolished rent regulation for new leases and introduced the possibility of fixed term 'assured shorthold tenancies'. This legislation allowed the development of buy-to-let mortgages. The number of buy-to-let mortgages has been increasing over the last two years, but is still way below their peak level of 2007. Demand for private renting is underpinned by the shortage of social housing in London and the difficulty for first time buyers of accessing owner-occupation because of tightened mortgage availability. As the recovery from the recession has yet to materialise, people may also be postponing purchasing properties, as evidenced by the movements of households between tenures, where more people moved from owner-occupier to rental status than in the reverse direction. London continues to attract migrants and students and these households will typically move into rented accommodation when they first arrive in the city. Until the economy picks up, London will become more dependent on private rental housing.

2.2 Who lives in private rental accommodation?

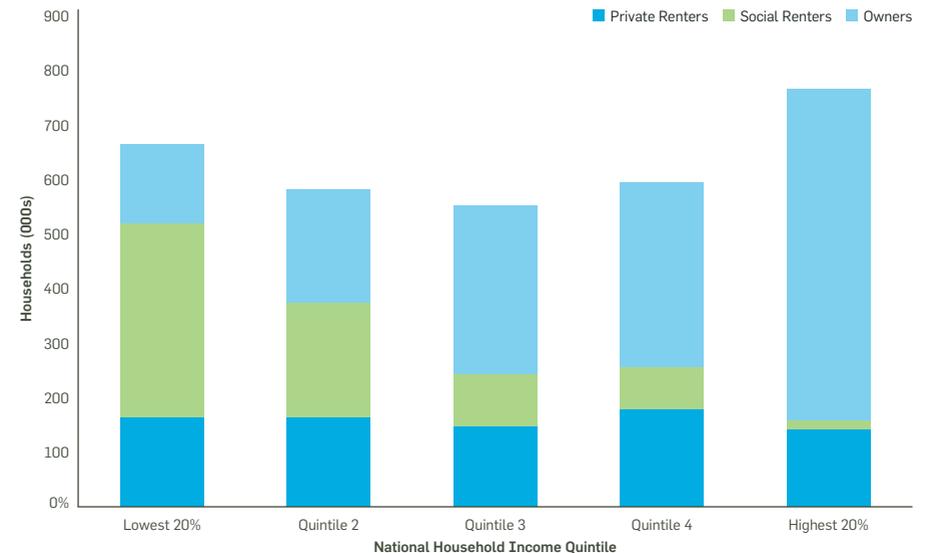
Tenants making use of the private rental sector are spread throughout the income distribution, unlike the

other tenures, which show marked differences. As expected, the poorest households are most likely to be found in social rented accommodation, whereas the wealthiest households are most likely to be owner-occupiers. However, the private rental sector houses people across the income spectrum, highlighting that for some it is an active choice of tenure. Issues reflecting availability and quality of rented accommodation and security of tenure are likely to differentially affect tenants from different income levels. This is likely to complicate the reaction to any policy interventions that are adopted.

With the average age of first-time buyers at 31 years for London (compared to 29 years nationally)¹⁴ and increasing expectations of having to be older to buy, the rental market plays an important role in housing London's younger residents. Sixty percent of those renting privately are less than 35 years old and only four

Figure 6: Housing type in London by income

Source: GLA analysis of DCLG English Housing Survey Data 2010/11



percent are older than 65. It is useful to remember that people are living longer than previous generations so may be living in the owner-occupied tenure for similar lengths of time, even if they delay their first purchase until they are older.

Related to the relative youthfulness of the private rental sector is the likelihood of being in employment. Figure 8 highlights that households in the private rental sector are more likely to have one or more people working compared with all tenures (65% versus 56%). However, they are also more likely to have 'none working and none retired' occupancy (20% versus 16%).

2.3 Welfare system changes and impacts on the private rental sector

The Local Housing Allowance (LHA) benefit is paid to eligible tenants in the private rental sector. Recent

changes have meant that the LHA is subject to a cap depending on the number of bedrooms in the home and is set at the 30th percentile of the local market rent. The five bedroom rate has been removed. The restricted rate of LHA for single people to only be entitled to a shared room rate will be extended from those aged under 25 years to those aged under 35. The £15 excess payment which allowed tenants to keep excess Housing Benefit payments has been abolished. £10 million was added to Local Councils' Discretionary Housing Payment pot in 2011/12 and a further £30 million in 2012/13 to mitigate the impacts of these changes.

The amount payable will rise in line with the Consumer Pricing Index in 2013, and then by CPI + 1% in the following two years.

It is difficult to trace movements of households in receipt of the LHA between London boroughs as welfare

Figure 7: Type of tenure in London by age
Source: GLA Analysis of DCLG English Housing Survey 2010/11

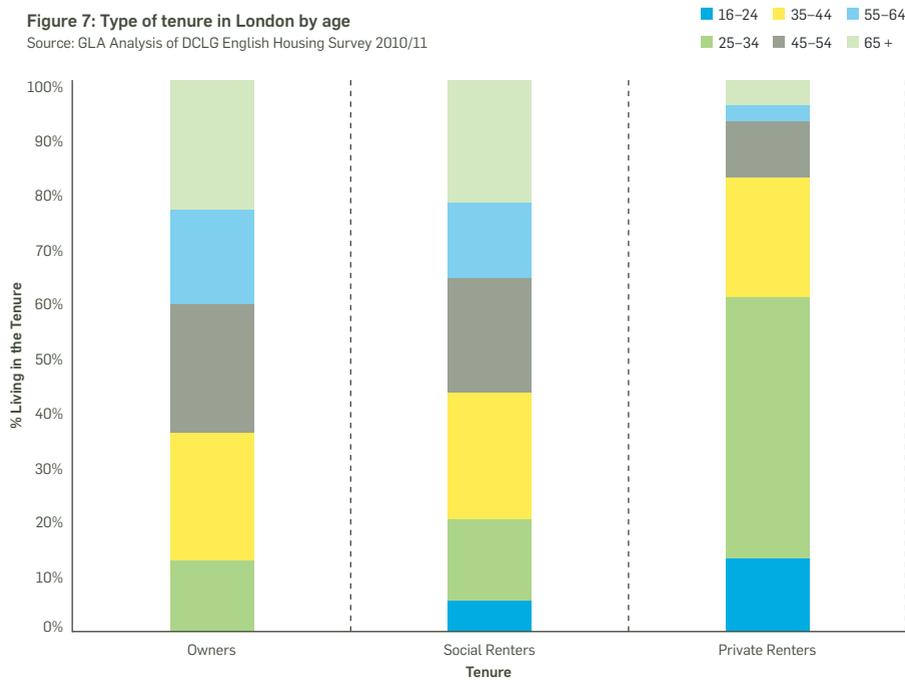


Figure 8: Tenure trends by economic activity
Source: DCLG English Housing Survey 2010/11

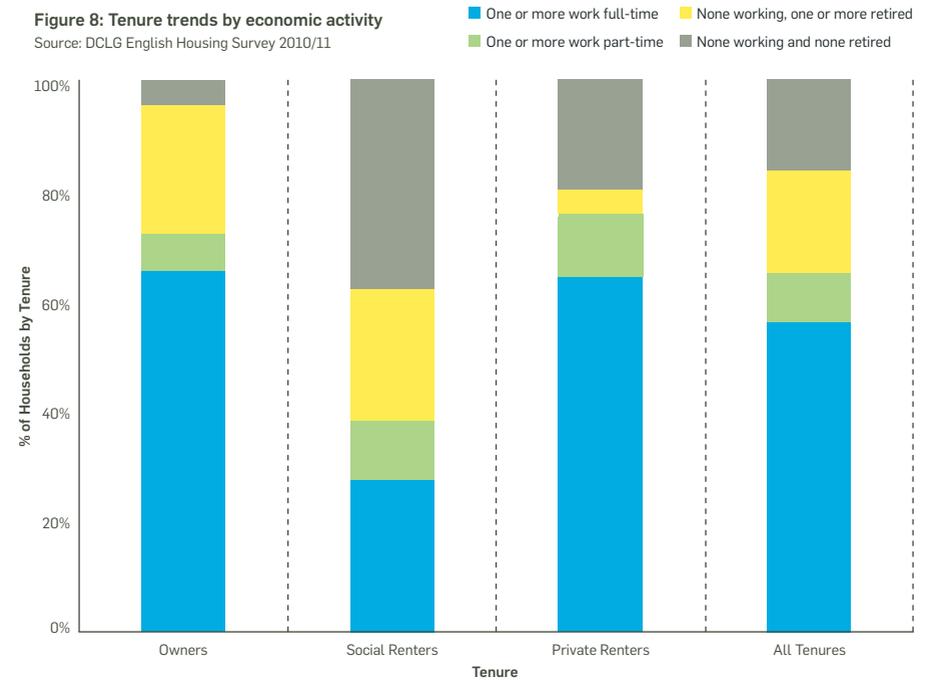


Table 2: Changes in numbers of Local Housing Allowance registrations by London borough

Source: Crisis. Based on DWP data, <http://www.crisis.org.uk/pages/impact-of-lha-cuts-london.html>

Borough	March 2011	November 2012	Change	% Change
Barnet	8480	12320	3840	45
Enfield	12330	15910	3580	29
Newham	8140	11510	3370	41
Brent	12490	14910	2420	19
Croydon	11420	13790	2370	21
Ealing	9670	11860	2190	23
Haringey	10020	12130	2110	21
Harrow	6450	7940	1490	23
Hillingdon	5900	7270	1370	23
Redbridge	6560	7920	1360	21
Barking and Dagenham	5030	6290	1260	25
Hounslow	5370	6310	940	18
Greenwich	4270	5150	880	21
Bexley	3680	4550	870	24
Sutton	3390	4210	820	24
Hackney	8280	9020	740	9
Havering	3460	4200	740	21
Kingston upon Thames	2550	3280	730	29
Merton	3850	4570	720	19
Bromley	4000	4660	660	17
Lambeth	6550	7180	630	10
Waltham Forest	8220	8730	510	6
Tower Hamlets	4230	4630	400	9
Lewisham	10500	10840	340	3
Southwark	4030	4360	330	8
Richmond upon Thames	1990	2170	180	9
Wandsworth	7300	7370	70	1
Hammersmith and Fulham	3110	3130	20	1
City of London	30	20	-10	-33
Camden	3390	3340	-50	-1
Islington	3190	3070	-120	-4
Kensington and Chelsea	2760	2170	-590	-21
Westminster	6510	6510	-1290	-20
Total London	197150	230030	32880	17

changes also mean that those on reference rents¹⁵ are now becoming LHA recipients. Table 2 shows the number of LHA registrations by borough. Some of the changes noted will be due to movements of LHA households from more expensive boroughs to cheaper boroughs in London, but due to the change in the administrative system of dealing with households in temporary accommodation the scale of movement is difficult to calculate.

The DWP estimated that nearly 160,000 London households would be affected by the reforms to the LHA, more than any other Government Office region.¹⁶ The DWP has commissioned researchers to report on the potential and actual impacts of the LHA changes. From initial surveys the following findings were reported:

- 40% of London landlords reported that they planned to cease letting to Housing Benefit/LHA tenants, specifically because of the LHA reforms, whereas only 6% said they would seek to negotiate a lower rent with tenants.

- 38% of London landlords reported they had taken action to evict tenants because of the LHA reforms, compared to 25% in the rest of Great Britain.

- 30% of London landlords reported that they were no longer renewing some HB/LHA tenancies, compared to 14% in the rest of Great Britain.

- A third of London tenants had tried to negotiate down their rent but London landlords were less likely to agree to the request than landlords in the rest of the country.¹⁷

A study commissioned by London Councils estimates that 133,000 workless households in London, 20% of the total, will be unable to afford their current rent as a result of either the Universal Credit (UC) or LHA caps. Eleven

percent of workless households, some 73,000 in total, would experience a shortfall in their benefits against their living and housing costs as a result of the UC caps.¹⁸

The impact of welfare changes on landlords and local housing markets has not yet fully played out but if some boroughs are experiencing a rapid growth in numbers seeking cheaper properties whilst others see a decline in numbers as LHA recipients are priced out of the local market, the potential impacts include:

- Improvement in the quality of private rental accommodation in Central London as landlords have to find tenants in a market that can afford to be more selective.
- A rise in floor price of private rental units in Outer London boroughs where rents are typically cheaper, as demand outstrips supply. Interim research findings are bearing this out: London lower quartile rents grew at a faster rate than any other Government Office region, faster than inflation and faster than London median rents over the 18 months following the LHA reforms, from £758 per month to £825 per month in August 2012, a rise of 8.9% over the period.¹⁹ (However, as mentioned previously, the extent of this increase may be exaggerated due to changes in the composition of the index).
- Reluctance by many landlords to rent out properties to those in receipt of benefits despite the fact that many of those who receive benefits are also in work.²⁰ It is likely that this reluctance will increase as landlords perceive a constraint on potential future rental income due to the link between the LHA and the CPI. In the recent past, market rents have tended to follow earnings inflation rather than price inflation. For example, from 1997/8 – 2007/8 CPI increased by 20% and rents increased by 70%. The choice of accommodation for those in receipt of LHA (currently about a quarter of those in the

private rental sector) will become increasingly constrained, which may ultimately lead to a decline in standards of the units made available to them as demand outstrips supply. A forthcoming report by the Citizens Advice Bureau suggests that landlords may increasingly cease to let to Housing Benefit claimants in the future.²¹

- A negative impact on LHA recipients' access to employment opportunities as they move further away from the concentration of jobs in Central London, increasing their travel costs and time and lowering the returns that they get from being in work.
- Loss of informal support networks or disruption to formal care delivery for households who are forced to move location.
- Increased pressure on local services in the new host boroughs as local authorities adjust to the changing demand. The pressures on affordable accommodation generally will be considerable, resulting potentially in a rise in homelessness applications and intensified difficulty in securing temporary accommodation for such households.

Use of private rental sector by local authorities to discharge housing duties

Local authorities have a duty to house people who experience a homelessness crisis. Under previous rules, people who became homeless were able to refuse offers of accommodation in the private rented sector and insist they should be housed in temporary accommodation until a long-term social home became available. However, as a result of measures in the Localism Act, this is no longer the case and the private rental sector is increasingly being used by local authorities to house the homeless. The number of households in temporary accommodation on 31 December 2012, arranged by local authorities

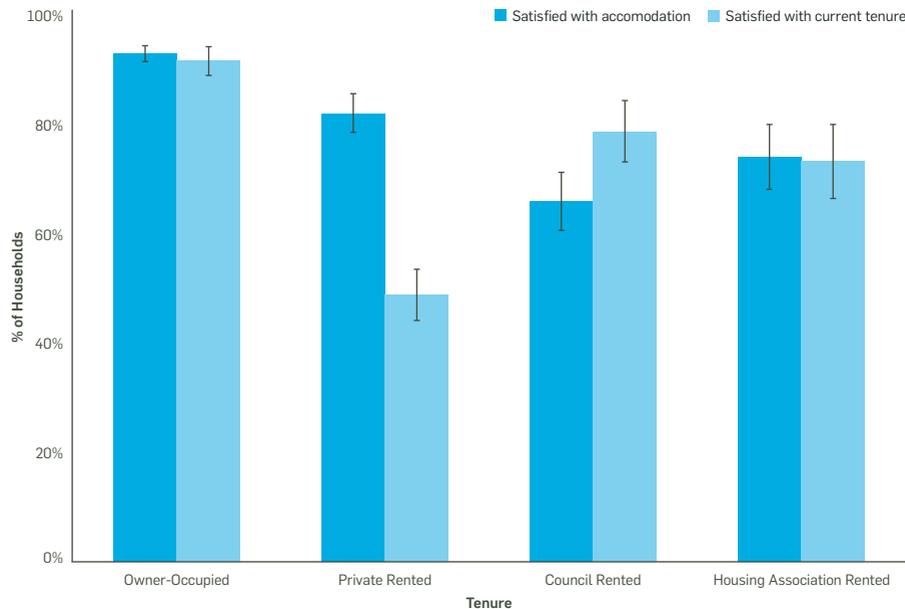
under homelessness legislation, was 53,130 – nine percent higher than at the same date the previous year. Over half of these households are in London and using private tenancies.²² We would therefore expect there to be around 3,500 lettings a year. The private sector could therefore be housing more families with children and other vulnerable households that previously may have lived in social rented housing. In social rented housing they would have benefitted from officially defined minimum standards relating to property condition and security of tenure that are not available in the private sector.

2.4 People’s perceptions of the private rental sector

The number of households living in the private rental sector has been growing rapidly in London, particularly over the past two years. This section considers the reasons and the constraints that affect tenure choice.

Figure 9: Satisfaction with accommodation and current tenure, London 2010/11

Source: GLA, Department for Communities and Local Government. GLA analysis of DCLG English Housing Survey data, 2010/11.



Market research undertaken for the Council of Mortgage Lenders in March 2012 showed that in terms of tenure aspirations, preferences for home ownership in the short- and longer-term are similar in London to the national picture.²³

However, when people were asked if they would prefer to buy or rent given a ‘free choice’, there were marked differences between the responses from those living in Inner and in Outer London. For England as a whole, 14% of households would choose to rent. But for Inner London this is much higher, at 23%, and for Outer London much lower at 5%.²⁴

Eighty-two percent of London private renters were satisfied with their accommodation but far fewer, 49%, were satisfied with their tenure.²⁵ It appears that the rental sector is meeting most people’s immediate housing requirements but the majority of private renters are not satisfied with being in the private renting tenure. It is interesting to note from Figure 9 that those living in the private sector are more satisfied with their accommodation than those in either council accommodation or renting from housing associations.

Home ownership is seen as an investment, security and freedom

When asked to choose one main advantage of owning rather than renting, 26% of respondents selected that it is a good investment, 23% selected that it is more secure in the long-term than renting and 21% responded that it gives the freedom to do what you want with it. Only 14% responded that it is less expensive than paying rent (see Table 3).

Renting is valued for flexibility and for lack of responsibility for repairs and maintenance

When asked to choose one main advantage of renting rather than buying, 26% of respondents selected the ability to move at short notice, 24% selected not having responsibility for repairs and maintenance and 10% giving greater choice of where to live.

However the perceived advantages vary by income level with flexibility to move seen as the main advantage of renting by 36% of those in the highest income quartile, whilst those in the lowest income quartile see the main advantage of renting being that someone else is responsible for repairs and maintenance (see Table 4).

When considering perceived advantages of renting rather than buying by household structure, a third of lone parent households and 29% of single person households see someone else having the responsibility for repairs and maintenance as the main advantage. Couples with children and those living in multi-adult households are most likely to value flexibility to move at short notice (29% and 27% respectively).

People aged 65 and older are less likely than any other age group to value the flexibility to move at short notice, with only 19% saying this is the main advantage. Conversely, older age groups tend to value someone else being responsible for the repairs and maintenance of a home, with 31% of those aged 65 or over and 29%

Table 3: Perceived advantages of owner-occupation over renting
Source: Department for Communities and Local Government, Public Attitudes to Housing in England: results from the British Social Attitudes Survey, 5 July 2011

Affordability measure	Total %
Is a good investment	26
Is more secure in the long-term than renting	23
Gives you the freedom to do what you want with it	21
Works out less expensive than paying rent	14
Is something to leave to your family	12
Other	1
No advantage	2
Don't know	*
Refusal	*
Number of respondents	2795

of those aged 55–64 saying this was the main advantage. For those aged 18–34 years it is the flexibility to move at short notice and the element of greater choice over where to live which are rated more highly than the total response rate (see Table 5).

Table 4: Perceived advantages of renting over owner-occupation, by household income
Source: Department for Communities and Local Government, Public Attitudes to Housing in England: results from the British Social Attitudes Survey, 5 July 2011

	Annual household income (national quartiles)				
	Less than £12,000	£12,001 to £26,400	£26,401 to £44,400	£44,401 or more	Total
	%	%	%	%	%
Gives you flexibility if you need to move at short notice	19	24	26	36	26
Means someone else is responsible for repairs and maintenance	37	28	23	19	24
Gives you greater choice over where to live	9	10	11	8	10
Means you don't have to worry about taking on a mortgage	8	11	9	8	9
Is less risky than owning a home	5	9	10	10	8
Is less responsibility than owning a home	8	6	9	6	7
There are less upfront costs	2	3	4	6	4
Other	*	1	1	*	1
No advantage	11	9	7	6	9
Don't know	1	1	*	*	1
Refusal	–	–	–	–	*
Base	694	488	518	545	2795

Survey findings show that in England there remains a strong preference for buying, rather than renting, a home, among the general public and this has changed little over the past two decades. The public do not perceive one stand-out advantage of owning a home rather than renting, or vice versa, with different sections

Table 5: Perceived advantages of renting a home over owner-occupation by age

Source: Department for Communities and Local Government, Public Attitudes to Housing in England: results from the British Social Attitudes Survey, 5 July 2011

	Age				
	18-34	35-54	55-64	65+	Total
	%	%	%	%	%
Gives you flexibility if you need to move at short notice	28	26	29	19	26
Means someone else is responsible for repairs and maintenance	19	24	29	31	24
Gives you greater choice over where to live	13	10	7	7	10
Means you don't have to worry about taking on a mortgage	10	10	7	8	9
Is less risky than owning a home	5	9	10	10	8
Is less responsibility than owning a home	9	9	7	4	7
There are less upfront costs	7	2	3	3	4
Other	1	*	1	1	1
No advantage	5	8	8	17	9
Don't know	1	1	1	2	1
Refusal	-	-	-	*	*
Base	575	1024	475	716	2795

of the population identifying a range of different advantages. Household income and composition appear to be particularly important factors in forming perceptions of the advantages and disadvantages of the different tenures.²⁶

Views on renting privately compared to renting from a local authority/housing association

Survey results show the public think the main advantage of renting a home privately rather than renting from a local authority/housing association is that there is a wider choice of location (21%), there is a better choice of properties available (14%) and properties are in a better condition (14%). Some 11% of respondents said that there were no advantages to renting privately rather than from a local authority/housing association. The main disadvantages of private renting rather than renting from a local authority/housing association were high rents (31%) and problems with landlords or letting agents (22%).

3 CHALLENGES FACING THE SECTOR

3.1 Challenge one: Costs of housing

Londoners' views of housing costs

The cost of housing is perceived to be the biggest problem affecting Londoners' quality of life in their local neighbourhoods, rating more highly than problems associated with crime and safety, traffic congestion, the cost of living and unemployment. There is also a perception that costs have risen. Fifty-two percent of respondents to a 2011 survey thought that home ownership had got more expensive over the past year and 50% thought the private rental sector had.²⁷ Only 6% of respondents thought that the private rental sector had become more affordable, with 23% stating no change.

As shown earlier in this report, the largest proportion of the rental market comprises those aged under 35. Those aged 25-34 are significantly more likely than the population as a whole to consider private rental housing to have got a little less affordable over the past 12 months – almost a third (31%) compared with about a fifth of the rest.

Those who rent privately are more likely than those in other tenure groups to think that private renting has become slightly less affordable over the past 12 months (28% compared with 20% for other tenures).

Table 6: Median monthly rent by accommodation type for London

Source: Valuation Office Agency, Private Rental Market Statistics, 13 December 2012

Accommodation	Median monthly rent (£)		% increase over 7 quarters
	Q2 2011	Q4 2012	
Room	425	433	2.0
Studio	737	800	8.6
1 Bedroom	950	1,040	9.5
2 Bedrooms	1,192	1,300	9.1
3 Bedrooms	1,350	1,500	11.1
4 or more bedrooms	2,000	2,250	12.5

Inner London groups are also more likely than those living in Outer London to think that the private rental market has got less affordable over the past 12 months – 56% compared with 46%. Again this might be due to higher levels of private renters and therefore better experience of the market (28% of the Inner London housing market is private rental compared with 20% of Outer London).

Valuation Office Agency rental data

Londoners' perception of less affordability in the private rental sector over recent months seems, at first glance, to be supported by data collected by the Valuation Office Agency (VOA) which are widely quoted by commentators and in the media. Table 6 (above) highlights sizeable increases in the median monthly rent of larger properties in recent times. Properties with four or more bedrooms have gone up by 12.5% between Q2 2011 and Q4 2012, and those with three bedrooms by 11.1%.

But the VOA data was not designed to be a time series and also, as it is a metric of market rents, the VOA specifically excludes households in receipt of Housing Benefit.²⁸ The number of records within the VOA database

has shrunk in the last few years, in line with the growth in the private rental sector Housing Benefit caseload. The exclusion of these cases, which is assumed to tend to be at the lower end of the market, may therefore be distorting any price comparisons made over time.

Looking at one bedroom homes, the median rent increased between 2011 and 2012 by 4% in Inner London and 3% in Outer London, but by 9% in London as a whole (see Figure 10(a)). The large increase in London as a whole is due to the change in composition of the one bedroom units as the number of records fell by 15% in Outer London but rose by 1% in Inner London (see Figure 10(b)). Therefore, the 2012 average was calculated from a dataset that was more skewed towards Inner London than the 2011 one.

Closer examination of the VOA data shows that rents have increased in London between 2011 and 2012 but not at the rates implied by looking at headline figures alone. The latest LSL buy-to-let index (an alternative measure of rent) shows that London rents have increased by 7.9% (£81) over the last year, averaging £1,106 per month in March 2013.²⁹

Figure 10(a): Percentage change in median rents in London, 2011 to 2012

Source: Valuation Office Agency, Private Rental Market Statistics. Rents in each year are based on samples covering the 12 months January to December

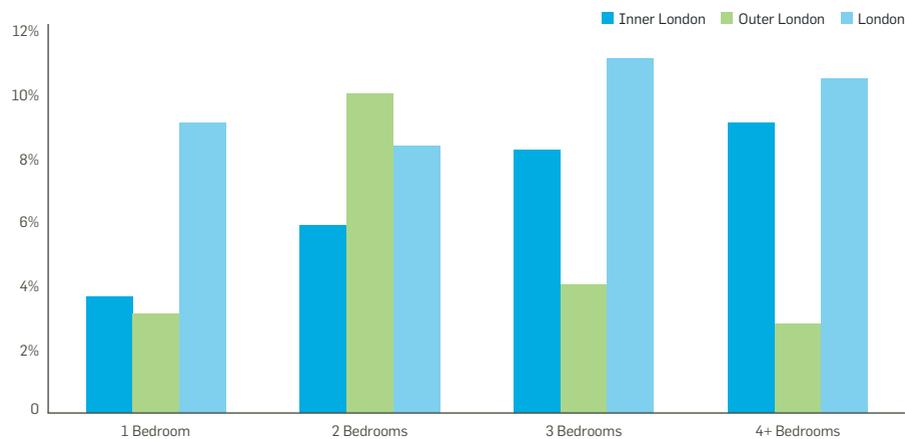
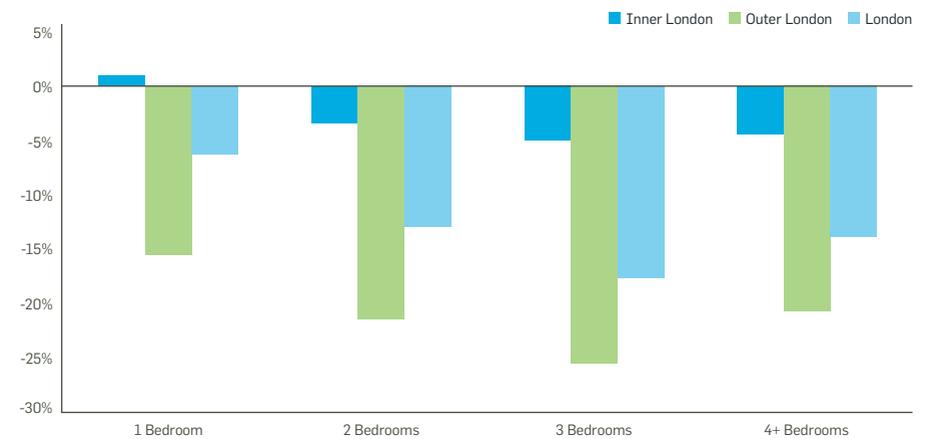


Figure 10(b): Percentage change in VOA market rent records, 2011 to 2012

Source: Valuation Office Agency, Private Rental Market Statistics. Rents in each year are based on samples covering the 12 months January to December



Rental costs as a proportion of household income

This section highlights that income levels in London have declined at a time when rent levels are increasing, thereby putting stress on household finances. Recent estimates have shown that once housing costs are taken into account, the number of Londoners living in poverty almost doubles from just over one million to just over two million. At a national level, 38% of private rental tenants are in poverty after housing costs are paid.³⁰

Average earnings of employees in the UK have fallen in real terms since 2009. London-resident employees earn more on average than UK employees, but their median real earnings fell slightly faster than the UK average from 2010 to 2012. In 2012, Londoners' median earnings were estimated at £14.56 per hour, similar to their real value in 2002.³¹ Costs of living were estimated to increase by 2.5% in London between 2011 and 2012. So over recent months given that Londoners' earnings have fallen whilst costs of living have increased, it is understandable that many tenants fear the prospect of rent increases.³² A recent survey showed that 55% of London tenants were worried that their landlord/letting agent will put up their rent to a level that they cannot afford.³³ As a proportion of household income (excluding Housing Benefit), rental costs increased overall from

Figure 11: Proportion of income spent by London private rental households on rent over time (excludes Housing Benefit). Source: DWP Family Resources Survey 2001–2011³⁴



21% in 2001/02 to 27% in 2010/11 (see Figure 11). For those households on lower incomes (£250 to £399 per week) rental costs accounted for 49% of their income in 2010/11. Households in the £400 to £549 per week income band have seen the costs of their rent increase by 14 percentage points over the last decade, and rental costs accounted for 41% of their income in 2010/11.

Table 7: Housing expenditure by tenure in London 2009–2011

Source: ONS, Family Spending 2011³⁵ / Notes: (a) Note that the DWP Family Resources Survey also used in this report for sourcing rent data takes off certain expenses such as service charges and council tax which are included in the rent. They are different surveys but both display similar relationships between the cost of private rental sector and social sector even though they have different absolute figures. (b) Charges include council tax, water charges, other regular household payments including service charges and refuse collection including skip hire.

	Owned outright	Buying with a mortgage	Social renting	Private renting
Weighted number of households (thousands)	700	990	680	600
Total number of households in sample (over 3 years)	360	490	330	260
Total number of persons in sample (over 3 years)	760	1,370	780	690
Total number of adults in sample (over 3 years)	670	970	540	480
Weighted average number of persons per household	2.1	2.9	2.5	2.6
Commodity or Service	Average weekly household expenditure (£)			
Primary dwelling				
Gross rent	–	–	125.90 ^a	261.10
Less Housing Benefits, rebates and allowances	–	–	68.20	60.60
Net rent	–	–	57.80	200.40
Mortgage				
Mortgage interest payments	–	187.60	–	–
Mortgage protection premiums	–	5.10	–	–
Capital repayment of mortgage	–	72.10	–	–
Outright purchase including deposits		[2.10]		
Charges ^b	37.80	39.30	17.50	24.60
Moving house	[2.10]	4.90	–	[1.20]
Household maintenance and repair	14.90	11.80	1.00	0.50
Household alterations and improvements	35.70	66.60	1.80	8.20
Household insurances	9.20	9.70	0.70	1.10
Total household expenditure	99.70	322.00	78.80	236.00

On average, what are London households spending on accommodation?

Table 7 highlights that on average, across all of London households, private rental is the most expensive tenure in London, with an average weekly spend of £261.10 on private rent compared with £187.60 on mortgage payments.

However, there are many other on-going costs associated with housing including utility bills, service charges and council tax, not to mention ongoing maintenance costs and home improvements. When these additional costs are taken into account and Housing Benefits, rebates and allowances are included, those who are buying their home with a mortgage spend £322 per week on total housing costs compared with £236 for those in the private rental sector.

3.2 Challenge two – Improving the quality of private rental accommodation

Age of private rental housing stock and the Decent Homes Standard

London’s total housing stock is relatively old, with 56% built prior to 1944 and just 4% built in the last decade. Private rental sector households are more likely to be within very old properties than other tenures – 41% are in units built prior to 1918. Six percent of private rental households live in properties built in the last decade, compared with 13% of housing association rental households and just 3% of owner-occupiers (see Figure 12).

The relative age of London’s housing stock makes it more expensive to maintain or update to meet modern standards. This may help to explain why, despite an overall improvement in the proportion of London homes

Figure 12: Age of housing stock in London

Source: English Housing Survey 2010/11

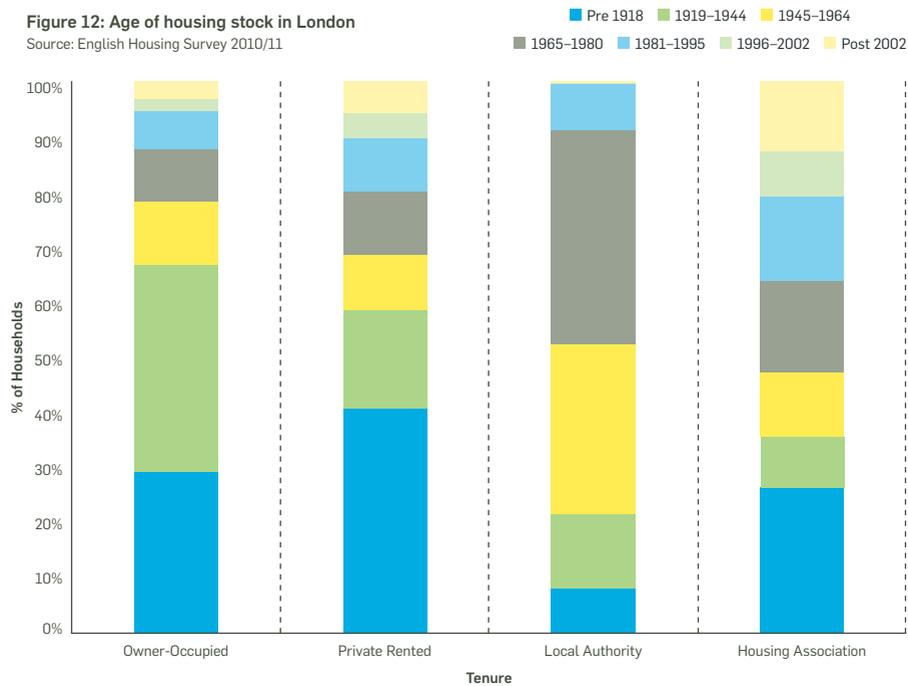
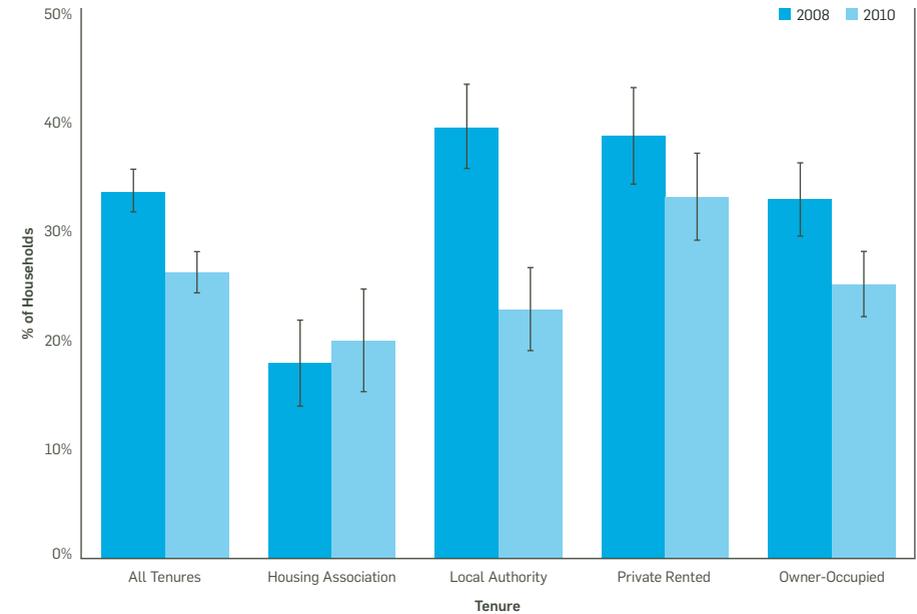


Figure 13: Homes failing to meet the Decent Homes Standard

Source: English Housing Survey 2010/11



that meet the Decent Homes Standard from two thirds in 2008 to three quarters in 2010, one in three private rental households are living in homes that fail to meet this standard³⁶ (see Figure 13).

The Decent Homes Standard is a minimum standard that triggers action to improve social housing. For a home to meet the standard it must pass the following four criteria:

- 1—Meet the current minimum standard for housing (the Housing Health and Safety Rating);
- 2—Be in a reasonable state of repair;
- 3—Have reasonably modern facilities and services;
- 4—Have a reasonable degree of thermal comfort.³⁷

The Housing Health and Safety Rating System (HHSRS) is a risk-based evaluation tool to help local authorities identify and protect against potential risks and hazards to health and safety from any deficiencies identified in dwellings. It was introduced under the Housing Act 2004 and applies to residential properties in England and Wales.

The HHSRS assesses 29 categories of housing hazard such as mould and damp, electrical hazards, crowding levels, pest infestation, and protection against accidents.³⁸

In London in 2011/12, local authorities reported that 49% (356,465) of homes in the private rental sector had HHSRS Category 1 hazards in them. Of these 5,983 homes were made free of hazards as a direct result of local authority action in that year.³⁹ This equates to dealing with less than 1.6% of the known problem dwellings.

Overcrowding

The private rental sector in London provides a more efficient allocation of space than that of the owner-occupied tenure. A quarter of all households are under-occupied in London⁴⁰ but only 10% of privately rented households are.⁴¹

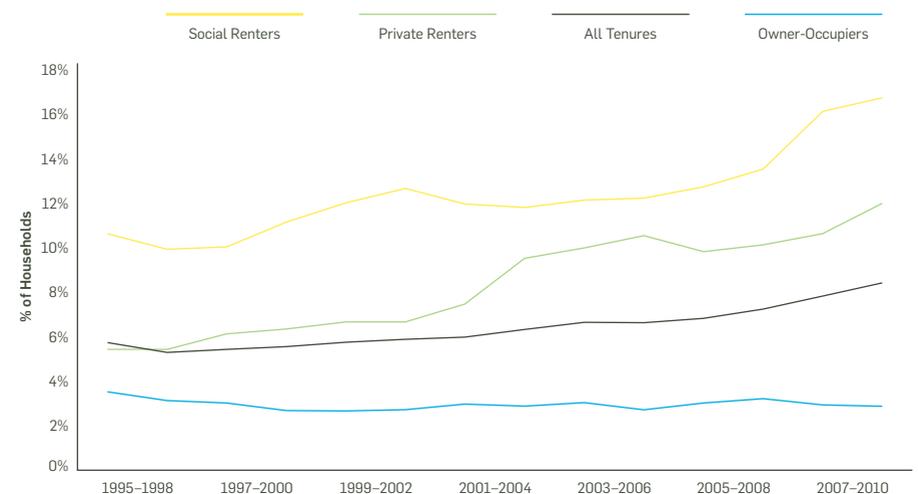
However, levels of overcrowding have been increasing for both social and private renters. The latest data shows that around 90,000 households (12% of all private renting households) are classed as living in overcrowded accommodation of which 12,000 households (2%) are classed as living in severely overcrowded accommodation.⁴² Whilst some households may choose to live in overcrowded accommodation to minimise their rental costs, others will be forced to live in this situation and suffer the associated hazards to their health and wellbeing.

Lack of financial incentives for landlords to invest in their properties

The private rental sector is dominated by small scale private landlords operating on a part time basis. According to a recent survey by the DCLG, nationally, 89% of landlords are private individuals. Seventy-eight percent of landlords rent a single property and only 8% of landlords stated that they were full time.⁴³ Only 6% of landlords were members of a relevant professional body

Figure 14: Trends in overcrowding by tenure for London

Source: Department of Communities and Local Government, survey of English Housing 2010-11



or organisation, compared with 85% of agents. It is a market dominated by relatively inexperienced and small scale investors.

Model work by Pete Redman highlights the low margins for renting out properties. His model results show that being a landlord does not pay unless you are getting capital appreciation on the dwelling. Yields are not high enough to cover all costs unless one takes a very long term view (60 years) or exit the sector by selling after a period of high house price inflation. This has been the case for the last 100 years.⁴⁴ This has implications for attracting institutional investors into the private rental market as the sums do not appear to stack up for investment. Given this finding, it is unsurprising that landlords lack the money and incentive to invest heavily into improving the quality of their properties.

Research has shown that the UK tax regime is less favourable to landlords than that of other countries.⁴⁵ In the UK, income from private rental properties is taxed at the landlord's marginal tax rate. Rental losses can be set against other rental income, but not against the landlord's income from other sources. There is no depreciation allowance for residential dwellings, as property is regarded as a perpetual asset for tax purposes. On purchasing a property landlords, like owner-occupiers, pay a transaction tax in the form of Stamp Duty Land Tax. Landlords pay capital gains tax when a dwelling is sold.

The details of taxation vary in other countries, but in many the tax regimes are rather more favourable to landlords. Both depreciation and the setting of rental losses against other income (often called 'negative gearing') are allowable in Germany, France, the USA and Australia, albeit subject to some limits. The capital gains tax treatment of residential rental property varies widely. In Australia there is a 50% discount on assessable capital gains on the sale of rental property. In some countries the rate of capital gains tax falls the longer the asset is held, to encourage long-term investment,

which is not the case in the UK. In Austria and Germany, private individual landlords can sell residential rental property tax-free after ten years or, in Germany, if the proceeds are reinvested in real estate within four years.

Private landlords are eligible for some minor government subsidies in the form of small-scale improvement grants, although some local authorities limit these to owner-occupiers.

Enforcement of private rental sector quality standards by local authorities

A recent survey for Shelter showed that 40% of London tenants were worried that their landlord/letting agent would not keep the property in good condition (e.g. not carrying out repairs or improvements).⁴⁶

Responsibility for enforcing housing quality standards falls within the remit of environmental health teams in local authorities. Homes in the private rental sector can be assessed in relation to hazards under the Housing Health and Safety Rating System (HHSRS). Where a property is in breach of this standard the local authority has a duty to take action. The local authority is able to instruct the landlord or person responsible for management to undertake any works necessary to ensure the property is safe. If remedial works are not undertaken by the landlord or management company then the local authority can undertake the work themselves and recoup the costs from the landlord.

In London 356,465 homes in the private sector were reported as having HHSRS Category 1 hazards in them by local authorities. Of these 5,983 homes were made free of hazards as a direct result of local authority action.⁴⁷ This equates to dealing with less than 1.7% of the known problem dwellings. Local authorities have estimated the costs of dealing with all Category 1 hazard properties as at least £1.98 billion.⁴⁸ Clearly this amount of money will not be found from the public purse.

However, despite the rising number of complaints (Shelter reports that complaints about the most serious

health and safety hazards under the HHSRS have risen by 25% in the last two years), the number of local authority staff available to respond to those complaints has fallen, probably by around ten percent. There are currently 3,000 Environmental Health Inspectors in the UK, but David Kidner, head of policy at the Chartered Institute of Environmental Health, estimates that three times that number would be needed if the whole housing sector were to be properly regulated.⁴⁹

Feedback from private sector tenant groups is that it is difficult to know who to turn to in the event of problems with landlords or letting agencies. Local authority housing departments are used to dealing with those within the social rented sector rather than those in private renting and they seem to lack understanding of what can be done to assist tenants who have problems with the quality of their accommodation or their landlords.

3.3 Challenge three – Tackling poor quality letting agents and rogue landlords

This section looks at the increasing number of complaints about poor quality letting agents and rogue landlords. The Government has responded to these concerns with recent legislation but it is too early to say whether this will be effective.

In London, the use of letting agents is widespread and they play a pivotal role in the private rental sector by bringing landlords and tenants together. They also potentially bring in valuable expertise and experience to a market where fragmented ownership means that landlords may lack expertise and tenants may struggle to understand the complexity of housing law.

Unfortunately the lettings market attracts a significant number of complaints. In 2011 the Property Ombudsman dealt with 7,641 letting enquiries, an increase of 26% on 2010 figures.⁵⁰ A survey by Which? found that one in five tenants and one in six landlords were dissatisfied with the service they received from letting agents.⁵¹

A recent report by the Office for Fair Trading (OFT) found that the main areas of concern for tenants were unexpected and high charges, confusion about holding deposits, misleading advertising, repairs not being carried out on the property and non-refund of security deposits. Landlords' concerns were about letting agents not doing what they agreed to do in the contract and also not passing on rents collected.

The report highlights that the agents' interests are not always aligned with those of the landlords who instruct them, or the tenants who may rely on them for guidance. For example, if repairs are required to the property, the landlord may expect the agent to source high quality work at the lowest available cost. However, the agent may not have the same incentives as the landlord, as they do not benefit from maintaining or increasing the value of the property and do not incur the costs of the repairs.

As letting agents may be able to charge tenants renewal fees, they are also less likely to make it apparent that longer term tenancy contracts are available, even though these may be preferred by both the tenant and the landlord.

The OFT make several recommendations to improve the functioning of the lettings market which include:

- Better compliance with legislation and in particular better up front information. The OFT would like fees to be set out in a clear tariff of charges.
- A general redress mechanism so landlords and tenants can sort out problems when they occur.
- More consistency within the industry so that common principles are applied throughout, such as what information is used for pre-tenancy checks.
- Government, industry, enforcers and consumer bodies to agree a national strategy.

— An enforcement strategy for traders who do not comply with the law.

— Initiatives which make it easier for landlords and tenants to assess quality, such as recognised logos.

— Working with industry and consumer bodies to develop joint educational material such as ‘quick guides’ to help tenants and landlords understand their rights.⁵²

The Government has acted upon recent charges of unfair practices by letting agents by amending the Enterprise and Regulatory Reform Bill which will force all letting agents to sign up to a redress scheme. As a result of the amendments, tenants and landlords who fall victim to bad practices, unfair charges or poor service should always have access to an ombudsman. If the ombudsman finds fault with the agent, it can order that agent to provide financial redress.

In March 2013, the Advertising Standards Agency ruled against an estate agent for not being upfront about administration fees. In future the expectation is that all letting agents will make clear from the start what compulsory fees are charged when letting a property. If the fee cannot be calculated in advance then advertisers must make it clear that compulsory fees and charges are excluded and provide adequate information for consumers to establish how additional fees are calculated.

This ruling means that potential tenants will be better able to make an informed choice and avoid being drawn into contracts that they haven’t budgeted for.⁵³

Dealing with rogue landlords

Rogue landlords are those landlords who behave in an illegal manner. For example, entering premises without giving notice, behaving in a threatening manner, evicting with no notice, holding on to deposits without due cause at the end of a tenancy, not maintaining the property to minimum legal standards, letting buildings that are not fit

for human habitation and not dealing with major damage to the premises.

A Freedom of Information request by Shelter about local authority action to tackle ‘rogue’ landlords revealed that the number of complaints about landlords in London grew by almost 50% between 2008 and 2012 (to 19,000), with 137 landlords identified as a persistent cause for concern. Shelter argues that tough enforcement of the law by local authorities, with high-profile prosecutions, is the most effective way to deter persistent rogue landlords.

The growth of the private rental sector and media headlines about ‘beds in sheds’ has led to a view in the public sector that they must intervene to improve the situation or, at the very least, be seen to be trying to improve the situation. However, at a national level, the DCLG have stated “The private rental sector is already governed by a well-established legal framework and we will not introduce any further regulations. This will ensure the sector is free to grow in response to market conditions.”⁵⁴ The Mayor of London has secured £1.5 million from a national Government fund to tackle the problem of ‘beds in sheds’, which will be shared between seven London boroughs.

The DCLG have released guidelines for local authorities to deal with rogue landlords identifying that their behaviours affect not only the tenants but also the neighbourhood more widely.⁵⁵

3.4 Challenge four – Security of tenure

Household churn and length of stay in property

One third of private rental households are likely to have moved into their current home within the last year and 70% of private rental households have lived in their current residence for less than three years (see Figure 15).

This highlights one of the benefits of the private rental sector in London in providing a short term home for those who require it, but may also be of concern when considering those households who use (either

through choice or constraint) private renting as their tenure for longer periods.

According to a members' survey of the Association of Registered Letting Agents (ARLA), the average length of stay within a tenancy has been increasing over time.

There are regional variations in this trend, with those living in the South East and London staying in their homes for longer than those renting in other regions. The average duration a tenant stays in the same property is longest for those in Prime Central London at 21.6 months, compared with 20 months for those in the rest of the South East and 18.3 months for those in the rest of the UK (see Figure 16).⁵⁶

Ending of tenancies

A recent Shelter survey sent to the author privately, highlighted that a third of London renters were worried that their letting agent or landlord would end their contract before they wished to move out. Sixty-four percent of those polled would like to have a longer term tenancy option of five years with a three month notice period.

In practice, the majority of short term tenancy agreements are ended by the tenants giving notice rather than the landlord. This statistic doesn't negate the lack of security felt by those living in the private rental sector, though. Feedback from a workshop held by the author with private tenant group representatives showed that some tenants felt it easier to move house rather than deal with potential conflict with the landlord over poor quality housing provision.

There is nothing in the current legislation that prevents a tenancy being agreed for several years, with pre-agreed annual rent increase mechanisms but there are some practical barriers:

- The ability of a landlord to regain possession of a property is reduced.
- For large landlords, longer tenures may reduce the book value of their portfolios.

Figure 15: Household mobility by tenure

Source: GLA analysis of DCLG English Housing Survey Data 2010/11

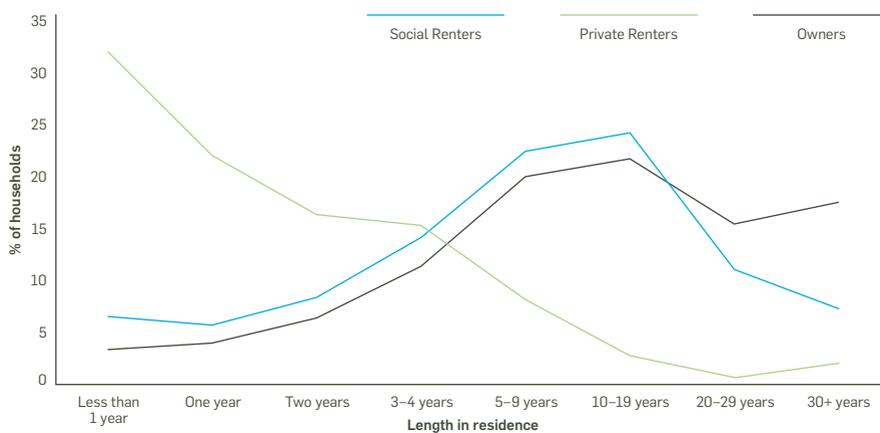


Figure 16: Duration of stay in tenancy over time

Source: ARLA Members Survey of the Private Rental Sector, First Quarter 2013



— Letting agents may purposefully not offer longer term tenancies as they may obtain additional income for each letting renewal.

— The strength of demand in the London rental market may offer little real incentive for landlords to go above the statutory minimum tenancy length.

— Mortgage companies may restrict landlords to only offering tenancies of shorter term periods to ensure that they are able to regain possession if required.

As many within the private rental sector are young and/or recently arrived into the country with little knowledge or experience of the UK's legal system, there is a strong case for better informing tenants of their rights and obligations so that they can at least request longer term tenancies if these are right for them.

There is some evidence that younger tenants are content to keep shorter term tenancy agreements if the

tenants trust the landlord is there for the long run. Fizzy Living, a company which provides rental accommodation aimed specifically at younger people, has offered their tenants the opportunity to take longer term tenancy agreements of up to five years, but so far take up of these tenancies has been very limited.

Ending of tenancies by landlords through the legal system

There will be instances where landlords are forced to use the criminal justice system to remove tenants from their properties. A landlord possession claim is created when a private landlord begins a legal action for an order of possession of property by issuing a claim in a County Court in England and Wales. There are two ways of issuing a court order – a standard order and an accelerated order. The accelerated possession procedure is used by landlords in relation to assured shorthold tenancies, when the fixed period of tenancy has come to an end. It enables orders to be made by the court solely on the basis of written evidence and without calling the parties to a hearing.

In 2012, just over 23,000 landlord claims were brought by private landlords under the standard procedure and around 31,100 landlord claims were brought under the

Figure 17: Landlord possession claims in England and Wales, 1990 to 2012

Source: Ministry of Justice Statistics bulletin, 2012



accelerated procedure for shorthold tenancies. This is a very small proportion considering that there are over 2.1 million households in England and Wales living in the private rental sector. The use of the accelerated procedure has increased dramatically in recent years, however⁵⁷ (see Figure 17).

3.5 Challenge Five – Lack of support for new development in London

The Public Sector is encouraging the construction of new private rental sector homes. A serious challenge to this intention is around support for new developments, in particular in Outer London where most of the spare capacity is located. There is a clear dichotomy in support for new house building in London, with 49% of Inner London residents supporting more housing in their local area compared with 25% of Outer London residents, where opposition is also the highest of any region, at 58%. If there is a lack of local support for a planning application it is less likely to be built out (see Table 8).

At a national level, when people were asked what tenure of new homes were most needed in their local area they were most likely (39%) to select homes to rent from local authorities or housing associations and least likely (8%) to select homes to rent from private landlords.

Table 9: Perceived need of tenure type for new homes
Source: British Social Attitudes Survey, 2011–2012

Tenure of new homes needed locally	% of respondents
No new homes needed	20
Homes to buy	27
Homes to rent from private landlords	8
Homes to rent from local authorities or housing associations	39
Homes to part-own and to part-rent	25
Base	3297

4 PUBLIC SECTOR POLICIES

The Government's attitude to the private rental sector has changed significantly over the past 30 years and there is now widespread agreement that it has a positive role to play in meeting significant segments of Britain's housing needs. In theory, the Government should only intervene in markets where there is a clear, identified market failure and where it is likely that intervention can improve the efficiency of the market. In private rental housing, governments may intervene in four ways: by direct control of price; through taxes and subsidies; through the planning system; and by direct provision of specific goods and services.⁵⁸

4.1 Policies to encourage greater institutional investment

The Government has sought to increase the supply of new private homes to rent, and to address concerns over the quality of accommodation and management standards within the sector by encouraging institutional investment. However, significant institutional investment has yet to emerge. So the Government has recently introduced a range of new initiatives to encourage this further, which includes changes to Stamp Duty, changes to legislation for Real Estate Investment Trusts and the Build to Rent Fund.

Reductions in Stamp Duty Land Tax for large scale investors

To attract a wider range of investors to build houses for private rent, the Government introduced changes to Stamp Duty Land Tax (SDLT) in the 2011 budget. At a national level, large-scale investors will now typically pay only 1% on bulk purchases, instead of the 5% they were previously liable for, as Stamp Duty will be assessed on the average value of individual properties rather than on the overall value of the portfolio.⁵⁹ However, given that the average house price in London was £393,000 in November 2012,⁶⁰ the SDLT for an average property will typically fall within the 3% band.

So far, no increased activity can be seen as a result of this measure.

Policies to encourage Real Estate Investment Trusts

The 2012 Finance Act set out detailed measures to support the development and growth of UK Real Estate Investment Trusts (REITs). The 2% conversion charge was abolished as of Summer 2012, which should encourage investment vehicles with existing property portfolios to convert to REIT status. There are currently 25 operating UK REITs including the Ground Rents Income Fund PLC which was admitted to the Official List of the Channel Islands Stock Exchange in August 2012. Changes to the REIT regulations were aimed at encouraging a wider range of institutional investors, including smaller players.

However, some commentators, although welcoming of the overall direction of changes in REIT legislation, were disappointed that it excluded diversely held companies and private equity funds, and expressed concern that there were missed opportunities for overseas investors.⁶¹ To date, there has been little take-up in the opportunity for new residential REITs. Most activity has been transfers from existing companies.

Given the perceived risks in the property sector, making REITs attractive to investors is likely to require a return of between 5% and 7%.⁶² Analysis of existing REITs in the residential sector shows they cannot deliver these returns from revenue activity on the market value of their investment alone. They use a combination of:

- Acquiring at tenanted value and then selling when vacant at vacant possession value.
- Acquiring low value buildings (e.g. empty shops in tertiary shopping areas) and refurbishing for a change of use.

It is unlikely that these activities will provide a sustainable long term mechanism and they probably stretch the ‘trading limits’ allowed in the tax treatment of REITs.

Build to Rent Fund

The Government recently launched a national £200 million Build to Rent fund to stimulate new private rental housing supply and to provide opportunities for new institutional investment in the sector. Due to over-subscription the fund was expanded to £1 billion in the latest Government budget.

The fund is a fully recoverable, commercial investment where the public sector will share risk or bridge finance to allow schemes to be built out, managed and let. The investment could be used to cover development costs such as land, construction or management costs. Once the scheme is fully let the developer will sell on its interest or re-finance and repay the loan/equity.

However, development finance in itself is not a limiting factor for most developers or housing associations. It is the risk and return on the development that constrains the raising of development finance. Recently, we have seen that lenders seek lower loan to value ratios and higher interest rates when there is a falling market or an increased risk of values reducing, thus passing on risk to the developer’s equity and profit. Where a scheme’s financials seem robust then accessing finance is not usually a problem. Furthermore, most developers and Housing Associations fund development schemes from internal resources and factor this cost into their appraisals.

The Greater London Authority is overseeing the Expressions of Interest for London-based sites. The HCA will undertake the due diligence, contracting and monitoring for all sites. From the initial round, only a quarter of the schemes were located in London, which is somewhat lower than might have been expected given the large number of private renters in the city.

Housing Guarantee Scheme – private rental sector

The Government housing guarantee scheme, launched in February 2013, is intended to support the building of new homes for the private rental sector. It will enable housing

providers to raise debt with a government guarantee, where they commit to purchasing additional new homes for private rent. This will help to increase long-term funding availability, increasing the number of new homes they can provide, but may not reduce their borrowing costs as commercial lending rules will apply.

The guarantee is designed specifically to attract lenders into the private rental sector from fixed-income bond holders who want a stable, long-term return on investment without exposure to residential property risk. The government will insulate them from this risk by guaranteeing the long-term debt (up to 30 years). The minimum size of projects that are eligible to apply for the guarantee is £10 million, although this can comprise more than one development site to meet the minimum value.

The guarantee states that all of the units must be used for private rent for the period of the guarantee and requires that borrowers undertake 'best endeavours' to ensure the properties are actively marketed for rent. Borrowers are also asked to detail how property and tenant management services will be provided. To be eligible for the fund, the borrowers must be classified as private sector and the maximum loan/equity ratio will be 80/20. There is also a specification that the minimum net projected rent/interest cover is 1.2/1.

There is an obligation for five-yearly revaluation, and security release will be permitted when asset cover exceeds 200%. Applications for the private rental sector guarantee must receive approval in principle from the Government by 31 March 2015.

The current Government policies do not address the problem of the reduction, through lack of demand and price growth, in the number of schemes that are viable in the current economic climate.

4.2 Policies to encourage greater amounts of development in London

Some of the varied ways that the public sector can stimulate the provision of market rented housing in London is through the supply of discounted land and

preferential planning obligations. Subsidy for open market rent supply and/or investment could be justified if it were demonstrable that wider public gains (e.g. regeneration of an area) could be achieved.

Permitted Development Rights

In September 2012, the Government announced, as part of a package of measures to support economic growth, permitted development rights for change of use from B1(a) office to C3 residential purposes. These rights came into force in Spring 2013 and are initially time-limited for a period of three years.

Alongside the new permitted development rights it was announced that local authorities would be given an opportunity to seek an exemption for specific parts of their locality where there may be a demonstrable loss of a nationally significant area of economic activity or substantial adverse economic consequences at the local authority level which are not offset by the positive benefits the new rights would bring.

The Mayor of London has applied to exempt the whole of the Central Activities Zone, the area covering Tech City in Shoreditch, Canary Wharf, and the Royal Docks Enterprise Zone. All of the London boroughs except Barking and Dagenham, Bexley and Redbridge have applied for exemptions. Most of these were for selected parts of their boroughs except for the City of London and Kensington and Chelsea which have applied for complete exemption.

At the moment, conversions account for about ten percent of new residential supply in London. DCLG figures show that an annual average of 2,910 residential dwellings came about from change of use, between 2008 and 2010. Of these, 831, or 29%, have been converted from B1(a) use representing 0.2% of the stock of B1(a) per annum.⁶³

There are distinct variations in conversion rates between London boroughs, likely to reflect both the availability and type of office space, local political imperatives and profitability for developers. The majority

of conversions are towards the centre of London with notable exceptions including Croydon, Ealing and Hounslow.

For London overall, an additional 38,994 housing units are anticipated due to conversion from office to residential with 11,444 of these already completed, 13,187 started and 14,363 waiting to start. Tower Hamlets has the highest housing gain from land changed from B1 to residential use, followed by Islington, Croydon, Southwark and Westminster. At the other end of the scale Greenwich, Kingston upon Thames and Barking and Dagenham have the fewest additional homes from conversion. At a London level only 1.8% of office stock has been converted, although this varies from 5% in Croydon, Hounslow and Waltham Forest through to minimal amounts in the City of London, Havering and Kingston upon Thames. This demonstrates that there is market demand for conversion opportunities and, given the availability of office space, there is plenty of scope for additional office-to-residential conversions to help meet the demand for housing.

Given the substantial changes that have taken place in the retail market, it could also be argued that the Government should consider making retail-to-residential conversion simpler, especially for locations with long term shop vacancy rates. There are at least 1500 shops across London that have been vacant for the last three years.⁶⁴

Release of public land for housing development

The Mayor of London has declared that he wishes greater amounts of public land to be released for development. The GLA is responsible for 600 hectares of land and has committed that there will be a clear outcome agreed on all the GLA's land by May 2016. Having released a new land database in March 2013, the GLA have also set up a framework agreement, the London Development Panel, which will speed up procuring delivery partners to take forward developments in London.⁶⁵

However, unless the land is sold at the market rate, developers are gaining cheap land and being subsidised by the tax payer. This might be justified for sub-market housing in exchange for nominations rights to a reduced rent in perpetuity, but for market rent housing it is not justified unless there are demonstrable wider social or economic gains. Furthermore, as a recent estimate of land useable for residential purposes found that less than six percent was in the public sector, this does not appear to be a sustainable way of increasing housing supply in London in the long term.⁶⁶ There is also a question as to the timing of the land sales; we may still be at the bottom of the property market cycle – from a taxpayer's point of view is this the best time to be selling our assets?

Planning and S106 obligations

Typical medium-sized developments in London have required about 30% of dwellings to be at a social rent and 20% at an intermediate market level or low cost home ownership. Some developers have made calls to relax or eliminate an affordable housing obligation on developments for open market rent, or have claimed that the market rent housing is the affordable housing element. Again, unless a wider social or economic gain can be demonstrated then this is not justifiable.

4.3 Policies for accrediting landlords

There have been several recent calls for landlords to be encouraged to join an accreditation scheme or be regulated.

The advantage of voluntary accreditation for tenants is that they are able to identify good landlords with the assurance that the property meets certain standards and that proper tenancy agreements will be in place. For landlords, voluntary accreditation offers a market advantage – distinguishing them from other landlords. Accreditation schemes may also offer other services and discounts which landlords value. There is no cost to the public purse for this type of scheme.

However, it is argued that poor landlords with low quality properties will simply choose not to be members of a voluntary scheme, and the Rugg Review highlighted that accreditation does not carry the capacity to isolate and regulate the very worst quality properties.⁶⁷ Furthermore, as accredited landlords are more likely to offer higher quality properties which are out of the affordability range of lower income households, this type of scheme does little to improve the quality of housing faced by poorer Londoners.

Arguments for compulsory registration of landlords include that it makes it simpler to identify non-compliant landlords and therefore more effectively targets enforcement by the public sector in dealing with these individuals. A register of landlords can help tenants, neighbours and other agencies (e.g. noise control officers in local councils) identify landlords if problems arise. If the regulatory regime is supported by dedicated information and advice services then it could improve landlord management and services to tenants.

On the other hand, it is argued that mandatory registration of landlords places an unfair and unnecessary focus upon those landlords who comply with legislation and act responsibly, and the costs of administering such a scheme are disproportional to the benefits gained. Wider concerns are that it will discourage market activity and potentially reduce the number of properties in London available to rent, with the consequence of increasing rent for the fewer properties that are available. It is also likely, given that the majority of landlords are operating on very slim margins, that the costs of any compulsory registration scheme would be passed on to the tenants when their rent level is next reviewed.

This section briefly reviews the experience of two initiatives that have been put in place in Wales and Newham and extends lessons that London can learn from their experiences.

In 2008, a voluntary Landlord Accreditation Scheme was introduced in Wales with the support of

the Welsh Government. All 22 Welsh local authorities participated in the scheme, which provides landlords with the opportunity to receive information, education and training leading to accreditation. Since its launch, approximately 1,300 landlords have been trained and accredited.⁶⁸ Given that there are around 196,000 dwellings in the private rental sector in Wales,⁶⁹ this scheme is likely to have had a limited effect on improving the overall sector.

Previously, similar to many London Boroughs, Newham ran an accredited landlords scheme with around 600 landlords registered. However, most of those landlords who registered did so as they were being used by the council to discharge its housing duties. Voluntary accreditation schemes have not thus far dealt with the wider private rented sector.

The Welsh Government is proposing to legislate to establish a national, mandatory registration and licensing scheme to regulate landlords, lettings and management agents. Local authorities will be required to regulate such landlords and agents and will be responsible for taking any necessary enforcement action against a landlord or agent. The new scheme will establish a comprehensive online database of the landlords and management agents currently operating in the private rental sector and allow all prospective tenants to look up their property or their prospective landlord/agent, and find out whether they are registered and/or licensed on the scheme.

Closer to home, Newham Council has recently launched mandatory licensing of private landlords to deal with increasing levels of anti-social behaviour associated with rented properties that fail to meet satisfactory levels of tenancy and property management. As of April 2013, 28,500 applications had been made to the scheme from 15,200 landlords. The levels of compliance are estimated to be around 75% and are higher than the council originally anticipated, which they are putting down to having good internal systems of shared intelligence and good communication of the scheme to landlords.⁷⁰

Working in collaboration with the local police and UK Borders Agency, Newham Council have started to prosecute dozens of landlords who have failed to license under the scheme. They have also refused to license a landlord (who has around 50 properties under his control) who they considered not to be fit and proper. It is likely that the landlord will place his properties into the management of an approved managing agent agreed with the local authority, but to do this there will need to be a substantial improvement to the quality of the properties he owns.

It is too early to say what the wider impacts on the Newham private rental sector market will be from this initiative. We will have to wait to see what emerges in terms of any changes to:

- The number of landlords and properties available to rent;
- The quality of accommodation;
- The costs of renting.

The GLA argues that high levels of regulation can discourage investor engagement in the sector. Instead, the Mayor of London proposes a voluntary London Rental Standard that seeks to accredit landlords, managing agents, letting agents and other agencies that carry out letting agent functions. The scheme aims to increase accredited landlords and agents from the current 12,300 to 100,000 by 2016.

Given that other voluntary accreditation schemes adopted elsewhere have had limited success in attracting landlords to join, the London Rental Standard will need to offer some large incentives to make it of interest to landlords in London, where there is high demand for rental properties and limited supply. One such incentive could be that to access public land holdings from the Mayor's office the landlord would need to be accredited first.

4.4 Mayor of London's private rental sector policies

The Mayor of London has pledged to boost housing supply by supporting the establishment of private rental sector investment vehicles. He will support build-to-let developments through the planning system and Mayoral landholdings. He will launch a competition for the best design for purpose-built private rental accommodation and review the London Design Guide with bespoke private rental sector typologies in mind.

The Mayor has stated that the Assured Shorthold Tenancy regime is flexible enough to facilitate longer term tenancies by building trust between landlords and tenants, but has said that the GLA will work with key landlords and others to bring forward a pilot, which will test and evaluate the concept of more flexibility and choice in tenancy terms and conditions. Where GLA resources are involved in new purpose-built private rental sector developments he will strongly encourage the adoption of tenancy choice and flexibility. He has also stated that the GLA will work with the VOA to improve the amount of information available through the London Rents Map.⁷¹

To promote higher standards, the Mayor has pledged to work with boroughs to make full use of existing enforcement powers. He proposes a shared intelligence approach to focus their efforts on non-accredited landlords rather than those who have already committed to improve their standards. But given the low numbers of existing accredited landlords in London, shared intelligence is a large task with no additional funding allocated to make it happen.

The Mayor has stated that he would like to explore how different tax measures could be introduced to encourage existing landlords to improve their dwellings. He has also stated that he will encourage more landlords to take advantage of energy efficiency programmes.⁷²

5 CONCLUSIONS AND RECOMMEND- ATIONS

The private rental sector is an important component of London's housing market and is clearly serving those in need of short term accommodation. Most renters appear satisfied with their accommodation, although far fewer are satisfied with the idea of being in the rental sector itself. The sector provides homes to a wide range of households; for some renting is their preferred choice, but others are constrained to the sector through lack of access to mortgages, unwillingness to purchase in times of economic uncertainty or from recent changes in the welfare system.

We should be cautious about expected growth rates in the private rental sector as we are in unusual times with limited economic growth, and it seems likely that when growth does finally return people will look to buy homes again, putting a dampener on the growth in the private rental sector. The difficulty of getting a mortgage and worries about the direction of the economy have led to fewer people buying homes, but the preference against renting and in favour of buying appears to be entrenched.

We believe that mandatory registration of landlords places an unfair and unnecessary focus upon those landlords who comply with legislation and act responsibly, and the costs of administering such a scheme are disproportional to the benefits gained. Wider concerns are that it will discourage market activity and potentially reduce the number of properties in London available to rent, with the consequence of increasing rent for the fewer properties that are available. It is also likely, given that the majority of landlords are operating on very slim margins, that the costs of any compulsory registration scheme will be passed on to the tenants when their rent level is next reviewed. We therefore support the idea of voluntary accreditation of landlords in London, but given the uptake by landlords in existing schemes, we are sceptical that it will be sufficient by itself to bring about the real change within the sector that is required.

5.1 Recommendations

Our recommendations for tackling the problems that London's private rental sector faces fall under two broad headings – increasing the supply of new homes, and raising standards in the existing market.

Encouraging greater supply

London needs to increase the overall supply of new homes to help reduce the cost of accommodation across all sectors. The Government in particular has introduced a range of policies aimed at encouraging more investment by large institutional funds into new homes for rent and, given the role that this investment could play in unlocking supply and possibly creating more professionally run and innovative rental products, we welcome these policies. But we also note, as set out earlier, that to date they seem to have had only a modest impact. We suggest therefore that the Government at least explore the case for further encouraging institutional investors into the private rental market.

Recommendation 1

We recommend that central and London Government should continue to encourage large institutional funds to invest in new homes for rent, and explore the case for public subsidy of this sector.

Encouraging adherence to basic standards

As we have seen, standards in London's private rental sector are uneven at best. Tenants' complaints about landlords and letting agents appear to be on the rise. A relatively large proportion of homes fail to meet basic standards of amenity and efficiency and a smaller but significant number fail to meet even the most fundamental tests of safety. We make three recommendations that we think could help address these problems.

Raising awareness about rights and responsibilities

As already set out, most landlords operate on a very modest scale, owning one or at most a small handful of properties. Most tenants are young and many are from overseas. As a result, both landlords and tenants tend to have a relatively weak understanding of what they can expect from each other, or how to proceed when they think things are wrong. A greater knowledge of the rules governing the sector should improve adherence to them and reduce the need for their enforcement. We therefore suggest that more should be done to raise awareness among private rental sector landlords and tenants.

Recommendation 2

Central and/or London Government should fund awareness-raising campaigns to promote a greater understanding, among tenants and landlords, of their rights and responsibilities.

Improving enforcement

With the private rental sector growing, rents rising and homes becoming ever scarcer, London's private tenants face increasing pressures. Existing approaches to enforcing basic standards appear wholly inadequate. Yet local government teams responsible for monitoring standards and dealing with their violation are facing cuts. We therefore suggest that a fresh approach is needed.

Recommendation 3

Central and/or London Government should undertake a review of the enforcement of standards in the private rental sector, in order to identify how enforcement can be strengthened and made more effective.

Encouraging greater investment by existing landlords into improving their properties

Local authorities have estimated the costs of dealing with all Category 1 hazard properties as at least £1.98

billion⁷³ – clearly this amount of money will not be found from the public purse.

Research has shown that the UK tax regime is less favourable to landlords than that of other countries.⁷⁴ In order to encourage greater investment by existing small-scale landlords (who make up 89% of all landlords) into their rented properties, the Government should, as a matter of urgency, develop financial incentives to make it cost effective for them to invest.

Recommendation 4

Central Government should reform the tax system so as to encourage private landlords to invest in the improvement and upkeep of their properties.

6 SUMMARY OF RECOMMEND- ATIONS

We recommend that:

- 1—Central and London Government continue to encourage large institutional funds to invest in new homes for rent, and explore the case for public subsidy of this sector;
- 2—Central and/or London Government fund awareness-raising campaigns to promote a greater understanding, among tenants and landlords, of their rights and responsibilities;
- 3—Central and/or London Government undertake a review of the enforcement of standards in London's private rental sector, in order to identify how enforcement can be strengthened and made more effective;
- 4—Central Government reform the tax system so as to encourage private landlords to invest in the improvement and upkeep of their properties.

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The number of people renting privately in London has grown dramatically over the last few years. The capital's private rental sector (PRS) serves many of these very well. But this authoritative review – the first independent review of London's private rental sector in years – shows the sector faces enormous pressures. Rents have risen significantly as demand has grown faster than supply. At the same time complaints about landlords and letting agencies have been on the rise, and nearly half of rented homes fail to meet basic standards of health and safety.

Stressed argues that while we badly need to increase the supply of new homes of all tenures in the capital, we also need to do more to raise the standard of existing homes for rent. Among other recommendations, the report argues that we should strengthen the way the sector is enforced. But it cautions against imposing new regulations on the sector and new burdens on landlords. These could well have perverse consequences for tenants. Instead it suggests the Government should do more to incentivise landlords to invest in the up-keep of their properties.

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