

# Private Renting and Social Landlords: Can they help reduce inequality?

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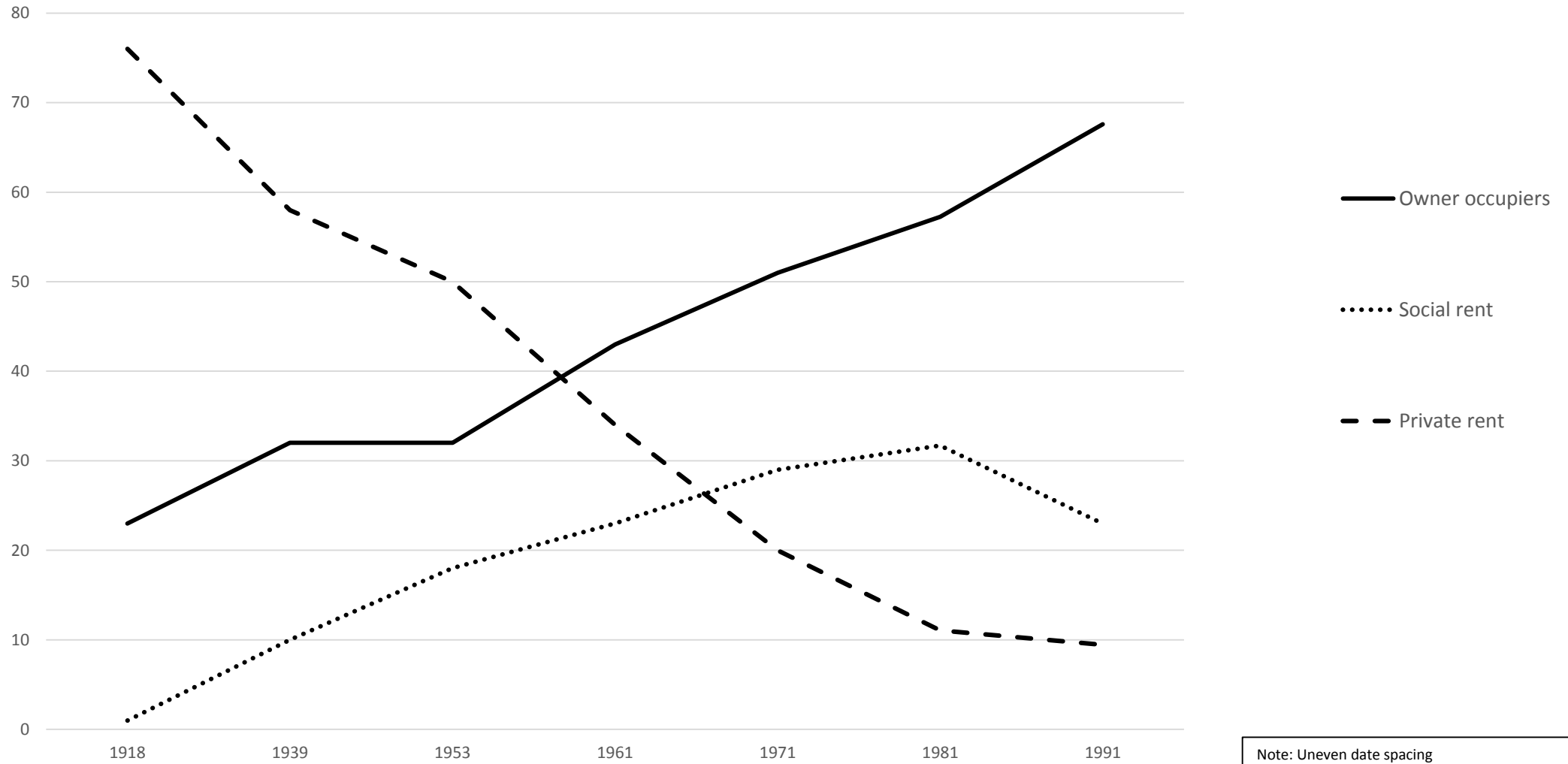
# Introduction

- Why we need private renting
- Who it helps
- Why it earned such a bad name – history
- Why social landlords are getting involved now – are they helping?
- Why we need some kind of government regulation
- Where next for private renting?

# Part 1. Can Social Landlords Help Make PRS Work Better?

- **Origins of social oriented private renting**
  - Philanthropic Trusts
  - Model dwellings
  - 4% philanthropy
  - 90% rent privately
- **WW1 – Strict rent controls**
  - Stayed in place to 1989
  - Almost no investment, disrepair

# Housing Tenure (%) 1918-1991



Note: Uneven date spacing

- **1930 – Slum clearance**

- Rapid council housing growth
- Boom in owner occupation (plus three million)
- Decline in PRS but still biggest

- **WWII – All building stopped**

- Chronic shortage because of bombing, loss of PRS, no building
- Big subsidies – boom in council and owner occupation – decline in PRS

- **1956 – Renewed slum clearance**
  - Many blighted areas
  - Sub-legal furnished lets in single rooms – immigrant landlords buying into slum clearance areas
  - Rehousing block for newcomers
  - High rise subsidy – boom in towers
- **1966 – Cathy Come Home > Shelter**
- **1968 – Roman Point – cancel high rise subsidy**
- **1969 – General Improvement Areas – “winkling” from PRS**

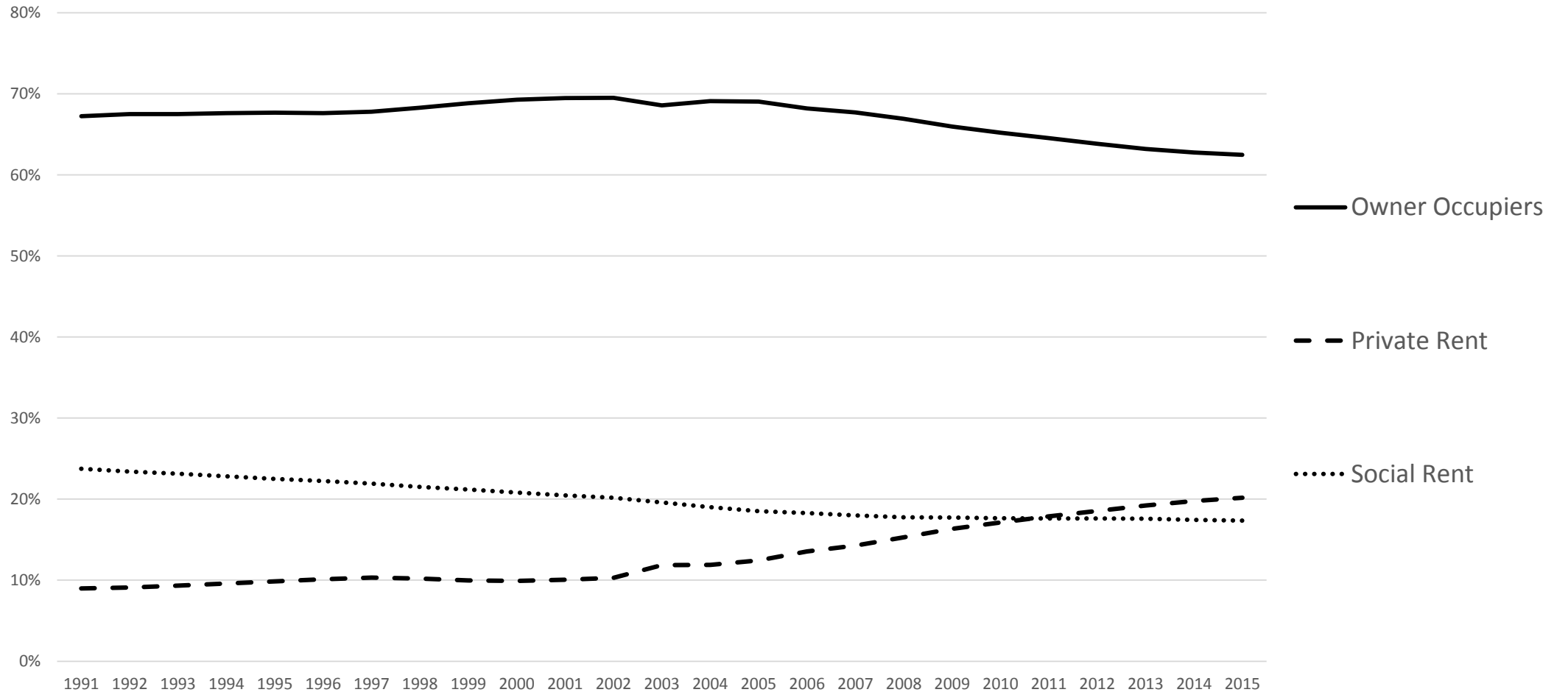
- **1974** – Financial crisis
  - Cancel slum clearance
  - Evidence of surplus/difficult to let council housing
  - Security to furnished tenants
  - Housing Action Areas – fair rents
  - Boom in housing associations
- **1976** – Race Relations Act
- **1977** - Homeless Persons Act

- **1981** – Right to Buy – big discounts
  - Leads to private renting in council housing
- **1985** – large scale Voluntary Transfer from council to housing associations – steep drop in council housing
- **1989** – Housing Act – abolishes rent control and security as PRS hits 7% of total
- **1990s** – PRS expands with almost no regulation – very popular due to demographic change
  - Council housing declines
  - Housing associations expand through transfer but social housing overall declines



- **2000s** – PRS grows, social declines
  - Owner-occupation grows throughout
- **2007** – International Financial Crash
  - Borrowing becomes very difficulty
  - First time buyers become private renters
  - LAs use PRS to house homeless families
  - Registration schemes – devolved governments

# Housing Tenure (%) 1991-2015



# Part 2: The evidence from housing associations

## The Context:

- **What are housing associations doing to improve PRS provision in the UK? And why are they doing it?**
- Overall PRS stock in the UK: **5,343,000 units**
- Housing Associations' PRS stock: **40,000 units (0.7%)**, but they have built 24% of the 27,000 PRS units completed since 2010
  - niche but growing sector
- PRS dominated by small **Buy-to-Let individual landlords**
  - Average size 1-2 properties
- **Growing private tenants' experience** of rising evictions, insecurity of tenure, poor quality and unaffordable housing
- Government encourages PRS with minimal regulation

# Our sample

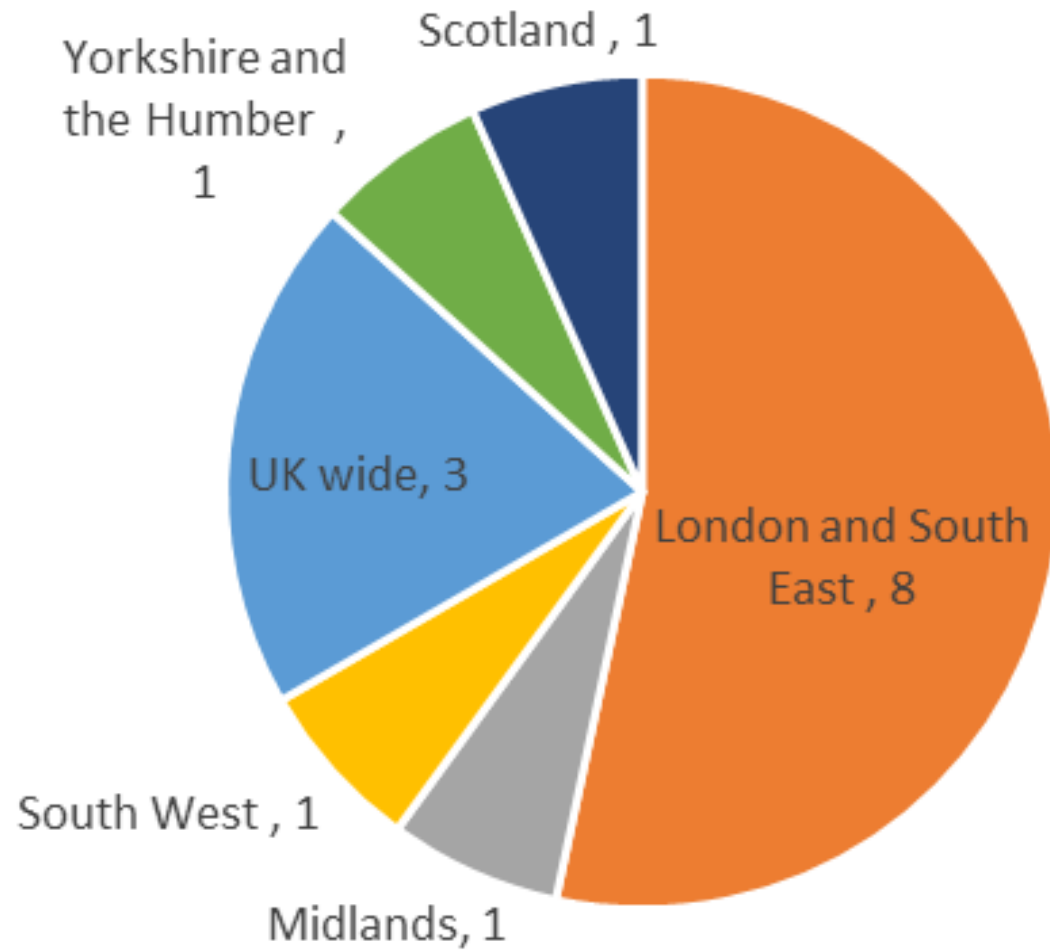
- 15 housing associations (of which 7 interviewed twice)
- One private institutional landlord
- One private managing agent
- Five local authorities
- Two homeless charities

**TOTAL: 28 semi-structured interviews**

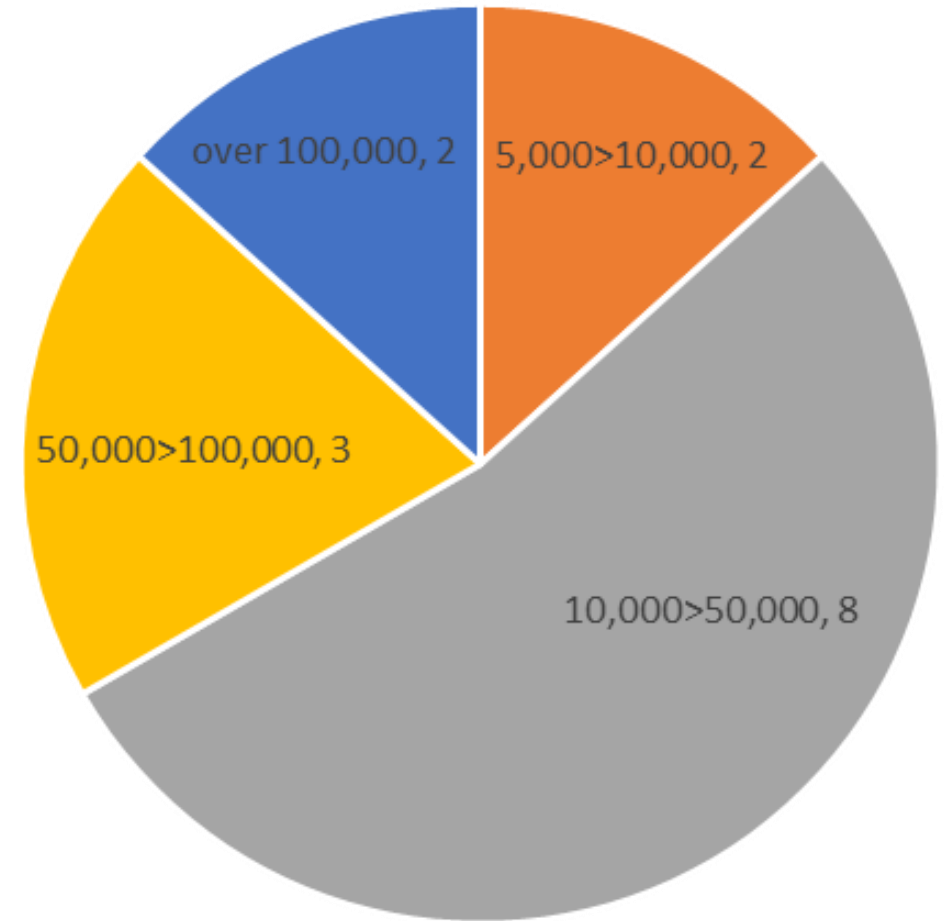
Focus on:

- Social landlords' 'pure' market renting
- Sub-market and intermediate market rent (7 interviews)

## Geographical spread



## Size of housing association



# Housing associations' PRS portfolio

- Relatively **new part of the business**
- Most HAs developed it after the financial crash in 2008

## **Benefits for the organisation:**

- **Expands their stock long-term**
- **Profitable**
- Makes **regeneration** more viable and feasible
- Develops a **different skill set**
- Makes housing associations **attractive investment partners**
- Addresses a **gap in the market** and fulfils a **social need**

# Ownership v management

- Two-thirds **own outright or on long-term lease**
- **Gives complete control** over their stock and flexibility in asset management

Other options:

- Part-owning via **joint venture** to de-risk investment and attract funding
- Acting as **managing agents** on behalf of Buy-to-Let investors – quite a few have the ambition to become managing agents

# Benefits for tenants

- Reasonable rent increases:
  - When renewing a tenancy, six of the housing associations increase in line with inflation; seven increase in line with market rents
  - All but one were happy to negotiate with existing tenants if rent increase is unaffordable, resulting in them having to leave
- Security of tenure:
  - Eight offer three to five years; five offer 12 months
  - Most housing associations want tenants to stay as long as possible as this saves on costs and increases stability
- Good level of service:
  - 12 said that service standards differed from those offered to social housing tenants; three said they didn't
  - Generally, they offer a better service for PRS tenants



# Other benefits for tenants

- High energy efficiency standards
- Low/nil letting fees
- Protected deposit
- Access to Housing Plus services

# Commercial focus – rent levels

- Majority of housing associations in our sample are **charging 'full' market rents - 13**
- One housing association charges median market rents
- One housing association charges 80% of market rents. No 'full' market rent properties

# Who do housing associations house?

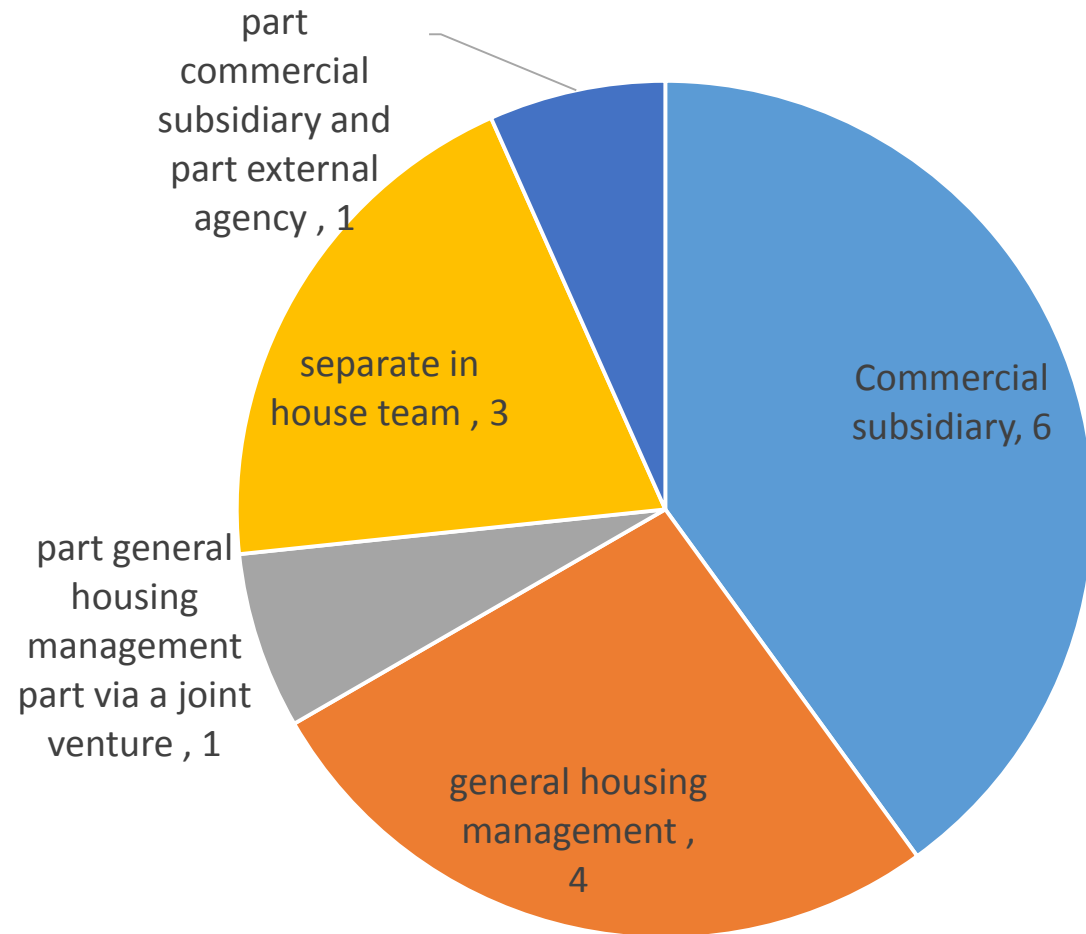
- Customer profile: **working young professionals**
- **Strict affordability reference checks** – applicants turned down if they don't meet criteria
- HB claimants not usually accepted
- One month to six weeks **deposit**
- Standard PRS **eviction** proceedings for breach of tenancy

# Branding

- 10 of sample re-branded because of:
  - White labelling
  - Commercial focus – to clearly separate PRS from 'core' social housing business
- 5 HAs decided not to re-brand because they are 'proud' of their brand as 'trusted' housing providers

# Management arrangements

- 2/3 manage their PRS stock separate from their social housing
  - Via a subsidiary
  - Via a separate in-house team
  - Through a joint venture
- Only 5 have integrated the management of their PRS stock into existing housing management structure



# Marketing and letting

- Majority let property themselves (through in-house team or subsidiary)
- One third appointed external letting agents – housing associations with wide areas and use high-street letting agents who know the local housing market

# Plans for future expansion

- All but two housing associations are planning to **grow their PRS**
  - Using their own reserves,
  - Borrowing against their assets,
  - Or, increasingly, partnering with pensions funds/other investment partners.
- Common agreement: still a **big gap in the market** for good-quality, professionally managed, private rentals
- **Major potential** for build-to-rent through institutional investment in market rented sector.

# Intermediate market renting

- All housing associations have some intermediate rent properties
- Seven housing associations interviewed from our sample
- Intermediate rents (below market) depend on government funding
- Eligibility criteria are quite tight, usually with income ceiling
- Intermediate renting often aimed at key workers e.g. health
- Aim is sometimes to convert rent into buying
- Charge 80% market rents – more expensive than social rents
- Tenants in receipt of housing benefit are usually not accepted
- Depends on availability of funding from HCA or GLA in London
- The London Living Rent initiative will fix rents in relation to local incomes



# Sub-market renting

Some HAs in our sample (although a minority – 5) have developed, or are hoping to develop sub-market renting – not tied to government/GLA funding

1. **Network Homes** – charging 80% of market rents
2. **Notting Hill Housing Group** developed a Simplicity model, renting PRS properties to low-income families at local housing allowance rents – i.e. below market
3. **Home Group**, developed its Flexi Rent model with a variable ‘rental menu’ to accommodate different income groups at affordable rents
4. **L&Q** aims to develop ‘non-encumbered’ intermediate rent properties out of its own revenues, to meet London’s growing need for good quality, relatively cheap private rented units (they are adopting the London Living Rent model)
5. **Southern Housing Group** wants to include sub-market rental units in its new developments.

Charging sub-market rents alongside intermediate and pure market rents –meet growing need for cheaper, good quality, more secure private rented accommodation

# An innovative example of sub-market private renting

- **Network Homes** partners with New Horizons Youth Club to help house homeless young people
  - Lets three houses room by room (en-suite) at cost to young people
  - Communal kitchen and living space
  - Management and support provided by youth organisation
  - Heralded as break through due to benefit cuts for under-35s

# Inspiring example - Bushbury Hill Estate Management Board

- EMB manages **830 properties** through a management agreement with Wolverhampton City Council and 70 on behalf of a local housing association
- **Invested £300,000 in pilot project**, buying ex Right-to-Buy properties on their estates, refurbishing them and renting them out
  - Two 3-bedroom properties bought with own reserves
- Board supported investing reserves to meet local need for cheap, good quality, well-managed private rented accommodation – **BUT rented out at sub-market rents**
- Rents capped at Local Housing Allowance rates and **accept people on housing benefit**
- Make **7% return** re-invested into EMB activities
- Board plans to buy 3 more properties over the next two years

# Preliminary conclusions

- **Growing sector** – there is a market!
- **Organizational and revenue benefits**
- Significant **benefits** for private tenants
- **Improving conditions** in PRS
- Most provide **intermediate housing and/or key worker accommodation**, generally linked to grant funding from HCA and GLA
- Some housing associations ‘bravely’ set up sub-market rentals **without government/GLA funding**
- Greater recognition of **need for cheaper, good quality, well managed private rented accommodation** to house the ‘squeezed middle’

# Preliminary recommendations

- Intervene to house vulnerable tenants at risk of homelessness
- Lower barriers to access (e.g. 'portable' deposit idea and explore the potential to build more sub-market rent properties without government funding)

# Part 3: A role of local authorities

## Local authorities' role in PRS

- Duty to enforce standards
- Wants to attract investment in PRS to meet need
- Three distinct roles in PRS
  - Registration and licensing
  - Homelessness duties discharged through PRS
  - Direct provision of private rentals

# Licensing and registration

- Since 2004, mandatory licensing of Homes of Multiple Occupation
- Selective licensing of private landlords
  - Introduced to tackle ASB
  - Now need Secretary of State permission of licensing covers 20% plus of PRS stock
  - Licensing raises standards, “smokes out” rogue landlords
  - But cost to landlord e.g. £150 per property for five year license
  - Not needed for good landlords?

# Newham and Liverpool's borough-wide licensing

- **Newham:** 47,673 applications; 40,745 licenses issues; 27,236 landlords i.e. most 1-2 properties
  - Helps reduce churn of tenancies
  - Protects tenants from abuse
  - 1225 prosecutions since 2013
  - Over 300 per annum
- **Liverpool:**
  - Poor quality stock
  - 41% Victorian terraces
  - PRS – 24% total stock ; Owner-occupation 47%
  - PRS doubled between 2001-2011 to 48,000
  - Landlord accreditation scheme
  - Shelter's "Rogue Landlord" campaign
  - Landlord Advisory Panel and Forum
  - Low housing demand and surplus housing
  - 40,000 applications, 38,000 licensed
  - Prosecutions and enforcement – 140
  - HMOs – big increase, can be useful



# Scotland, Wales and Northern Ireland

- All have compulsory licensing of landlords
- Scottish government gives grant for intermediate rent – growing fast

# Homelessness and Private Renting

- Private renting often only housing available
- Crisis and Shelter both rely on private renting for homeless, but:
  - Often poor quality
  - Vulnerable tenants often need extra support
  - Help with advice, access and managing needs funds
- Local authority licencing and accreditation can help

# Council providers of rental homes

- Establish wholly-owned, standalone housing companies
- 125 (1/3) of local authorities have or are establishing a housing company
- Potential to:
  - Renovate existing property;
  - Build new homes
- e.g. Croydon, Blackpool, Barking, Newham
- **Reside Barking** – Housing company
  - Affordable rents, 50-80% market
  - For people in work
- **Blackpool Housing Company**
  - Regeneration goal
  - Take over and improve PRS homes

# Overall Conclusions

- Private renting is important and useful to many groups needing housing who can't hope to buy
- Open to abuse – needs some regulation
- Social landlords have experience and track record to contribute and ethical purpose, so shouldn't maximise profit
- Can work at intermediate and sub-market rents and still produce return e.g. Wolverhampton, Peabody, JRF
- Local authorities have key enforcement role and increasingly as direct providers
- Helps many squeezed groups, particularly key workers at different level
- Deserves higher priority as it can make PRS stable, affordable, secure and decent