

Resolution Foundation response to HMT consultation, 'Investment in the UK private rented sector'

Summary

The Resolution Foundation is an independent research and policy organisation that works to improve the outcomes and wellbeing of 'low earners' – the 7.2 million UK households who earn on average £15,800 per annum, living on below median income while remaining broadly independent of state support.

We welcome Her Majesty's Treasury consultation (HMT) on addressing barriers to investment in the private rented sector (PRS). The PRS has, until recently, received little attention from the policy or research world. Increasing the supply of PRS accommodation is especially important in the existing climate where a tighter mortgage market has made access to home ownership more difficult. It will also help to reduce rents, increase choice for tenants and weed out bad landlords.

The private rented sector plays an important role in particular for low earning households, who are squeezed when it comes to housing choices: too rich to qualify for social housing and too poor to access home ownership. Our analysis suggests that there are 800,000 low earning households living in private rented accommodation, making up 27 per cent of the PRS market.

Low earners will share some of the experiences of the niche markets identified within the consultation. For example a proportion will be living in the Housing Benefit sub-market of the PRS, the tied market, migrant market and older peoples' market. However, in overlooking them as a group there is a danger that their needs and experiences are not fully understood. For example, anecdotal evidence suggests that some landlords view receipt of benefit as a guarantee for payment of rent. Low earning tenants who have to cover the full, or part, rent themselves may be deemed higher risk and as a result access may be more constrained.

We urge the Government not to overlook the needs and experiences of low earning tenants when developing policy on the sector. It is important to understand how these segments, including the low earner segment, operate to ensure that supply is focussed where it is most needed and that it makes for suitable accommodation. Over the summer the Resolution Foundation will be undertaking research to profile low earners in the private rented sector and to understand their housing experiences and needs. We will keep HMT colleagues informed of emerging findings.

In looking at measures to increase investment in the PRS we support HMT's approach of looking at barriers to investment across the scale, from individuals to institutions. As the consultation suggests, tenant satisfaction levels with smaller individual landlords are in fact marginally higher than for those managed by companies, partnerships or other organisations. However, we also think that there may be benefits to larger landlordism in terms of greater security of tenure and reduced rents due to the creation of economies of scale. We would encourage HMT to look at barriers to investment in atypical providers, such as Housing Associations. A small number of these offer rented accommodation at market rates and the holistic services they deliver as part of their 'housing plus' approach could be very attractive to low earners.

We also recommend that HMT consider affordable PRS accommodation within a wider strategy of investment in affordable accommodation of all tenures. Many low earners rely on social housing and aspire to home ownership, and yet lack of investment in the supply of affordable accommodation means access is increasingly constrained, limiting choice and widening the gap between the haves and have nots.

This response includes:

- What we currently know about the low earner segment of the PRS;
- Investment in the affordable housing market.

1. Low earners in the private rented sector

1.1 Understanding low earners needs and experiences of the private rented sector is essential to fully understand the market and ensure supply is properly targeted and well designed. In Rugg's analysis of the sector she identified the following niche markets:

- Young professionals
- Students
- Households on Housing Benefit
- High income households
- Housing tied to employment
- Older households and regulated tenancies
- Immigrants and asylum seekers

1.2 Low earners experiences of the PRS will fall within some of these niche markets. However, in overlooking them as a group there is a danger that their needs and experiences are not fully understood. We will be seeking to address this evidence over the summer by producing some qualitative research on low earners needs and experiences and quantitative profiling of who they are. The sections below provide some indication of their experiences from our work so far.

2. Low earners reliance on the private rented sector

2.1 The PRS provides accommodation for a significant number of low earning households: 800,000, making up 27 per cent of the PRS market¹. 61,000 of these households are receiving Housing Benefit, but it is likely that many more entitled to it. The Department for Work and Pensions (DWP) has estimated that around half of working people entitled to Housing Benefit do not claim it.

Housing tenure among low earner households by age of head of household: UK 2007-08

	16-29	30-54	55-64	65-79	80+	All ages
Owners	29%	66%	81%	84%	80%	72%
Owned outright	2%	14%	60%	78%	78%	44%
Owned with mortgage	27%	52%	21%	6%	3%	28%
Social rented sector tenants	29%	21%	14%	12%	14%	17%
Rented from council	17%	12%	8%	8%	7%	10%
Rented from housing association	12%	9%	5%	4%	6%	7%
Rented privately	43%	13%	5%	4%	6%	11%
Rented privately - unfurnished	24%	11%	4%	3%	5%	8%
Rented privately - furnished	19%	3%	1%	0%	1%	3%
All households	100%	100%	100%	100%	100%	100%

Note: Income groups based on FRS definition - households : see Appendix 3.

Source: DWP, Family Resources Survey 2007-08

2.2 Reflecting the private renting population in general, low earning households in the PRS are, on the whole, likely to be younger than those in other tenures. Indeed there is a greater proportion of low earning tenants aged 20-29 when compared to this demographic in other income groups. Greater proportions of low earners aged 30-39 also depend on it compared to benefit dependent groups.

2.3 While higher earners are also reliant on the PRS, they are more likely to be using it as a temporary bolt-hole, living in it for periods of 12 months or less, whereas low earning families are likely to live in it for longer periods: 25 per cent of renters in the lower middle quartile have lived at their address for 5 years or more².

¹ Resolution Foundation (2010) 'The low earners audit. March 2010 update: low earners household finances'

² Rugg, J and Rhodes, D (2008) 'The Private Rented Sector: its contributions and potential', Centre for Housing Policy, University of York

PRS tenants by age of head of household and by income group: UK 2007-08

	Benefit-dependent	Low earners	Higher earners	All households
16 to 19	3%	2%	1%	2%
20 to 24	12%	16%	10%	12%
25 to 29	13%	14%	22%	17%
30 to 34	10%	13%	17%	13%
35 to 39	11%	13%	12%	12%
40 to 44	9%	9%	12%	10%
45 to 49	7%	7%	8%	7%
50 to 54	5%	5%	5%	5%
55 to 59	4%	3%	5%	4%
60 to 64	5%	4%	4%	4%
65 to 69	4%	3%	1%	2%
70 to 74	5%	3%	1%	3%
75 to 79	6%	3%	1%	3%
80 and over	6%	6%	1%	4%
All tenants	100%	100%	100%	100%

Notes: Income groups based on gross household income equalised for household size and composition. Households in receipt of income-related benefits worth 20 per cent or more of their total income are considered benefit-dependent.

Source: DWP, Family Resources Survey 2007-08

2.4 As the consultation suggests in section 3.15, the PRS provides an important home for many single people and demographic trends suggest that this will increase. However, a significant number of low-earning families are also reliant on it for accommodation, in particular couples with children. This is likely to have increased following the recession due to repossession of family homes and more constrained access to mortgage credit. It is important that PRS accommodation is also available to meet their needs.

Proportion of different family types in PRS by income group of household: UK 2007-08

	Benefit-dependent	Low earners	Higher earners
Single	43%	31%	31%
Couple no children	11%	19%	37%
Lone parent	27%	9%	3%
Couple with children	13%	27%	15%
Extended family	3%	6%	6%
Unrelated sharers	3%	7%	9%
Total	100%	100%	100%

Source: DWP Family resources survey 2007-08

3. Low earners experiences the private rented sector

3.1 Low earners' experiences of housing can be dissatisfactory. Research for the Department for Communities and Local Government on attitudes to housing found that:

- while three quarters (74 per cent) of private renters were satisfied with renting from a private landlord, this was the lowest of the three tenure groups (owner occupiers, social renters and private renters)
- the evidence on satisfaction levels in the private rented and social sectors suggests that low earners have worse experiences. In the private rented sector those on lower incomes, single parent families and those living in London were most dissatisfied. Within the social sector those on higher incomes, likely to be low earners, were among the most dissatisfied.

3.2 A number of reasons have been identified for this:

3.3 Constrained access

Tenants in receipt of Housing Benefit can find it difficult to find landlords who are prepared to let to them due to concerns that they will default on their rent. Shelter³ found, from a survey of 110 landlords, that 60 per cent would not accept Local Housing Allowance (LHA) claimants.

That said, it is possible that access is even more constrained for those on Housing Benefit in work, or those low earning households who are not claiming Housing Benefit at all. Anecdotal evidence suggests that some landlords view receipt of benefit as a guarantee for payment of rent. Low earning tenants who have to cover the full, or part, rent themselves may be deemed higher risk. This is a key issue we will be exploring in our research over the next two months.

3.5 Affordability

Paragraph 2.6 of the HMT consultation points out that the PRS is more affordable than home ownership. However, while it may be the case that the PRS is more affordable across the board, low earning tenants still struggle to meet rent payments. For example,

- In a survey of low earning tenants, Shelter found that 24 per cent spend more than half their income on rent compared to 15 per cent of households in social housing and seven per cent in home ownership.⁴
- Research for DCLG found that high rents were most commonly mentioned as the worst thing about the sector, especially for those with incomes between £9,500 and £17,499.⁵
- Meeting private rented sector housing costs has become increasingly difficult following the recession. Shelter found that nine out of ten PRS tenants were falling behind or struggling with their household finances following the recession, an increase from 51 per cent of a similar sample in 2006.⁶

3.7 Insecurity

The fact that a landlord only has to give two months notice to end an Assured Shorthold Tenancy can mean that some low earners live in perpetual fear of homelessness. This may be more perception than reality: research for Shelter⁷ found that tenancies most commonly end due to poor property conditions. Nonetheless, the feeling of insecurity it creates is real. It can also effect employment: research for DWP found that PRS tenants identified insecurity linked to tenancy conditions and

³ Shelter (2009) 'For whose benefit? A study monitoring the implementation of Local Housing Allowance', London: Shelter

⁴ Shelter (2008) 'Breaking point: how unaffordable housing is pushing us to the limit', London: Shelter

⁵ Communities and Local Government (2009) 'Attitudes to housing: Findings from Ipsos MORI Public Affairs Monitor Omnibus Survey (England)' available at <http://www.communities.gov.uk/documents/housing/pdf/1298556.pdf>

⁶ Shelter (2008) 'Breaking point: how unaffordable housing is pushing us to the limit', London: Shelter

⁷ Rugg, J. (2008) 'Research report: A route to homelessness? A study of why private sector tenants become homeless', London: Shelter

unsympathetic attitudes of landlords to financial problems as significant barriers to employment⁸.

Insecurity has heightened further following the recession due to landlord repossession with cases of tenants being given very little notice that they have to quit the property.

3.8 Poor conditions

Conditions in the PRS are worse than in other tenures, particularly at the lower end. Almost one half of households fail to meet the Government's Decent Homes Standard.⁹ Tenants can also be reluctant to complain to their landlords in the event of 'retaliatory eviction', as reported by Citizens Advice¹⁰.

A CAB in East London reported a client whose flat was in serious disrepair. She reported this to the council who deemed the property not fit for human habitation. When the landlord found out that the client had reported the problem, he issued a Notice to Quit. However, he offered to let the tenant stay as long as she agreed to a rent increase of £110 per week to cover the costs of the repair.

3.9 Freedom and choice

Low earners have less freedom and choice in the PRS than higher income groups. They are more likely to have lived in their current home for longer,¹¹ particularly if they are on Housing Benefit, because of the hassle associated with identifying a landlord who will take on an HB tenant and the administration involved with a change in circumstances.

Shelter research found that a significant number of low earners are not able to choose where they live. Across all the tenures, 11 per cent are unable to live near work, 9 per cent could not live near their family, and 14 per cent have to live in housing that is too small for them.¹²

⁸ Fletcher, D; Gore, T; Reeve, K and RobiNson, D with Bashir, N; Goudie, R and O'Toole, S (2008) Social housing and worklessness: qualitative research findings' available at http://research.dwp.gov.uk/asd/asd5/report_abstracts/rr_abstracts/rra_521.asp

⁹ Rugg, J and Rhodes, D (2008) 'The Private Rented Sector: its contributions and potential', Centre for Housing Policy, University of York

¹⁰ Citizens Advice Bureau (2007) 'The tenant's dilemma. Warning: your home is at risk if you dare complain',

¹¹ Shelter (2009) 'Taking the strain: The private rented sector in the recession', London: Shelter

¹² Shelter (2008) 'Breaking point: how unaffordable housing is pushing us to the limit', London: Shelter

4. Investment in the affordable housing market

- 4.1 A number of policies have been suggested by stakeholders to help encourage supply of PRS accommodation including changes to Stamp Duty Land Tax and VAT on repair and the development of a Build to Let model.¹³
- 4.2 We are not in a position, as yet, to comment on these. However, we support HMT's approach in the consultation of looking at barriers to investment across the spectrum from individual investment to institutional investment. There appear to be benefits to both with some individual landlords providing valued familiarity and flexibility¹⁴ and some larger landlords offering longer term contracts and being able to provide below market rents due to economies of scale.
- 4.3 We also encourage HMT to consider investment in non-typical landlord providers, such as Housing Associations. A few Housing Associations are providing rented accommodation at market rates. It is possible that their 'Housing plus' approach would work well for many low-earning tenants. The CIH has recently produced a report looking exploring this¹⁵. We will tease out low earner preferences of different types of landlord in our research.
- 4.4 The PRS provides an important home for many low earners but many also rely on, or will rely on in the future or aspire to move into, social housing or owner-occupation. This requires a mixed economy approach to affordable housing, with investment channelled across all the tenure types. We encourage the Government to look at investment in affordable housing across all tenures to ensure that low earners have a more equal housing choice in the future.

¹³ Daly, J (2008) 'Overcoming barriers to institutional investment in residential property' available at <http://residential-investment.savills.co.uk/articles/gla-published-report.pdf>

¹⁴ Rugg, J and Rhodes, D (2008) 'The Private Rented Sector: its contributions and potential', Centre for Housing Policy, University of York

¹⁵ Davis, A (2010) 'Future directions in intermediate renting' available at <http://www.cih.org/policy/FutureDiscussionsIntermediateRenting-Apr10.pdf>