

Policy: report



A better deal

Towards more stable private renting

Shelter

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Cover photograph Kiem Tang

To protect the privacy of Shelter clients, models have been used in the photograph.

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Foreword



Private rented housing is the source of a disproportionate share of the problems Shelter's advisers deal with every day. Along with the two million people who come to our website for advice, our Services advise more than 90,000 people a year, helping them to resolve their housing problems. Private renters make up more than 40% of our advice clients, a proportion that keeps growing, and is more than double the proportion of the population who rent privately.

The sector is clearly under real pressure – and it is often the most vulnerable that suffer the worst effects of that pressure. But the problems of renting are now affecting more and more people from all walks of life, as a whole generation faces the prospect of raising a family and even growing old in rented accommodation.

At the beginning of the last century, almost everyone was a private renter. As charities, councils and then private builders built more and more homes for social rent or sale, these tenures came to dominate – until by the early 1990s less than one in ten homes were let privately, typically to students, younger people and the highly mobile.

Then came the buy-to-let investment boom, and soaring house prices that shut millions out of home ownership. The decline in renting reversed – a trend that accelerated when the credit crunch hit.

The resulting change has been dramatic. Not only do 8.5 million people in England now rent privately, nearly a third of private renting households are families with children, and almost half are aged over 35.

But the deal offered to renters has not kept pace with this change. Typical tenancies remain short term, with renters having little clue as to when their rent may rise, or by how much, or even how long they will be able to stay in their home. The result is that renters are ten times more likely to move than home owners. Uncertainty like this is obviously bad for families trying to give their children some stability as they go through school. High levels of churn are also bad for communities – and rapid turnover can be a hassle and an expense for landlords too.

Shelter's campaign to rid the private rented sector of the minority of rogue landlords who make life miserable for their tenants and their communities is beginning to show results. We are determined to follow this success by securing real improvements for the millions of ordinary people who will be renting for the foreseeable future. They deserve a better deal, one that gives them some stability in a decent home they can call their own. Our research has shown that a better deal is possible – one that works for renters, for landlords, and for the sector as a whole.

In this report we make the case for better renting, and propose a new approach that balances flexibility with stability. Making renting work must be a priority for Government, the industry and everyone who cares about the well-being of families in this country. We hope this report will be the start of a shift towards better renting.



Campbell Robb
Chief Executive, Shelter

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Executive summary

Private renting is becoming the new normal. With around 8.5 million people in England now renting privately¹, it is the only choice for a growing population of young families and working people on average incomes at a settled stage of their life. Most, like generations past, want to buy – but realistically will be stuck renting for the foreseeable future. Therefore, now is the time to ask: does renting offer long-term renters the stability they need in their home? Can renting work better for renters and landlords? Shelter sets out the case for change and puts forward practical, considered recommendations for a rental offer that improves landlords' returns and gives renters the chance of a real home.

Renting is changing, and is becoming the new normal

Around 8.5 million people in England now rent privately², and the image of them being students and young professionals no longer applies. Almost a third of renting households are families with children, and nearly half are older than 35.³

Most people want to own a home of their own, but today's younger people will take longer to achieve that aspiration than previous generations, if at all. As a result, lots of people will be renting for many years – during which time rising rents and the high costs of every move further reduce their chances of saving for a deposit.

Yet the legal framework and industry norms that shape practice in the private rented sector are still rooted in yesterday's market, when a far smaller proportion of people rented, and few expected to do so long term.

Short-term renting is bad for landlords and renters

The current set-up of private renting is not meeting many people's needs. Renters in England typically have short contracts of only 6 or 12 months, resulting in uncertainty for renters and high levels of churn in the sector. Millions worry about unpredictable rent increases, their contract ending before they are ready to move, and never having the certainty of knowing they will be able to make their rented house a home.⁴

England's renting families are disproportionately worried about the lack of stability and certainty of renting, as are the sizable proportion of renters older than 45, and the quarter of Londoners who rent from a private landlord.⁵

High turnover renting is not good for England's landlords either, most of whom are individuals and couples rather than professional businesses. Landlords want their property investment to deliver good returns, and managing it to be as straightforward and hassle-free as possible. Short-term contracts can bring costly void periods and expensive re-letting costs, which make landlords' jobs harder and undermine their returns.

Nor is the transient nature of private renting in England good for the large-scale institutional investors that are expected to fund new models of development. These investors rely on long-term, index-linked income streams and are acutely conscious of their organisations' reputation.

Meanwhile, buy-to-let mortgage lenders concerned about the risk of their landlord borrowers defaulting are not well served by the uncertainty surrounding landlords' rental income or the risk of void periods between tenancies.

Renting should offer landlords and renters a balance of stability and flexibility, as it does in other countries

Private renting should offer people the flexibility they need to take up jobs or respond to changed circumstances, and give landlords and investors the opportunity to run successful businesses.

But it should also offer the millions of renters with no other choice the chance to put down roots and make their rented house a home. Parents who rent should have the peace of mind that they won't have to move their children during the middle of the school term, especially exam periods, and know that they won't be hit with a surprise rent increase that pushes their family

finances off-kilter. The challenge for policy makers is to strike the right balance between flexibility and stability.

Most developed countries' private rented sectors achieve this balance and make it work for both renters and landlords. Renters in other countries have greater certainty in their home, but also have the flexibility to move if their circumstances change. Many of these countries have larger private rented sectors than ours, and attract a greater degree of institutional investment into rental property. International experience shows us that striking the balance is not a zero sum game – there are ways of making renting a good deal for both parties.

Renters in England want a better offer:

- two thirds of renters would like to have the option of staying in their tenancy longer term
- four in five would like to know their rent cannot be increased above a certain level
- two thirds would like to decorate their home without fear of what their landlord will say.⁶

We can make it work in England too

A more stable and balanced private renting offer can be developed from the existing legal framework. There is nothing in law to prevent contracts offering people longer-term certainty in their home. Contracts can also be written to ensure renters have the flexibility to take up job opportunities or respond to changed circumstances, and to make rent increases more predictable.

Not only is better renting legally possible and can be offered immediately, it can bring real advantages for landlords too, such as predictable rent increases and renters who are more invested in their home and more likely to take good care of the property. Shelter commissioned Jones Lang LaSalle to conduct a detailed analysis of landlords' business models, which showed that longer tenancies with inflation-linked rent increases actually enhance landlords' returns.⁷

There is a strong case for change, but the market has not delivered more stable renting

Despite renters and landlords having a shared interest in stability, and more mutually beneficial tenancies being legally possible, the market has not delivered the kind of stable and predictable renting contracts that would really allow people to make their rented house a home. Why is this?

A major barrier is the lack of precedent – landlords and renters simply do not know that longer tenancies are possible, and so do not demand them. Short-term contracts dominate, and behavioural economic research tells us that well-established defaults are hard to overcome, particularly when there is little competitive pressure to change.⁸

But other players in the rental industry also reinforce the status quo. Most buy-to-let mortgage lenders prohibit their landlord borrowers from offering tenancies longer than twelve months. And the vast majority of letting agents only advise their landlord clients to offer 6 or 12 month tenancies.⁹

Some of this advice may be misinformed, and may be driven by the structure of letting agent fees, which often incentivise short or frequently renewed contracts. Industry concerns that longer tenancies would deliver weaker returns are allayed by the findings of Jones Lang LaSalle's modelling of landlords' business plans.

But some concerns are more insidious: many landlords lack confidence that court processes will allow them to evict tenants who break the terms of their contract without incurring undue costs and delays. Landlords therefore rely on short contracts to enable them to evict tenants without giving a reason and without going to court.¹⁰

It is important that landlords feel able to reclaim their property from tenants who do not pay their rent or breach their contracts. Therefore landlords will need more confidence in eviction processes if they are to be assured that longer tenancies will not leave them stuck with non-paying tenants. To address these concerns, court processes could be made quicker and cheaper for landlords who need to evict genuinely bad tenants.

We need a more stable renting offer for our times

Shelter believes that a new rental offer should be developed using the current legal framework. It should be designed to better meet the needs of both landlords and renters and give them what they want out of renting: a balance between stability and flexibility. Our analysis suggests that a mutually beneficial rental product – called **the Stable Rental Contract** – would:

- give renters five years in their home during which they could not be evicted without a good reason
- allow landlords to increase rents annually by a maximum of CPI during the five years
- give renters the chance to decorate their home as long as they return it to neutral afterwards

- allow renters to give two months' notice to end the tenancy
- give landlords the right to end the tenancy if they sell the property.

Government and the industry must work to bring the Stable Rental Contract to market

The Stable Rental Contract can be brought to market immediately, and Shelter will play its part in driving forward the design and take up of better rental contracts. But practice in the market is deeply entrenched, and policy makers will need to design well-considered nudges, learning from behavioural economic insights, to encourage landlords to offer the Stable Rental Contract. Political and industry promotion is highly unlikely to be sufficient in itself, as shown by international experience.

The most effective nudges would involve changes to the taxes that landlords pay. Shelter proposes a combination of tax carrots and sticks that would encourage landlords to make the positive choice to offer Stable Rental Contracts, while remaining broadly fiscally neutral. This would impose higher immediate tax costs on landlords offering short tenancies, while offering positive long-term tax incentives to those offering Stable Rental Contracts.

These incentives should influence the majority of decent landlords – but there are some markets with high numbers of rogue landlords, some of whom won't pay taxes, and others who will simply not want to give their renters a stronger position to challenge their poor standards. To deal with rogue landlords in troubled local markets, and ensure these areas also get the benefits of Stable Rental Contracts, Shelter believes that local councils should be given a new power to license the use of short tenancies.

Nudges must be coupled with political and industry action to address the sticking points that hold landlords back. In particular, a lack of confidence in court processes must be addressed if landlords are to be assured that they can fairly and promptly end tenancies where the contract has been breached. And buy-to-let mortgage lenders will need to allow their landlord borrowers to offer longer tenancies – if necessary by amending the terms of the mortgage agreements.

Bringing Stable Rental Contracts to market must be backed by political leadership. England's 8.5 million renters are becoming increasingly dissatisfied with their lot, frustrated with every big rent increase or costly move that sets them back in their quest to become homeowners. Many renters need stability

now, especially families with children. Policy makers must rise to the challenge to ensure that the millions of people renting for the long term can have a decent, stable home that they can make their own.

- 1 Department for Communities and Local Government (DCLG), *English Housing Survey 2010–11*. Calculated based on the number of private renting households and average household size in the private rented sector.
- 2 *ibid.*
- 3 DCLG, *English Housing Survey 2010–11*.
- 4 YouGov 2011, base: 541 private renting GB adults. Fieldwork: 2 to 5 December 2011.
- 5 *ibid.*
- 6 *ibid.*
- 7 Neale, J, & Nevett, M, *Can landlords' business plans sustain stable, predictable tenancies?* Jones Lang LaSalle, 2012.
- 8 Leicester, A, Levell, P, & Rasul, I, *Tax and benefit policy: insights from behavioural economics*. Institute for Fiscal Studies, 2012.
- 9 Shelter, *Letting agent mystery shopping exercise (landlord scenario)*, May 2012.
- 10 Under the standard Assured Shorthold Tenancy contract, once a fixed term has passed (usually six months) the landlord can evict the tenant without grounds by issuing a Section 21 notice.

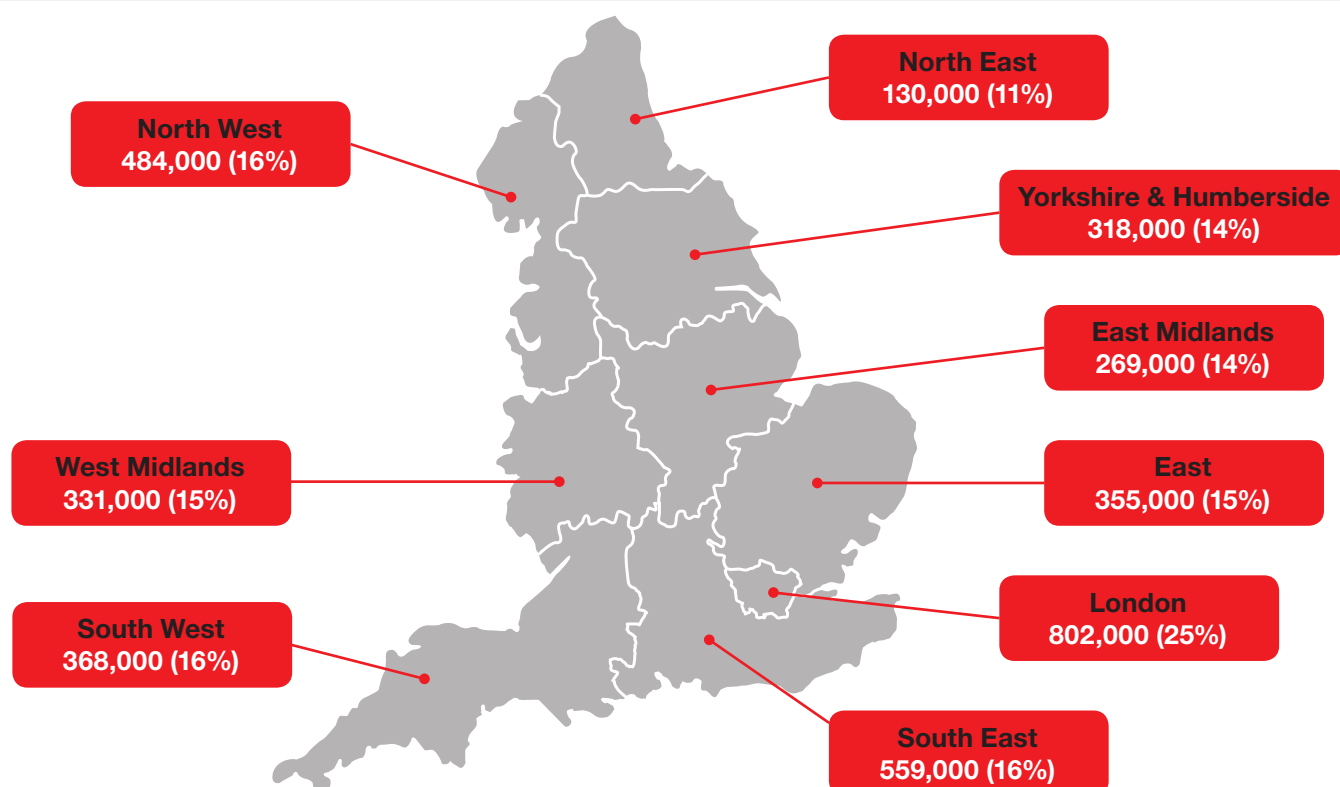
A picture of private renting England

Some 8.5 million adults in England rent from a private landlord, living in 3.6 million households. Many imagine private renters to be students and young professionals – young, mobile and at a stage in their life where instability does not matter to them. The reality is that the rapidly growing population of private renters are reflective of society as a whole, with many at stages in their life where they are looking for greater stability and certainty from their home.

What kind of households rent privately?

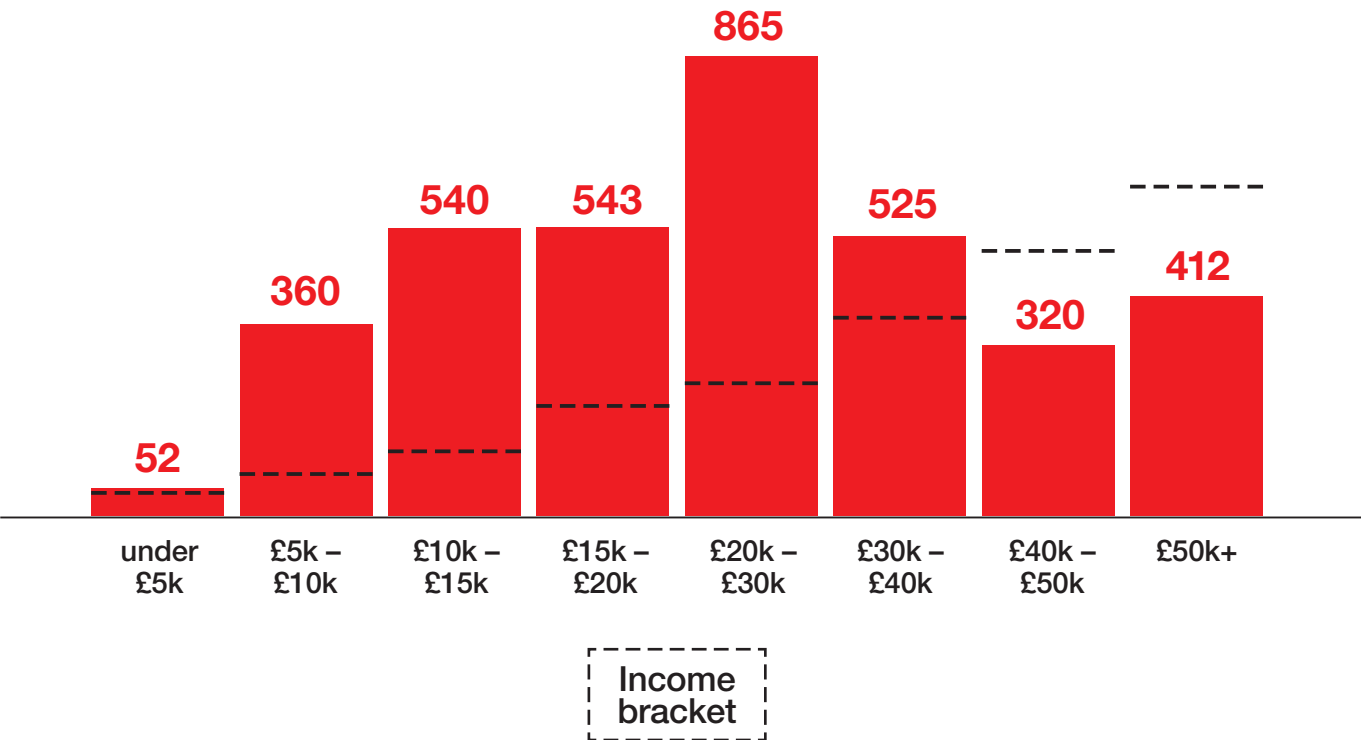


Where do private renters live?

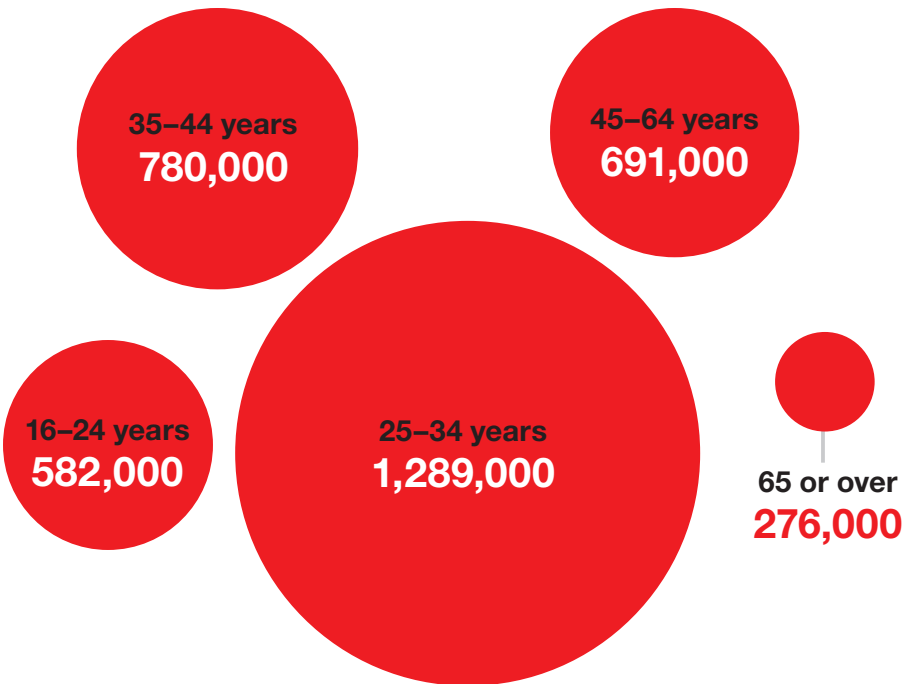


How much do private renters earn?

Private renters
(thousands)



What ages are private renters?



All figures refer to number of households.
Source: All statistics from Department for Communities and Local Government, *English Housing Survey 2010/11*.

Introduction

The private rented sector has grown substantially in the last decade. More than 8.5 million people in England now rent from a private landlord.¹¹

Private renting is not just a lifestyle choice for young professionals, benefitting from the flexibility it gives them to find work and develop their careers. Private renting is increasingly the only option available for a growing number of families and other people who cannot afford to buy a home and won't realistically get social housing in the near future.

The 'traditional' housing journey has been disrupted. The high cost of housing in many parts of the country has meant that buying a home with a mortgage has become more difficult for people on low and middle incomes. Since as early as 2003, the proportion of first-time buyers in the market has been in decline – the credit crunch has only exacerbated this trend.¹² A longstanding shortfall of new affordable homes has meant that people in low-paid work aren't able to access social housing to the same extent that previous generations have.

Owning a home or accessing social housing is still the aspiration of most private renters. Whether that aspiration is realised or not, the reality is that – and particularly for people on low and middle incomes – renting is no longer a stop gap, they will be renting from a private landlord for many years. This is not just the case for more 'settled' people renting now, but for future generations of young people.

People renting at more settled stages in their lives will be looking for the stability and control that owning a home or having a social home entails. But private renting, as it currently stands, does not offer them these core elements of 'home'. Renters rarely get a contract longer than 6 or 12 months, after which their tenancy can be ended by their landlord without giving a reason. Renters may face an unexpected rent rise that makes their home unaffordable. Renting families with children are ten times more likely than those who own their home to have moved in the last year¹³; almost half worry about their landlords ending their contract before they are ready to go.¹⁴

Turbulent economic conditions have brought greater job insecurity, more people working part time and on short-term contracts. For people in these situations, the huge financial commitment of buying a home may simply be inappropriate. Private renting is already the new norm, and will become even more commonplace, particularly if economic recovery is weak.¹⁵

Private renting does and should play a vital role in the housing market. The flexibility that renting can offer is invaluable in any economy where a mobile workforce is needed to take up jobs and support growth.

But renting is too rarely flexible in practice. Fixed-term contracts lock people in when they might need to move for work, while rarely giving people the certainty they need to put down roots in the community and give children the stability they need. Private renting in England can be the worst of all worlds.

Policy discussion on private renting has focused on conditions and management in the private rented sector, rather than addressing the more fundamental issues of the stability and flexibility people have in their homes. Now that the private rented sector houses a much wider range of people, policy-makers should be asking whether the market is delivering what people need – do private renting families have enough stability to ensure their children flourish in school? Do high rent increases and costly moves stifle people's chances of saving for a deposit so they can buy a home?

Improving the renting offer is not just about improving renters' lives:

- The economy benefits from people having real flexibility to take up jobs.
- Communities benefit when people are more invested in them and are more active in their neighbourhood.
- Landlords benefit from a better reputation and more mature business models.
- Less churn can reduce politicians' caseload and improve neighbourhood cohesion and participation.

Shelter is increasingly convinced that more can be done with our current private renting framework to better meet the needs of the millions of people looking for a rented house to call home.

Approach and methodology

This report sets out the case for a more stable and predictable private rented sector, exploring how renting could work better for both renters and landlords by

exploring their respective needs, and examining how well renting currently works for different groups of landlords and renters. The report considers the kind of improvements that would benefit both parties, and makes recommendations for improving renting.

In addition to existing sources, the report is informed by extensive new research:

- Jones Lang LaSalle were commissioned by Shelter to analyse current landlords' business models. The research examined the business models of nine landlords, reflecting a range of landlord 'types', to test a specific hypothesis: Would landlords' business models be able to sustain longer-term tenancies?

The researchers looked at the incomes, outgoings, and capital growth that landlords saw. By harmonising key factors (such as length of holding period, gearing of financing), the landlords' information was inserted into a financial model that was able to produce information about investment returns over the past 15 years, and forecast landlords' likely investment returns over the coming 15 years.

- Two mystery shopping exercises on letting agents were conducted. In one scenario, Shelter contacted ten letting agents in Hackney, Leeds and Somerset as a landlord with a property to let out to find out about the fee structures on offer, tenancy lengths and rent increase advice letting agents offered their landlord clients. The 'landlord' spoke to ten letting agents in each area. In the second scenario, Shelter spoke to 34 letting agents across Barnet, North Norfolk and County Durham as a prospective renter with a school-age child about whether they would be able to get a longer-term tenancy.
- The interim findings of the Shelter and Crisis Big Lottery funded Sustain PRS project, which presents a third of the total data gathered by the study.¹⁶ The Sustain PRS project is carrying out longitudinal qualitative research on the experiences and well-being of 171 previously homeless households who have been resettled in the private rented sector.
- A YouGov survey of private renters was commissioned by Shelter. The fieldwork took place in December 2011 and looked at their experiences of private renters and their responses to proposals for improving the sector.¹⁷
- Two focus groups with the heads of household from families with children who had been living in the private rented sector for the last five years were commissioned by Shelter. The focus groups were organised and run by GfK NOP and took place in Watford in December 2011.

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- 11 Department for Communities and Local Government (DCLG), *English Housing Survey 2010–11*. Calculated based on the number of private renting households and average household size in the private rented sector.
 - 12 *ibid.*
 - 13 *ibid.*
 - 14 YouGov 2011, base: 541 private renting GB adults. Fieldwork: 2 to 5 December 2011.
 - 15 Whitehead, C, Williams, P, Tang, C & Udagawa, C, *Housing in Transition: Understanding the dynamics of tenure Change*, Cambridge Centre for Housing and Planning Research, 2012.
 - 16 Smith, M, *Sustain: a longitudinal study of housing wellbeing in the private rented sector – Interim report 2012*, Shelter and Crisis, 2012. For a copy of the report, visit shelter.org.uk/professional_resources/policy_and_research/sustain
 - 17 All YouGov figures, unless stated otherwise, refer to adults in Great Britain. Where 'families with children' are referenced in relation to YouGov findings, this refers to adults with children under the age of 18 in the household.

Chapter 1: Private renting in England

How does renting work in England?

During the post-war period and until 1988, renting in England was heavily regulated. Rents were capped by law and renters had indefinite security of tenure. Private renting declined over this period. Meanwhile, homeownership rose steadily, boosted further in the 1980s by the introduction of Right to Buy.¹⁸

In this period, letting out property did not meet the needs of many investors looking for returns on rental income and capital growth. Private rented homes were in dwindling supply so competition among prospective renters was often tough. But people with secure tenancies had homes for life at rent levels they could afford.

The Housing Act 1988 introduced Assured Shorthold Tenancies (AST), which allowed landlords to set rents at market level, raise them annually, and offer short, fixed-term contracts. The Housing Act 1996 subsequently made ASTs the default tenancy offered to private renters.

A key rationale for the introduction of ASTs was to support a more flexible and mobile workforce. The Minister of State for the Environment at the time, William Waldegrave, argued that creating shorter tenancies would be good for 'economic growth and the new needs of the people, many of whom are now more mobile and wish to live for a time, if not permanently, in rented accommodation'.¹⁹

Under a typical AST:

- The rent that people pay is set by the landlord. This will generally be based on the landlord's or letting agent's view of current market rates.
- Renters typically have an initial period of 6 or 12 months during which they can only be evicted for failing to comply with their tenancy agreement. There is no legal minimum or maximum length of an AST.
- After six months people can be evicted, having been given two months' notice using a Section 21 notice. The landlord does not need to provide any grounds and there is no scope to challenge the eviction.
- After an initial fixed-term contract, landlords and agents may decide to arrange a new fixed-term contract, or allow the tenancy to continue as a 'statutory periodic' tenancy.

- Under a periodic AST the tenant can leave at any point with one month's notice, and the landlord can end the tenancy with two months' notice.
- The rent can be increased with no upper limit with each new fixed-term contract, and once a year on a periodic tenancy.

ASTs offered investors greater liquidity, and reassured lenders that lending for private renting was no longer a risky business. This reassurance laid the ground for the creation of buy-to-let mortgage products in 1997, making it easier for small-scale investors to buy homes specifically with the purpose of letting them out.

Landlords are still able to offer people Assured Tenancies – the more secure tenancy which is an alternative to the AST – but few do in practice. Meanwhile people whose tenancies started before the 1988 Act came into force can remain in their Rent Act protected tenancies. There are approximately 100,000 private renting households who still have protected or Assured tenancies in England²⁰ – less than 3% of all private renting households.

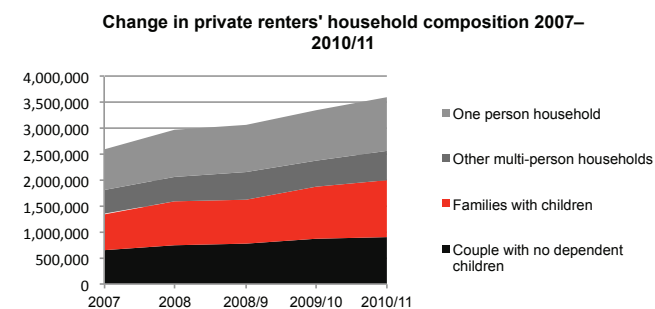
While ASTs offer fewer legal protections for renters, many may never practically feel the effects of their relative instability and few landlords would rationally want to evict people who reliably pay the rent on time and look after their home. Yet few renters will ever have the certainty of knowing they can stay in the place for the long term, what future rent levels will be, and whether it is worth them investing in the accommodation to make it a real home.

Who rents now?

Private renting is no longer a niche, short-term type of housing for young professionals and students. More than 8.5 million people in England rent from a private landlord – marginally more than those who live in social housing.²¹ The past five years have seen the number of renting families with children almost double – they now comprise almost a third of private renting households.

The changing demographics of renters challenge the assumptions on which policy for private renting is based. Now that many more people in the sector are at stages in their life when they may be looking for a more stable home life, policy makers should reflect on whether the default of short contracts predicated on high levels of mobility remains a valid basis for policy for the sector.

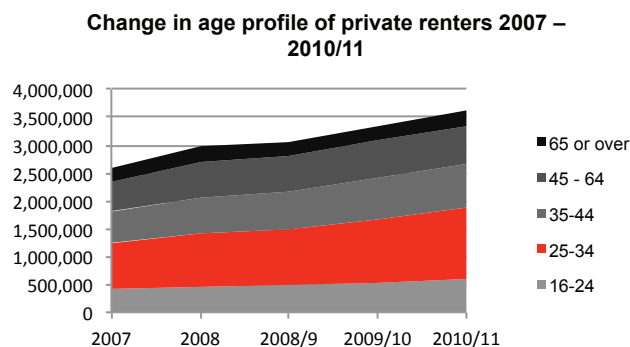
Figure 1: Household composition of renters



Source: Department for Communities and Local Government (DCLG), *English Housing Survey 2010–11, 2009–10, 2008–9*.

- The number of families with children renting privately has increased by 86% in the last five years. There are now more than one million families with children renting privately. The proportion of households that contain children in the private rented sector is similar to the proportion of all households with children.²²
- The number of couples with no children renting privately has grown at double the pace of sharing households, suggesting that more and more people at 'settled' stages in their life are renting.

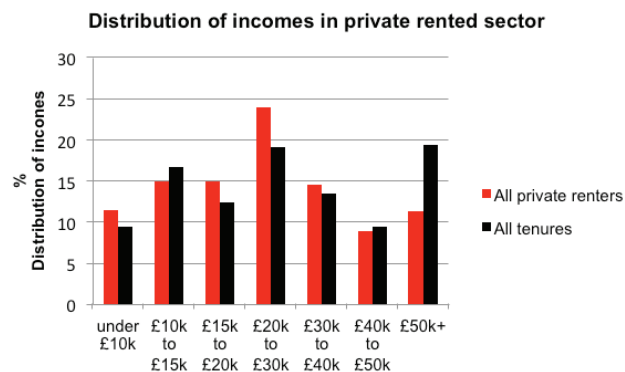
Figure 2: Age of renters



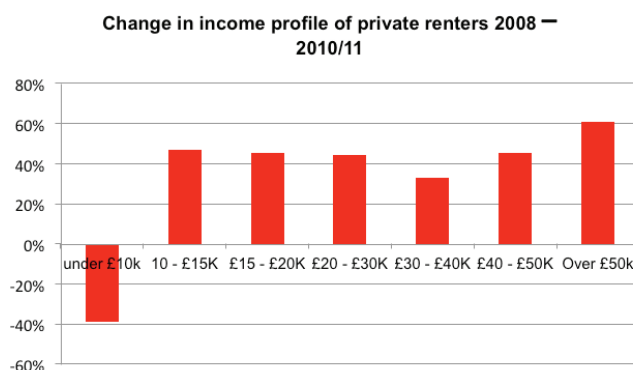
Source: DCLG, *English Housing Survey 2010–11, 2009–10, 2008–9*.

- The growth in private renting has come from people right across the age range. There has even been a 7% increase in the number of over 65s renting privately in the past five years, but the most significant growth has come from younger people who would have historically expected to buy a home.
- But it's not just the young – almost a third of private renting households are now over 45 – and many of these groups will see their options curtailed as their ability to get a mortgage reduces as they approach the default retirement age.

Figure 3: Incomes of renters



Source: DCLG, *English Housing Survey 2010–11*.



Source: DCLG, *English Housing Survey 2010–11, 2008*.

- Private renters' incomes are now broadly reflective of society as a whole. However, it is people on middle incomes who are most likely to rent from a private landlord.
- The most significant growth has been among households earning more than £50,000 a year, suggesting that more people on relatively high incomes are also finding themselves unable to buy a home.

Renters are now, on average, older, earning more, and more likely to be at 'settled' stages of their lives – living in couples or with children. They are increasingly a picture of hard working middle income Britain, and can no longer be dismissed as highly mobile young people who are not politically important²³ and do not warrant policy attention. Rather, the new population of private renters are from the middle income, aspirational voting groups key to the result of the 2010 General Election.²⁴

Market dynamics in England

As the number of people who have no other option but to rent privately has grown, the market has responded and more homes have become available to rent. Buy-to-let lending grew rapidly before the credit crunch, and has remained steady since.²⁵ Increasing numbers of homeowners have become ‘accidental landlords’ when they find that they cannot sell their home²⁶, adding to the growth of the sector.

Despite this growth, demand still outstrips supply – some 60% of letting agents report that there are more renters than available properties in their area.²⁷ This can make finding and renting a property a highly competitive and pressurised process, meaning renters in many markets lack real consumer choice, and there is little competitive pressure on the industry to innovate and differentiate its offer to consumers.

Letting agents play a key role in brokering and managing tenancies. Almost half of landlords use letting agents²⁸, either for finding tenants or for both finding tenants and managing the property. The use of agents is unsurprising considering that the majority of landlords are individuals letting out property as a sideline investment.

Rents

The affordability of private rents is a major issue across England, and rising rents are increasingly eating into household finances. Shelter’s analysis of official rent data has found that median rents are unaffordable in more than half of English local authority areas.²⁹ This means that in most parts of the country the average household would need to spend more than 35% of their take-home pay to rent a two-bedroom home.

Rents have risen twice as fast as wages over the last decade³⁰, but rent increases have been particularly high over the last few years. Landlords are primarily increasing rents to reflect market pressure – 72% of landlords who increased the rent last year cited ‘local market conditions’. Only 4% of landlords cited increased mortgage costs, but a fifth of landlords increasing rents did so because they were encouraged by their letting agent.³¹

Shelter’s mystery shopping of 30 letting agents in three parts of England found that many agents are encouraging landlords to increase the rent, and that the nature of agents’ fee structures – whether they charge an annual percentage of the rent for the duration of the tenancy or a one-off fee for finding the tenant setting up the tenancy – has a bearing on their advice to landlords:

- Of the 20 letting agents charging landlords an annual percentage of the rent, 12 pledged to increase the rent to the market level annually,

six would increase it if the market allowed, and two advised against putting the rent up.

- In contrast, only one of the ten letting agents charging a one-off fee actively encouraged landlords to increase the rent – others were more cautious in their advice on rent increases.

Tenancies

Tenancies, on the whole, are lasting longer – the average stay in a private rented home has risen from 15.5 months in 2007 to 19.7 months in 2012.³² People are coming to realise that they will be renting for the longer term due to the difficulties with buying a home or accessing social housing.

But churn is still a key factor in the market. A third of private renting households moved home in the last year; eleven times the proportion of mortgaged homeowners who moved in the same period.³³ While the infrequency of moves among homeowners could be seen as a worrying sign of housing market stagnation, the difference in churn is surprising, given the cost and hassle of moving, and the negative impact it can have on children’s education.³⁴

Short-term tenancies are the norm. Shelter’s landlord mystery shopping of letting agents found that 29 out of 30 letting agents we spoke to told landlords that they would only offer the property on 6 or 12 month Assured Shorthold Tenancies, with only one agent suggesting that tenants should be offered a tenancy longer than a year.³⁵

Meanwhile our tenant mystery shopping exercise found that renters who asked for longer tenancies were unlikely to get them:

- Only one letting agent out of 34 said that a longer-term tenancy would be possible.
- In 20 out of 34 cases, the answer to the request for a longer-term (three to five years) tenancy was a straight no.
- Two out of 34 agents suggested that an 18 to 24 month tenancy might be possible.
- A further four out of 34 suggested a longer-term tenancy might be possible after an initial period.
- Finally, seven out of 34 said it would depend on the landlord, saying that three to five years is a long time for a landlord, that many would not want to make that commitment, and that some landlords’ financing prohibits longer-term tenancies.³⁶

A lack of choice in the kinds of tenancies offered to tenants and landlords by letting agents is symptomatic of the dynamics of pressurised private rental markets. Where demand outstrips supply there is little drive for innovation to meet the needs of consumers, especially in the tenancy products offered. Landlords letting out property as a part-time, sideline investment may often lack the information and expertise to make decisions and so defer to letting agents, who have an interest in tenant churn.

Conditions

The lack of competitive pressure on landlords in high demand markets can also mean that there are few incentives to offer homes in a good state of repair, knowing that there is no shortage of prospective renters willing to take sub-standard accommodation. In London, England's highest demand market, 40% of renters worried that their landlord would not keep the accommodation in good order – higher than all regions but the North West.³⁷

This also makes it easier for rogue landlords to exploit the most vulnerable tenants. Our research has found that adults in lower social grades who experienced a problem with a private landlord in the past 10 years were twice as likely to take no action about a problem for fear of the consequences (10% of C2DE respondents compared to 5% of ABC1).³⁸ This suggests that people from lower socio-economic backgrounds have weaker consumer power in the market, and will face a choice of staying in poor quality accommodation or moving home, with the associated costs, in order to get a better quality home.

Renting in England is characterised by short-term tenancies, instability and uncertainty. While this does not necessarily mean all renters face eviction or an unaffordable rent increase after six months, supply and demand imbalances in many markets result in rapidly rising rents and a lack of consumer power. Instability and uncertainty can affect the way people feel in their homes. This is of particular concern given the length of time many people will be renting, and the burgeoning demographic of people in more settled life stages who might legitimately expect to have more stability in their home.

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Chapter 2: What do renters want?

Looking at key attributes of ‘home’ allows us to consider the extent to which private renting works for different groups of the 8.5 million people who rent privately. This chapter will look at what different groups want from home, what they worry about, and assesses whether the current private renting offer meets their needs.

Predictable rents

When rents are high, any further increase can hit already squeezed family budgets hard. More than half (54%) of the landlords responding to our survey increased their rent in 2011.³⁹ Where landlords increased the rent, it was by an average of 5.4% – over a period where wage inflation was 1.8%⁴⁰ and CPI was 4.2%.⁴¹

High rent rises are a worry for 45% of private renters. Almost a third of private renting households would be unable to sustain a rent increase of more than £50 a month.⁴²

However, some groups were particularly concerned that their landlord/letting agent will put their rent up to a level that they can’t afford:

- 48% of families with children
- 55% of Londoners
- 70% of people aged 45 to 54.⁴³

It is common for rents to increase annually in most developed countries’ rental markets. However, in a context where market rents are rising rapidly in many parts of England, a big hike to reflect the dynamics of the local market could see many priced out of their home.

Moreover, renters are often in the dark as to their landlord’s approach to increasing the rent. Many landlords will not increase the rent for several years, but may then impose sudden rises to the new market level, causing a financial shock to the tenants. While people renting from councils or housing associations know that their rent will increase annually according to inflation, private renters have little or no idea what rent rises they may face, or when.

Uncertainty about future rent rises meant that some renters in our focus groups would deliberately avoid contacting their landlord about their rent so as not to prompt them to consider raising the rent. Participants in our focus groups reported a sense that they were held hostage to high rent increases, as not agreeing would

mean incurring the costs and hassle of finding a new tenancy and moving home.

‘If you don’t sign it, what are you going to do?’⁴⁴

What do people want?

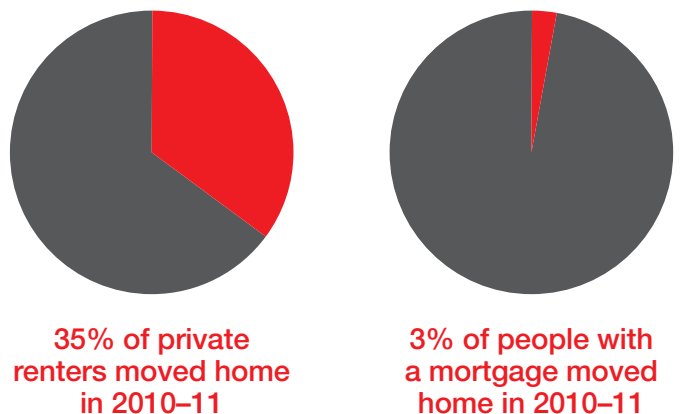
Some 79% of private renters would like to know that their landlord/letting agent would not be able to raise their rent above a certain rate while they are living in the property.⁴⁵

A higher proportion of renters support restrictions on in-tenancy rent rises than the proportion who actively worry about such a rise, suggesting that the value of greater certainty goes beyond the removal of anxiety, and implying that even better-off renters would benefit from an increased ability to plan their household finances.

Stability

People who rent privately, including those with children, are currently eleven times more likely to have moved house in the last year than people who pay a mortgage on their home.⁴⁶ Even when the housing market was more fluid, private renters were four times as likely to move home than those with a mortgage.⁴⁷

Figure 4: Proportion of households moving home in 2010–11



Some 30% of private renters worry about their landlord/letting agent ending the contract before they are ready to move out.⁴⁸

While some of this mobility may be ‘good’ – such as people moving for employment or to reflect personal choices or changing circumstances – it is important to recognise the complicated dynamics of choice, control and decision making in the rented sector. Many renters have little or no other choice because they cannot afford home ownership or are unable to access social housing.⁴⁹ The dynamics of their movements within the sector, and the choices they might make, are not well-known or understood.

Either way, it is hard to imagine that so many people, including those with children, would have moved home in the last year completely of their own volition, especially considering the high costs of moving:

- Including fees, administration costs and deposits, setting up a new tenancy costs around £2,000 in London, and more than £1,000 in Manchester and Gloucester.⁵⁰
- *Daily Mail* investigations found that letting agents’ administration fees alone in London can amount to as much as £500 with some agents.⁵¹

Such high up-front costs can have a major impact on squeezed families’ cash-flow and can push them into a debt trap. Almost two thirds (63%) of private renting families with children worry about the high cost of letting agent and landlord fees every time they move.⁵²

Moving home frequently can have significant and long-lasting effects on children:

- Children who move more frequently, particularly mid-year, have lower levels of academic achievement.⁵³
- The Children’s Society found that children who moved once in the past year were almost 50% more likely to have lower well-being than those who hadn’t moved home.⁵⁴
- Children who moved home more than once in the past year were more than twice as likely to have low well-being.⁵⁵
- Government research found that frequent movers are significantly less likely to obtain 5 A* to C GCSEs, or to be registered with a GP.⁵⁶

Participants in a longitudinal study of vulnerable private renting households spoke about the practical upheaval of moving home:

‘Just being stable, it’s important that I’m not uprooting myself or the children again. Everything changes when you uproot, you have to change schools, you have to change phone numbers, you have to change address, you have to contact the utility companies. It is horrid and I don’t need to go through that again [...]’.⁵⁷

A participant in our focus group said: ⁵⁸

‘Now if I had to move, and if I couldn’t stay within the area, the disruption would be big. Because if I couldn’t move within the same area it would mean moving schools and he’s [six year old son] forged friendships and he knows his surroundings’.

While private renting can offer people the flexibility to move, it doesn’t typically offer people the choice to lay down roots with certainty.

‘You’ve got no security, have you? You never know, six months down the line, whether you’ll be moving or not’.

‘That’s what’s always on the back of my mind, they’ll just knock on the door and say that’s it’.

What do people want?

Two thirds (66%) of private renters would like to have the option to stay in their tenancy longer term if they wanted to. The number of people who would welcome longer-term stability is greater than the number of people who actively worry about their contract ending, suggesting that there is demand for more stable renting among a wider group of renters than just those who would most clearly benefit from it, such as families with children.

A place to call home

A startling 44% of the families with children responding to our survey do not think of their private rented house as ‘home’.⁵⁹ Home is a deeply personal and intangible concept, evoking feelings of belonging, safety and warmth.

Renting families’ lack of a sense of home is not surprising considering that many will have fixed-term contracts as short as six months. Without longer-term certainty, people who rent privately may be less motivated to invest time, effort and money in making their house a home, compared to those who own their home or rent from a social landlord.

This may have been less of a concern when private renting was mainly the domain of young professionals

and students, many of whom may not have been at a stage in their lives when they were keen to put down roots and make their house a home.

But this has changed: with over half of private renters older than 35, and more than one million families renting, the 'traditional' move to home ownership or social housing is clearly taking much longer than in the past, and many families will be renting for the foreseeable future. More and more people will look for private rented housing to provide all the features of 'home' that those in more stable tenures would expect.

The families in our focus groups had mixed experiences of trying to make their rented house a home. For some, the short-term nature of contracts, uncertainty about whether landlords would renew them, and the likelihood of increasing rents prevented them from investing time and money in making improvements.

'I'd look at it completely differently if I actually had a mortgage on a place, it'd be more of a home than rented...I think if I had a mortgage I'd feel like it was mine'.

Participants wanted to be seen by their landlords as 'good' tenants, so that they would not be asked to leave the property. This made them be very careful not to damage or break anything in the property, and made them worry when accidents did happen. Some 40% of families with children worry about landlords or letting agents objecting to them making minor alterations to the property, such as decorating or putting up pictures.⁶⁰

'It's like you're walking on eggshells. If you break a drawer in your kitchen you think...how much is that going to cost me?'

Beyond the practical cost-benefits of investing in making their rented accommodation homely, many contracts stipulate that renters cannot decorate or make small practical changes. This contrasts with social renting, where people with longer tenancies often have a right to make improvements to their home. Participants in our focus groups worried that landlords could claim the cost of undoing alterations or repairing accidental damage from their deposit.

'I managed to squeeze a dog in, but the landlord wanted £75 a month extra to have a dog!'

'You can't put nothing on the walls, he said, but we have, because it looks nice'.

What do people want?

More than two thirds (69%) of private renters would like to be able to decorate their homes without worrying about what their landlord would do.

A broad cross-section of private renters would like the opportunity to make their rented house a real home, indicating that the current offer is falling short of providing the freedom and control people want in their home.

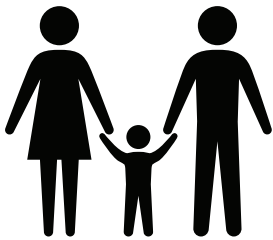
There is significant evidence that private renting is not working for a broad range of people. The uncertainty of rent increases, contracts being ended before people are ready to move, and a lack of sense of home negatively affect a significant number of people across the market. However, some groups are disproportionately concerned about how private renting meets their needs.

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 - 45 YouGov 2011, base: 541 private renting GB adults. Fieldwork: 2 to 5 December 2011.
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- 58 Shelter commissioned GfK NOP to hold two focus groups on 13 December 2011 with heads of household from families with children in the Watford area with incomes between £17,000 and £30,000, who had been living in the private rented sector for the last five years. All subsequent quotes and references to focus group participants refer to these focus groups.
- 59 YouGov 2011, base: 541 private renting GB adults. Fieldwork: 2 to 5 December 2011.
- 60 YouGov 2011, ase: 2092 GB adults. Fieldwork: 15 to 17 June 2011.

The most concerned groups of private renters



1,104,000

Families with
children

48%

Worried about unaffordable
rent increases

35%

Worry about their contract
being ended before they are
ready to move

44%

Don't think of their private
rented house as a home



967,000

Households are
over 45

60%

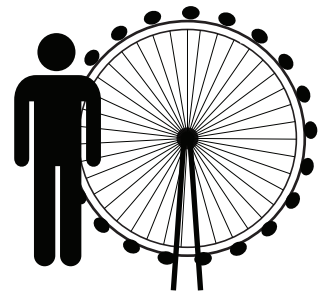
Worry about unaffordable
rent increases

42%

Worry about their contract
being ended before they are
ready to move

32%

Don't think of their private
rented house as a home



802,000

London households
rent privately

55%

Worried about unaffordable
rent increases

33%

Worry about their contract
being ended before they are
ready to move

43%

Don't think of their private
rented house as a home

Sources: Household numbers from: Department for Communities and Local Government, *English Housing Survey 2010–11*. Polling from: YouGov 2011, base: 541 private renting GB adults. Fieldwork: 2 to 5 December 2011.

While these groups are most concerned about the state of private renting, our polling shows that the support for a more stable renting offer is wider – a significant majority of England's 8.5 million private renters would welcome a more stable and predictable renting offer that would allow them to make their rented house a real home.

Chapter 3: The private renting industry

Improving private renting must start from the perspective of those who live in it – what they need and want from their home. Our evidence shows that there is demand for more stability and certainty from renting that will help people have a home they can really make their own.

But any workable proposals for improvements must also consider the interests of those who provide rented homes, as well as the wider industry supporting private renting.

Who is involved in the private renting industry?

Most landlords in England are individuals and couples with a small number of properties. These landlords tend to operate on a part-time basis and do not see themselves as ‘professional’. Less than a quarter of landlords own the majority of England’s rented properties, but are more likely to be ‘professionals’ and working as landlords full time.

Figure 6: A picture of landlords in England

- More than three quarters (78%) of landlords let out only one property – **40% of the stock**.



- Fewer than a quarter (22%) of landlords let out the majority of rented properties – **60% of the stock**.⁶¹



Many landlords – and particularly those letting out property as a sideline investment – are unlikely to understand the complex legal framework and the different options open to them. As a result, almost half of all landlords use letting agents to find and/or manage their properties, and defer to them for advice. Letting agents therefore play a key role in supporting landlords as they let out their properties.

Mortgage lenders play a central role in financing landlords to provide private rented accommodation. There are 1.4 million buy-to-let mortgages currently being repaid.⁶² Many ‘accidental’ landlords – those who are letting out a home that they did not acquire for that specific purpose – will have residential mortgages. Many longer-standing landlords, and those who have inherited a property, may have no outstanding financing at all.

Large-scale institutional investors could play a growing role in the private rented sector. Sir Adrian Montague conducted a review of the barriers to investment in private rented housing, and made recommendations on making private renting attractive to large financial institutions looking for long-term investment opportunities.

What are landlords’ needs?

For the vast majority of landlords, rental property is an investment. More than three quarters (76%) of landlords regard their property as a key part of their pension plan.⁶³

Most landlords plan to let out accommodation for the long term. Three quarters of landlords expect to be letting out for at least the next five years, and more than half for at least the next ten years.⁶⁴ Landlords gained a reputation for short-term speculation on rapid house price growth in the 2000s. This picture no longer seems accurate – tighter mortgage lending criteria and depressed house prices in many parts of the country mean landlords’ business plans are necessarily more reliant on capital growth in the longer term.

Broadly equal numbers consider the investment to be driven by rental income, capital appreciation, or a mixture of both. However, analysis of landlords' business plans by global property consultants Jones Lang LaSalle found that, in practice, rental income was an insignificant part of most landlords' investment returns over the past fifteen years – their return was predominantly driven by capital growth.⁶⁵

But projections for capital growth over the coming fifteen years are weaker than the past fifteen years. According to Jones Lang LaSalle's modelling, this will mean that rental income will make up a more significant part of landlords' return on their investment. Landlords will increasingly need to find sustainable ways of optimising their rental income to ensure a strong overall return on investment in the light of weaker capital growth. Where rental income is important, Jones Lang LaSalle highlight that any professional investor would rationally seek to ensure their income stream is as secure as possible.⁶⁶

Considering that the majority of landlords are individuals and couples, letting out just one property and usually managing it on a part-time basis, it is easy to see that landlords would want their experience to be as simple and hassle-free as possible. The most serious concerns identified by landlords are finding good tenants (16%), the size of agents' fees (12%) and damage by tenants⁶⁷, suggesting that reliable tenants who look after their home, and long-lasting tenancies that avoid incurring letting agent fees, help make renting a low-hassle investment for landlords.

The longer landlords hold onto properties, the more they stand to gain from stable tenancies, let to people who are emotionally and practically invested in their home.

Are landlords' needs being met?

Private renting, as it stands, broadly supports landlords' objectives. Landlords continue to invest in property for letting, and only a small percentage plan to leave the sector in the short term.⁶⁸ The Jones Lang LaSalle analysis finds that property remains an attractive investment compared to other asset classes.

Despite a large part of the market being committed to staying in the sector for the long term, and increasingly needing to rely on steady rental income, the majority of practice in the sector is based around short-term contracts:

- In Shelter's mystery shopping of letting agents, only one agent out of 30 advised landlords to let tenancies of more than a year. Eleven of those letting agents explicitly advised landlords to only offer six month contracts.

- The landlords interviewed by Jones Lang LaSalle typically offered short-term contracts but most did not increase the rents to people established in their home, despite their letting agents often encouraging them to do so. Most landlords saw the sense in keeping good tenants, but did not formally offer them longer-term stability.

While many landlords may tend to informally keep reliable tenancies running, the practice of offering short-term contracts and renewing them every year can mean that renters are less emotionally invested in their home and may be more likely to move of their own choice. This can bring additional costs, hassle and uncertainty for landlords, while the practice of renewing fixed-term tenancies also has its costs.

Meanwhile, many landlords are not effective at optimising their rental income. Jones Lang LaSalle's interviews suggest that landlords' approaches to increasing rents are typically sporadic and unplanned. As more and more people come to terms with the reality that they will be renting for the long term, tenancies are lasting longer. Where tenancies last longer, landlords do not increase the rent in manageable steps and market rents are increasing, the gap between actual and market rents widens. As landlords' business models become increasingly reliant on rental income, they will need to find ways of keeping rents stable, affordable and competitive.

While renting broadly delivers landlords a solid return on their investment, the increasing importance of rental income in relation to capital growth, as well as the hassle and cost of changing tenancies, means that landlords should rationally seek to find ways of making their income stream as secure as possible over the longer term.

How does renting work for other industry players?

Letting agents

Letting agents are central to brokering and, in some cases, managing tenancies. Roughly half of landlords use letting agents to set up tenancies, and a quarter of landlords use agents to manage their tenancies too.⁶⁹ Agents work on behalf of landlords, and they charge a range of fees for their service.

Shelter's mystery shopping of letting agents found that 20 out of 30 agents we spoke to charged landlords an annual fee. The remaining ten agents charged landlords a one-off fee for setting up the tenancy. Where letting agents charge an annual fee to the landlord, regardless of how long the tenancy lasts, it is clear that they need to justify their ongoing fee to landlords by 'adding value'.

- 14 of the 20 letting agents explicitly encouraged landlords to let on successive fixed-term tenancies
- 11 out of the 14 encouraging fixed-term tenancies charged tenants for setting up the new fixed term
- 12 out of the 20 charging an annual fee would definitely encourage landlords to increase rents annually; all but one of the remaining eight would raise the rent if the market allowed.⁷⁰

In contrast, the ten letting agents charging a one-off fee for setting up a tenancy were less prescriptive as to how landlords should manage tenancies after the initial set-up.

- Only one of the ten actively encouraged landlords to let successive fixed-term tenancies; the others said it was up to the landlords whether they offered another fixed term or allowed the tenancy to 'roll on' as a periodic tenancy.
- Only one of the ten actively encouraged landlords to increase the rent annually.⁷¹

Letting agents also charge tenants for the setting up a tenancy – and some charge tenants for renewing a tenancy:

- Mystery shopping by the Resolution Foundation found administration fees averaged £248 in London, £129 in Manchester and £185 in Gloucester.⁷²
- Mystery shopping by the *Daily Mail* found that letting agents' administration fees were as high as £420 in London.⁷³
- The Shelter mystery shopping exercise found that 20 out of 30 letting agents would charge tenants for renewing a fixed-term tenancy. Administration fees ranged from £35 to £150 (excluding VAT).⁷⁴

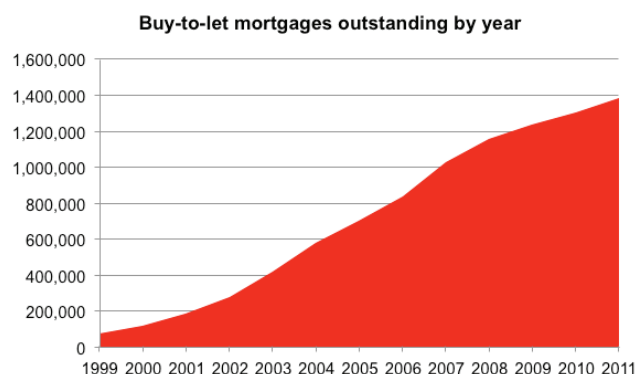
Letting agents clearly have a financial incentive for frequent 'contact' with tenants and landlords. A high turnover of tenancies can mean more fees from landlords and tenants setting up tenancies, while the practice of renewing fixed-term tenancies allows for further fees to be charged. Where letting agents charge an annual fee to landlords, agents may feel they need to justify their ongoing fee to landlords by renewing fixed-term tenancies and brokering rent increases.

This is not to say that many letting agents do not earn their fees, although it is questionable whether some of the higher administration fees are a fair reflection of the costs involved. Nevertheless, the stable renting that may well benefit landlords and tenants would likely involve less frequent opportunities for letting agents to charge for administration costs, and would mean some letting agents might need to reconsider their business model.

Buy-to-let mortgage lenders

As many first-time buyers remain unable to satisfy deposit and credit-worthiness criteria for residential mortgages, the buy-to-let mortgage market has become an increasingly significant part of lenders' mortgage books. The sustained demand for buy-to-let mortgages is therefore good news for lenders' overall balance sheets.

Figure 7: Number of buy-to-let mortgages



Source: Council of Mortgage Lenders, *Buy to let market summary*, Quarter 2, 2012.

Lenders are currently risk averse, having paid the price of loose lending to borrowers who couldn't afford to repay their loans. Borrowers defaulting on their mortgage is a key concern for lenders, as they can incur costs and risks in repossessing the property. Any factors which lenders perceive as increasing the risk of default will likely influence their lending policies and practice.

Most buy-to-let lenders stipulate that landlords cannot let their properties for periods longer than 12 months or to households in receipt of local housing allowance, as they tend to perceive the risk of a landlord defaulting is higher if tenants are more likely to get into rent arrears or are harder to evict. They worry that if the property is repossessed and they need to liquidate the asset, the home will be worth less with an ongoing tenancy.

There is little conclusive evidence on the factors that contribute to landlords defaulting on their mortgage. Most buy-to-let mortgages are now granted on the criteria that the projected rental income must cover at least 125% of the mortgage payments, meaning that landlords' business plans should not be too exposed to rent arrears. Anecdotal evidence suggests that landlord mortgage arrears and defaults were also driven by over-estimations of rental income in relation to mortgage payments in the run up to the credit crunch, particularly where landlords invested in large new build developments and rental incomes did not live up to expectations.

Figure 8: Buy-to-let lending practices 2001–2011

Year	Total number of mortgages issued	Maximum Loan to Value ratio %	Minimum % rental income cover	% of mortgages 3+ months in arrears
2001	72,200	80	130	0.55
2002	130,000	80	130	0.40
2003	187,600	80	130	0.33
2004	226,000	80	130	0.54
2005	223,100	85	125	0.65
2006	319,200	85	125	0.58
2007	346,000	85	120	0.73
2008	222,700	80	120	2.31
2009	88,500	75	125	2.01
2010	92,500	75	125	1.67
2011	122,000	75	123	1.37

Source: Council of Mortgage Lenders, *Buy to let market summary, Quarter 2, 2012*.

A look at buy-to-let lending over the last decade shows that the highest volumes of lending, the lowest deposits and the lowest rental income cover rates required preceded a large spike in buy-to-let mortgage arrears. While tenant arrears will have spiked with rising unemployment as the financial crisis hit, it is likely that this more leveraged landlord borrowing also contributed to buy-to-let mortgage arrears.

Short tenancies may in some ways go against lenders' material interests in running a low-risk business. If renters are not emotionally invested in their home, they may take the point at which a short tenancy is up for renewal as an opportunity to move, leaving landlords exposed to the risk and cost of a void period and potential re-letting costs. A renter who is more invested in their home may do more to avoid rent arrears that might jeopardise their tenancy and put their landlords' mortgage at risk.

Institutional investors

Large-scale institutional investors have long been said to be interested in investing in new homes built for the specific purpose of private letting. A survey by the Investment Property Forum found that more than 50% of pension funds anticipate investing in the private rented sector in the next three years.⁷⁵

Responding to the government commissioned Montague Review of the barriers to investment in private rented housing, a consortium of investors outlined investors' needs from the 'build to let' model:

- Investors would need to let out the homes for a minimum of ten years to make it economically viable, as build to let would be a low-yield investment.
- Investors want well secured, index-linked, income streams.
- The cost and practicalities of management is a concern to investors.
- Investors need a stable policy environment to give them confidence that policy-makers prioritise the reputation of the sector.⁷⁶

The short-term, unstable nature of private renting in England is clearly at odds with these requirements. The risk of voids could undermine income streams, while Jones Lang LaSalle's interviews with landlords suggest that new tenancies are more management intensive⁷⁷ – for institutions counting every cost, a higher turnover of tenancies could mean higher management costs. The comparatively high transience of the sector, particularly if this manifested in transient large-scale developments, could undermine the reputation of investors – this is a factor for the Qatari Royal Family's institutional fund deciding to offer longer tenancies in their Athlete's Village development.⁷⁸

Landlords, institutional investors and lenders generally have a sound business interest in tenancies that last for the longer term, as they benefit from secure income streams that account for inflation, and avoid the costs and management demands of high turnover.

Yet practice does not reflect the rational self-interest of landlords, investors and lenders – the norm of short contracts does not do enough to encourage reliable renters to invest in their home and stay for the long term.

In contrast, some letting agents' fee structures can mean that they do have an interest in short or frequently renewed contracts, as it is in management intensive periods that they are able to charge fees to landlords and renters alike.

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- 61 Department for Communities and Local Government (DCLG), *Private Landlords Survey 2010*.
- 62 Council of Mortgage Lenders, *Buy-to-let lending Quarter 2*, 2012.
- 63 DCLG, *Private Landlords Survey 2010*.
- 64 *ibid*.
- 65 Neale, J, & Nevett, M, *Can landlords' business plans sustain stable, predictable tenancies?* Jones Lang LaSalle, 2012.
- 66 *ibid*.
- 67 DCLG, *Private Landlords Survey 2010*.
- 68 *ibid*.
- 69 *ibid*.
- 70 Shelter, *Letting agent mystery shopping exercise (landlord scenario)*, May 2012.
- 71 *ibid*.
- 72 Resolution Foundation, *Renting in the Dark*, 2011.
- 73 *Daily Mail*, Are London's rental stings coming to a town near you? Tenants hit with sky-high fees including £30 for moving furniture, 24 May 2012.
- 74 Shelter, *Letting agent mystery shopping exercise (landlord scenario)*, May 2012.
- 75 Investment Property Forum, *Survey of institutional investors*, 2012.
- 76 British Property Federation, *Response to the Montague Review*, 2012.
- 77 Neale, J, & Nevett, M, *Can landlords' business plans sustain stable, predictable tenancies?* Jones Lang LaSalle, 2012
- 78 *Financial Times*, Report targets affordable homes rule, 16.08.12'

Chapter 4: How can renting be improved?

The case for change

There is a strong case to bring about more stable renting for England's 8.5 million private renters. Renters are no longer a small, marginal group of young people who tend not to vote.⁷⁹ Renting is the new norm, encompassing hard-working middle income families, older households, and aspirant young people who are becoming increasingly frustrated that they will struggle to own a home of their own.

The need for more stable renting is particularly great for people expecting to rent for the medium to long term, and for those at stages in their life when they want to put down roots. For a substantial number of these renters, the instability and uncertainty of renting is a worry, and has real impacts on the life choices they make. As buying a home or accessing social housing remains out of immediate reach for more and more people, concerns around the instability of renting will only grow.⁸⁰

But support for stable renting is much more widespread than those who actively worry – a substantial majority of private renters, across all age ranges, income brackets and household types, would like to have more control and certainty when they rent from a private landlord.⁸¹

Meanwhile, landlords are not necessarily served well by current practice in the sector. Short-term contracts, comparatively high levels of churn, the risk of void periods and letting agents' finder fees can turn a passive investment in property into a major hassle. For institutional landlords, business models based on secure income streams may be undermined by a short-term market, while the reputation of the sector for transience and poor quality may discourage investment from reputation-conscious institutions.⁸²

For lenders too, stable tenancies could be beneficial, with reliable long-term renters invested in their home more likely to keep up rent payments, thereby reducing costly voids that hit landlords' returns and increase the risk of mortgage arrears.⁸³

Finally, improving private renting is becoming increasingly politically important. The population of renters reflects the picture of the typical swing voter – the electorally decisive middle-income households who work hard, take little out of the system and too often gain little from the market. This group – disproportionately C2DE households – were the most significant swing vote in the 2010 general election.⁸⁴ As people rent for longer, the chances of renters being registered to vote increases – if little in the market changes by the next general election, middle income renters' dissatisfaction could manifest in their voting behaviour.

A more stable and predictable private rented sector should be in the interests of both renters and landlords, as well as the institutions and lenders that finance the sector, and policy makers concerned with the living standards of middle income households.

How can renting be improved?

Too often discussions about improving stability for renters are rooted in the experience and memory of England's pre-1989 rental regime. The comprehensive rent controls and indefinite tenancies of the period are now seen by many in the industry as creating a dysfunctional sector that did not deliver for investors.

Looking at different countries' renting systems shows us that there are a range of ways of striking a balanced deal between landlords and renters – the choice is certainly not a binary one between heavy-handed regulation on one hand and instability and churn on the other.

Figure 9: How renting works in different countries

Rental market	Contract length	Rent levels	Renter flexibility	Landlord flexibility
England (now)	No minimum.	Initial rents set by the market. There are no limits on annual rent increases.	Fixed-term contracts: cannot give notice unless there is a 'break clause' in the agreement. Outside-fixed contracts: tenants can give one month's notice.	Fixed-term contracts: landlord cannot give notice unless there is a 'break clause' in the agreement. Outside-fixed contracts: landlords can give two months' notice without a specific reason.
France	Contracts last three years.	Initial rents set by the market. Rents can be increased by a national rent index.	Tenants can give three months' notice to leave at any time.	Landlords can evict tenants for non-payment of rent.
Ireland	Contracts last 3½ years after a six month introductory period.	Initial rents are set by the market. Landlords can increase them annually by no more than the market average.	Tenants must give longer notice (up to two months) the longer they stay.	Landlords can evict tenants for non-payment of rent, overcrowding or if the landlord intends to re-occupy or sell the home, refurbish it or change its business use.
Spain	Contracts last five years.	Initial rents are set by the market and can be increased in line with the Consumer Price Index.	Tenants can give one month's notice to leave at annual intervals.	Landlords can evict tenants for non-payment of rent, antisocial behaviour or 'immoral' use of the premises.

Rental market	Contract length	Rent levels	Renter flexibility	Landlord flexibility
<p>New York</p> <p>There are three different frameworks for renting:</p> <ul style="list-style-type: none"> • Rent control • Rent stabilisation • Loosely regulated market renting. 	<p>Rent control: tenants have a right to renew their contracts annually.</p> <p>Rent stabilised: tenants have a right to renew their contracts annually.</p> <p>Market rent: no minimum lease length; convention is one year contracts.</p>	<p>Rent control: 7.5% increases per year until a 'maximum base rate' is reached. Landlords have to provide a certain standard of service otherwise the tenant can demand a lower rent.</p> <p>Rent stabilisation: rents are under a certain level of protection from sharp rent increases.</p> <p>Market rent: rents that can be set at the market level and there are no limits to rent increases when leases are renewed annually.</p>	<p>Tenants do not have a right to give notice on annual or fixed contracts.</p>	<p>Landlords can end tenancies for non-payment of rent.</p>
Germany	Contracts last indefinitely.	Initial rents are set by the market, but there are penalties for landlords who set rents 20% above the market average.	Tenants can give three months' notice to leave at any time.	Landlords can evict tenants for non-payment of rent, if the landlord wishes to use the property, or if the rent is no longer 'economically justifiable'.
England (1965 – 1988)	Contracts were indefinite.	Tenants could apply for their rent to be set as a 'registered fair rent' by rent officers. Landlords could apply for rent increases every two years, also through the rent officer. Fair rents were based on market rents less a deduction for scarcity value.	Tenants could give one month's notice to terminate a periodic tenancy.	Landlords could evict a tenant on rent arrears or other statutory grounds for possession, and often only subject to the court's discretion.

Source: Scanlon, K, *Towards a sustainable private rented sector: The lessons from other countries*, LSE London, 2011.
Both England examples also apply to Wales.

In most developed countries, renters have longer contracts during which they can stay in their home without worrying about being evicted without a good reason. In most of the examples above, new rents are set at the market rate, and rents can be raised but not above a specified index for the length of the contract.

The length of tenancies and predictability of rent levels are closely related. Any restrictions on rent increases are meaningless if the tenancy can be ended by the landlord without a reason. Equally, longer tenancies would not offer real stability if the landlord remains free to effectively end a tenancy by increasing the rent to an unaffordable level overnight. It is also clear that stability does not have to cost people their flexibility: in all the international examples above, renters are able to end their contract if they give reasonable notice.

All of these countries have similar landlord demographics to England, with most investors being individuals and couples with small property portfolios. That these models remain attractive to investors suggests that a good balance can be achieved. Most of these systems have sensible get-out clauses and incentives for landlords offering longer tenancies, including:

- Landlords can end the tenancies of people who have built up rent arrears or damage the property.
- Landlords can break the contract if they want to re-use the accommodation for personal or family use, or to sell it.
- Indexing rents to inflation ensures that rents stay more closely aligned to market levels so that their value to investors does not drop in relative terms.
- In many countries, landlords offering longer tenancies receive beneficial tax treatment as a 'reward' for offering the stability that people need.

The English private renting system is almost unique among developed countries in offering predominantly short-term contracts with no restrictions on rent increases. International evidence shows us that longer-term, more stable and predictable renting can work well for landlords as well as improving the lives of those who rent, and that policy-makers have a range of different options for making renting more stable.

Developing a workable stable renting offer for England

Despite a growing need and demand for more stable renting in England, the market has not naturally innovated to develop new product offers around stable renting.

There are few limits under the current legal framework, and it is perfectly possible to emulate the kind of tenancies offered in other developed countries in an Assured Shorthold Tenancy contract. So why is there not a more developed market offer of longer-term tenancies at a time when significant numbers of renters need and want more stable renting?

Our analysis of the interests and behaviours of different actors in the private rented market has identified a number of barriers to landlords and renters offering or asking for longer-term tenancies. Many of the barriers are cultural and behavioural, whereas others are more structural. Overcoming cultural and behavioural barriers will need both political and industry leadership, while the more structural barriers may require more far-reaching changes.

Overcoming consumer barriers

It is often asserted that the market does not offer longer tenancies because renters do not want them. Our research has shown that there is a real, if suppressed, demand for better renting, but also that there are reasons why renters do not actively demand more stable tenancies at present:

- Most renters simply do not know that longer tenancies are possible in order to demand them.
- Renters are not empowered as consumers in the market and struggle to imagine having more consumer power.
- Renters perceive that longer-term tenancies mean being 'locked in' to a contract for its duration – a daunting prospect, especially when rents are high and rising, and employment is insecure.
- Some renters are uneasy about rent increases – a key feature of longer tenancies in other rental systems.

Our mystery shopping found that 29 out of 30 letting agents advised landlords to only offer 6 or 12 month fixed-term contracts, meaning that there is no real offer of longer contracts in the market.⁸⁵ With no sense that longer-term tenancies could exist, it is understandable that renters may not actively demand them.

This point was affirmed by participants in Shelter-commissioned focus groups who spoke about wanting to have greater control of their home, but found it difficult to conceive of a situation that was much different to their current one. The lack of consumer power that renters have in the market, particularly in areas where demand outstrips supply, means renters perceive they have a poor negotiating position in general, but especially where there is little precedent of longer tenancies in the market.

Participants in our focus groups emphasised the value of being able leave the tenancy if they needed or wanted to – especially compared to when you own a home, when moving house can take months. The value placed on flexibility was often cited in response to the risk of negative events – poor conditions or difficult neighbours. But flexibility could also be for positive reasons – moving for schools, getting more space if the family grew or moving for employment. Several worried that signing a longer-term agreement would lock them in for the full duration of the agreement, based on the current practice of fixed-term tenancies.

Finally, our polling has suggested some concern about unaffordable rent increases. It is currently a lottery for renters whether their landlord increases the rent every year or waits some years before a big jump. This can mean that where rent increases happen, they are unaffordable and force people to move. But the option of inflation-linked rent increases is common in rental systems where longer-term stability is on offer – as this is vital to ensure it remains competitive for landlords to remain in the sector. Inflation-linked rent increases have the advantage of meaning it is more certain and predictable what the rent increase will be and they allow renters to plan in advance to manage their finances. In the most buoyant markets, it can protect people from being priced out their home if the market rent is rising rapidly.

To overcome consumer barriers to more stable renting:

- The option of more stable tenancies and their benefits over the status quo would need to be well-publicised to renters.
- Contracts would have to continue to offer people flexibility, in common with more stable renting systems in other countries.
- It will be important to communicate the advantages of inflation-linked rent increases compared to the uncertainty of the status quo.

Overcoming landlord barriers

More stable renting needs to work for landlords if it is to become a widespread market offer. With landlords in England being primarily part-time, non-professional operators, it is important to ensure that offering more stable tenancies is as simple and hassle-free as possible. Some of the barriers we have identified include:

- Landlords may not understand the commercial benefits of offering more stable tenancies, and worry that they may lose money.
- Landlords worry about getting stuck with ‘rogue’ tenants.
- Smaller landlords may see the property they let out as a ‘home’ and not as a business.

- Their lenders’ conditions may prohibit them from letting on longer-term tenancies.
- Many landlords are under no competitive pressure to offer longer-term tenancies, particularly in markets where demand outstrips supply.
- Landlords value the flexibility to sell their home or to live in it themselves.
- Letting agents tend to advise landlords to offer shorter-term tenancies.
- A small minority of landlords don’t fulfil their basic responsibilities of offering decent and safe accommodation. These landlords are unlikely to offer longer tenancies because it would give tenants greater power to demand improvements.

Some of these barriers could be resolved through good design of more stable renting contracts. A carefully drafted break clause, exercised only on production of documents clearly evidencing a binding exchange of contract, could be inserted to allow landlords to issue a Section 21 notice if they need to sell the property. By allowing shorter tenancies to continue to exist alongside longer tenancies, landlords letting out their property for a temporary period would not lose that flexibility. These points are addressed in more detail below.

Other barriers are more about changing established cultures and practice in the market. The status quo is particularly strong in the private rented sector where market practice is relatively homogenous: our mystery shopping of letting agents found little variation in practice within each area we conducted research. In markets where demand outstrips supply, the status quo is reinforced by a lack of competitive pressure to innovate for changing needs. Furthermore, as most landlords are individuals and couples letting small portfolios on a part-time basis, and with many seeing their property as a second ‘home’, their behaviour may be more like consumers than businesses, and may mean they are more change-averse.

The small minority of rogue landlords operating in the market are clearly unlikely to offer longer tenancies. Renters who cannot be evicted without good reason would have more power to challenge poor conditions, which could compel landlords to deal with problems rather than end the tenancy. While rogue landlords make up a small minority, some rental markets have higher concentrations of poor practice. In these areas, positive nudges alone may not be sufficient and further interventions may be needed to ensure renters can access longer tenancies.

These cultural barriers make it important for policy makers to develop an effective behavioural framework, with well-designed incentives and nudges, which responds to both professional and business-minded

landlords and those who behave more like consumers with an investment, and frame stable tenancies as more attractive and beneficial than the status quo of short-term tenancies.

Changing letting agents' behaviour will need to be a major part of encouraging landlords to overcome concerns around more stable renting. This is potentially difficult, as more stable tenancies may challenge some letting agents' business models, such as where agents charge one-off fees for issuing or renewing short contracts. Similarly, where agents charge an annual percentage to landlords for a 'let only' deal they may find it harder to justify their ongoing cost to landlords who are letting on a longer tenancy.

The three most significant barriers to landlords changing their practice are:

- around understanding the commercial benefits of longer-term tenancies
- the perceived difficulties of dealing with non-paying or destructive tenants
- lenders' conditions that prevent longer tenancies being offered.

Is longer-term renting in landlords' commercial interests?

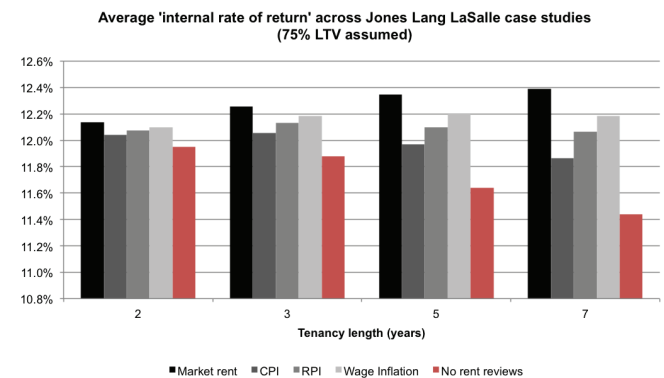
Jones Lang LaSalle's research examined the real business models of nine landlords, reflecting a broad range of landlord 'types' to get a better understanding of current business models and how they work for landlords.⁸⁶ Modelling of real landlords' incomes and outgoings helped the researchers to understand how returns on investment worked, and whether changes to the way tenancies were offered – looking at longer terms and with annually increased rents by inflationary indices – would benefit landlords.

The principal finding was that landlords' returns would be enhanced by longer-term tenancies, so long as the rent was raised each year by an inflationary index. This was because many landlords did not habitually increase the rent to established tenants, preferring to increase the rent when tenancies ended. But the current trend for longer-lasting tenancies presents challenges for landlords who do not want to disrupt tenants with high market rent increases, but may also be tempted by buoyant market rents and encouragement from their letting agent.

The graph below shows how the business plans of current landlords would perform on different lengths of tenancies. Where tenancies are naturally lasting longer and landlords make no increases to rents, the

landlords' overall rate of return is poorest. The longer tenancies run with no rent reviews, the poorer the overall return. Indexing rents to an inflationary index helped to boost landlords' returns over the longer term.

Figure 10: How indexed rents affect landlords' returns as tenancies last longer



Source: Neale, J, & Nevett, M, *Can landlords' business plans sustain stable, predictable tenancies?* Jones Lang LaSalle, 2012.

Designing a tenancy 'product' that gives tenants longer-term stability, while indexing rents to inflation for the duration would boost many landlords' returns. In addition, offering people longer-term stability could encourage them to be more invested in the house as a home, reducing the likelihood of voids and re-letting costs. Landlords would be better off than they would have been under a scenario where they let tenancies run and increase rents on an ad hoc basis.

The case for maximising income streams will be greater in the future, as Jones Lang LaSalle find capital growth projections to be more modest for the coming fifteen years.

Longer-term renting could reduce the hassle factor of successive short tenancies that is far from ideal for many landlords. The Jones Lang LaSalle research found that landlords' management time and costs are greater when landlords have to manage the changeover of a tenancy, facing void periods, letting agent fees and deposit protection administration fees. Tenancies which encourage renters to stay for a longer period would reduce management burdens for landlords.

While it is often asserted that any move toward long-term contracts would drive landlords to exit the market, the Jones Lang LaSalle modelling suggest that longer-term tenancies with inflation-linked rent increases would actually help their business models adapt to a market where rental income is more important in the face of weaker capital growth.

How can landlords deal with difficult tenants?

Landlords' concerns about dealing with non-paying or destructive tenants are more likely to be a sticking-point than the basic economics of more stable and predictable renting.

Tenants who cause extensive damage to the property, build up significant rent arrears, or behave antisocially are a nightmare for landlords. A non-paying tenant can cause extensive financial difficulties, possibly putting a landlord's mortgage into arrears, or involving countless hours of management to resolve the issues.

Under the current legal framework, Section 21 notices allow landlords to regain possession of the property without having to give a reason for the eviction or without having to apply to the courts. This is a simple and certain process for landlords, as long as the paperwork is filled out correctly, but can only be used outside of a fixed-term contract – unless the contract contains a break clause, meaning that it would not be possible to use it to end a longer fixed-term tenancy. If they use this 'accelerated possession procedure', which enables them to obtain a possession order without a court hearing, they cannot claim an order for rent arrears.

To evict tenants for specific breaches of contract, landlords can also use 'fault-based' notices on one or more of the discretionary grounds for possession in the Housing Act 1988. These notices can be used at any point within a tenancy, so long as the landlord can prove that the tenant has breached the contract. In these circumstances, the landlord would issue a Section 8 notice, and after two weeks, would be able to apply to the court for a possession order. The possession hearing usually takes place within four to eight weeks. If a tenant is found to be at fault, and the court decides to make an outright possession order, the court will typically give the tenant two to four weeks to vacate the property before bailiffs can be instructed. Landlords can obtain an order from the court for tenants to repay any rent arrears.

For landlords offering a fixed-term tenancies, using the grounds for possession can be significantly quicker than waiting for a fixed term to end in order for them to use a Section 21 notice. However, delays in getting a court date, and potential defences from tenants can slow down the process of obtaining possession, exposing landlords to longer periods where rent is not being paid to cover their mortgage.

Landlord associations have reported concerns around waiting for court dates to pursue evictions under the possession grounds, and in many cases will advise landlords to wait until they can issue a Section 21

notice. In 2010 the number of 'accelerated' possession claims (ie on the basis of Section 21 notices) overtook possession claims under the standard procedure. Standard possession claims still comprise 45% of all possession claims, suggesting that many landlords still remain confident in using the process and see its benefits.

Nevertheless, if longer tenancies become more widespread and the option of issuing a Section 21 notice is not there, the Ministry of Justice will need to consider ways of enhancing landlords' confidence in using the court system to evict non-paying tenants under possession grounds:

- The speed of getting a court date could be increased by developing more capacity for housing cases by creating more specialist housing days in county courts.
- A paper-based possession route for landlords to evict tenants with rent arrears in excess of two months (under the mandatory possession Ground 8) could be introduced to give landlords and lenders the confidence that they can regain possession more quickly and avoid significant financial impact. The Civil Procedure Rules would need to give tenants an opportunity to apply to set aside the order within 14 days in the event that they have an arguable defence to the claim.

The Ministry of Justice must seriously consider options for improving the speed of court processes to ensure that a lack of confidence in the speed of court processes does not hamper innovation in meeting the needs of renters.

Lenders' concerns

Only a handful of mortgage lenders currently allow landlords to offer longer-term tenancies, such as Paragon, a specialist buy-to-let mortgage lender, which typically works with larger portfolio landlords.

Lenders' resistance to longer-term contracts arise from concerns about the risks to the landlord's asset. Lenders worry that longer tenancies might expose the landlord to greater risks of default, and in the event of a default, that the property will be more difficult to sell and worth less because it is tenanted.

The concern about the impact of rent arrears on mortgages may be disproportionate. In the last year only 1 in 10 landlords experienced rent arrears, and only 1 in 20 lost any money as a result of rent arrears.⁸⁷ At the same time, only 1 in 60 buy-to-let mortgages was in arrears⁸⁸ – and fewer than half of private rented properties are financed with buy-to-let mortgages. The risk of mortgage arrears affects a small minority of landlords; yet, the approach of most lenders affects the

vast majority of landlords with a mortgage – well over a million tenancies.

Instead of imposing an across the board ban on longer tenancies, lenders could identify landlord borrowers who are more likely to be confident in evicting non-paying tenants through existing routes, such as those who own more than one property and should be considered more professional and confident. Thorough references and credit checks should reduce the risk of entering contracts with difficult or non-paying tenants.

Tenanted property is typically worth less than a vacant home because conventions among valuing surveyors tend to assume that home buyers are owner occupiers and would want ‘vacant possession’ of the home to live in it. However, many properties are bought by landlords with the intention of letting the property out, and it is not uncommon for properties to trade from one landlord to another. Greater awareness that selling a home with a sitting tenant is possible, would help to counter assumptions that the ability to secure vacant possession is essential. And there is a role for the valuation profession to play in bringing industry practice up to date with the realities of longer-term renting, by introducing smarter valuation techniques that recognise the value of a tenanted property.

In the short term, allowing landlords to issue a Section 21 on the production of documents clearly evidencing a binding exchange of contracts, as discussed above, should ensure that better tenancies do not adversely affect landlords or their lenders.

Most barriers in the current system can be overcome through information, industry and political leadership, and the revision of default industry codes and norms. Policy makers who wish to see stable and predictable renting becoming more prevalent in England, need to focus on action to overcome established cultures and norms within the industry, as well as designing a framework that learns from behavioural economic evidence to encourage landlords to move from the status quo to a more mutually beneficial approach to running their businesses.

The more pressing concern is some landlords’ confidence in the court system’s ability to respond to legitimate concerns around evicting non-paying tenants. Government action is needed to boost the speed and effectiveness of court processes if all landlords and lenders are to feel confident that they can offer people a stable home without it threatening their business in the small number of cases where rent arrears become a problem.

Designing a more stable tenancy product

More stable renting should work for renters, landlords and lenders as long as barriers can be overcome. The design of a stable renting ‘product’ can overcome many of the concerns that landlords and renters might have about longer-term tenancies, while overcoming cultural and behavioural barriers may need to be addressed through a behavioural framework. The potential structural barriers around court processes may require more concerted government attention.

In designing better renting for England, we can see from international experience that there are a number of components to a tenancy that can be altered to develop a product that improves the stability of renting and works for both landlords and renters:

- The length of the fixed-term contract.
- Whether rent can be increased within a tenancy.
- When the tenant can end the tenancy.
- When the landlord can end the tenancy.
- What tenants are allowed to do in their home.

This section will consider these elements to develop a renting proposal that improves renting for landlords and renters.

Tenancy length

At the heart of considerations for encouraging more stable renting is the length of the tenancy. This is the length of time that people can live in their home, safe in the knowledge that they won’t be asked to leave without good reason.

Current default:

- Tenancies are typically offered for fixed lengths of 6 or 12 months. In some local markets, tenancies are renewed as successive fixed terms, while in others, landlords are more likely to allow the tenancy to roll on as a ‘statutory periodic tenancy’.

Many people will have to wait a considerable number of years to buy a home or access social housing. In the meantime they will want to avoid as much costly instability as they can. Those families who will be renting for the entire duration of their children’s schooling will want to avoid any disruptions that undermine their children’s educational chances.

Informing the standard length of the new stable renting product must be the needs of people who will be renting for the medium to long term, and the norms that prevail in other types of housing:

- 2.9 million private renters expect to be renting for at least five years – families with children and the over 35s are more likely to expect to be renting for the long term.⁸⁹
- The Resolution Foundation estimates that it will take low- to middle-income families 22 years to save up a deposit to buy a home.⁹⁰
- In 2006's more fluid housing market, homeowners with mortgages stayed in their home for an average of 11 years.⁹¹
- The standard minimum tenancy for the new 'flexible tenancies' introduced in the social housing sector is five years.
- Three quarters of landlords expect to be letting out property for at least the next five years, and more than half for at least the next ten years.⁹²

Five year tenancies would be a significant improvement on the current status quo, offering people enough time in a place to make it worth making their own, to put down roots in their community and plan their finances. Five years would significantly reduce the instability, cost and hassle faced by renters. It would also achieve parity with the social sector, reflecting the Government's view that five years in one home is an adequate amount of time.

Recommendation:

- **New stable tenancies should offer people five years in their home, during which they cannot be evicted without legitimate reason.**

Rent increases

Setting a measure for how rents can be increased for the duration of a tenancy is an important measure that helps people from being priced out of their home, but gives landlords a framework for keeping their rent competitive. Index-linked rent increases are standard across international examples where longer tenancies are the norm.

Current default:

- Rent is not typically increased inside a fixed-term tenancy, but may be increased on the issuing of a subsequent fixed-term tenancy.
- Landlords' behaviour in increasing rents is sporadic, depending on factors such as the buoyancy of the local market and the advice of letting agents.

The unpredictability of rent increases in England's private rented sector makes it a lottery for renters, who never know when they will be faced with an unaffordable rent increase. Agreeing an index-link

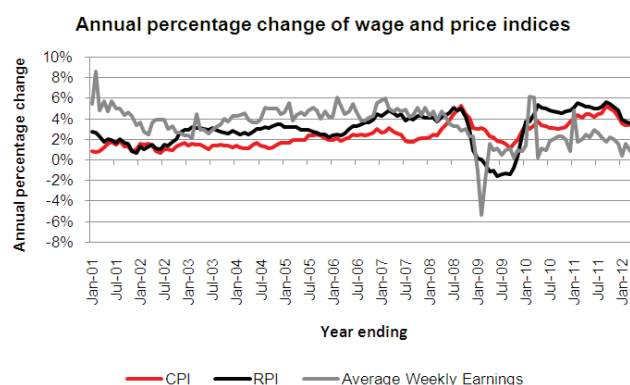
for tenancies at the outset can ease uncertainty for both landlords and renters, allowing both sides to better plan their finances.

Inflation-linked rent increases are common across all rental systems that offer people longer-term stability, as they ensure that rent levels hold their value over the longer term. Corporate landlords in England, who typically want long-term income streams, generally look for inflation-linked rent so that their income does not decrease in real terms. Social housing providers typically raise rents annually in line with inflation.

The most workable options for rental indexing are:

- **Retail Price Index (RPI)** – this includes housing costs, and so is responsive to changes in interest rates that may affect landlords' borrowing costs.
- **Consumer Price Index (CPI)** – this broadly reflects the changing cost of living and is increasingly used by government departments as the link for welfare payments.
- **Wage inflation** – the historical benchmark for rental growth, and could be perceived as fairer, though can mask variation in regional and sectoral wage growth that could result in disproportionately negative effects on some groups.

Figure 11: Annual percentage change of wage and price indices



Source: Office for National Statistics, *Labour Market Statistics July 2012* and *Inflation Statistics July 2012*.

Looking at how these indexes have performed over the past decade shows that they have all remained broadly in line, but RPI and wage inflation have fluctuated more widely. The Government have linked pension payments and other welfare payments to CPI; a sign that the stability of this index is an appropriate measure of the changing value of money. With stability and predictability key, Shelter believes CPI is the appropriate index against which to link rents.

Jones Lang LaSalle's analysis shows that indexing rents to CPI on longer tenancies enhances landlords' returns on their investment, compared to the status quo of sporadic rent increases.⁹³ CPI-linked annual rent increase clauses can be entered into standard Assured Shorthold Tenancies.

Recommendation:

- **New stable tenancies should include clauses limiting annual rent increases to a maximum of CPI for the duration of the five-year tenancy.**

When renters can end the tenancy

Flexibility is important to many renters and should be one of the real advantages of private renting, especially in a turbulent economy where people's circumstances can change rapidly. Private renting contracts should offer people the flexibility to trade up or trade down as family circumstances change, or job opportunities arise.

Current default:

- Renters cannot end fixed-term tenancies unless there is a break clause. Some 12 month tenancies include a break clause where the tenancy can be ended after six months. If a tenancy becomes a 'statutory periodic tenancy', renters can give one month's notice to end on the first or last day of a rental period, allowing more flexibility.

Successive fixed-term contracts provide neither flexibility nor longer-term stability. The kind of break clauses currently offered typically give flexibility at six monthly intervals. Yet, break clauses can easily be drafted that allow tenants the right to end any length of contract at any point, and to specify the notice period tenants are required to give.

If landlords are offering tenants longer tenancies, it seems fair that tenants give landlords more notice than the standard one month – landlords currently have to give tenants two months' notice with a Section 21. However, anything longer than two months may see families spiral into debt if their circumstances change, or be forced to pass up job opportunities, as job offers typically require an applicant to start work within one to three months.

Recommendation:

- **Renters should be able to give two months' notice to end the fixed-term contract at any time.**

When the landlord can end the tenancy

It is vital that landlords are confident that they have the flexibility to adapt to changes in their circumstances, and to resolve any issues with their tenants. International

experience shows us that more stable, longer-term renting works when there are sensible get-out clauses for landlords.

Current default:

- While in a fixed-term contract, landlords can only end the contract by taking the tenant to court for breaching the contract, or if there is a break clause allowing them to terminate the tenancy.
- Outside of fixed-term tenancies, when a tenancy is a statutory periodic tenancy, a landlord can issue a Section 21 notice at any point, which gives tenants two months before their tenancy is ended regardless of whether the tenant has breached the contract.

Most break clauses are not appropriate on longer-term tenancies; otherwise the tenancy would not offer people a more stable home than the status quo. Landlords would still be able to pursue an eviction using the existing discretionary grounds, meaning that a tenant who has built up rent arrears, committed antisocial behaviour or breached the contract in any other way, could still be evicted through the courts.

Court processes can be subject to delays and uncertainty that undermine landlords' confidence. If more landlords are to be confident offering longer-term tenancies, they will need assurance that they have effective remedies where tenants have built up substantial rent arrears.

It is important for many landlords that they are still able to sell their home if they need to. People's circumstances can change quickly, and can necessitate sale of assets. But putting a property on the market should not become a loophole for landlords to get rid of tenants who have broken their contract. Including a carefully drafted break clause allowing landlords to issue a Section 21 notice, which can be exercised only on production of documents clearly evidencing a binding exchange of contracts, would help ensure that it can only be used for a genuine sale.

Landlords letting out their home for a temporary period should still be able to offer shorter tenancies to retain their flexibility, although the framework may need to actively encourage longer tenancies to ensure enough people are able to access them.

Recommendations:

- **Landlords should be allowed to implement a break clause to terminate the fixed term on producing evidence of exchange of contracts when selling their property.**

- **The Ministry of Justice should consider measures to improve court processes, such as introducing a paper-based eviction process for serious rent arrears or more frequent specific housing days at county courts.**

How renters are allowed to make their house a home

One of the key advantages of a longer-term tenancy is the ability for renters make it their own home. Having greater stability and certainty should encourage people to invest time and effort into making their rented house homely, just as owner occupiers or people with social tenancies do.

Current default:

- It is common for tenancy agreements to specify that tenants are not allowed to put nails in walls, or to alter the decoration, either absolutely or without permission.

Renters should be free to paint the walls and hang pictures and posters or have pets, as long as they repair any resulting damage or return the home in neutral colours once their tenancy ends. More comprehensive alterations, such as new flooring or fixtures such as kitchens or bathrooms, may be too expensive or impractical to return to neutral at the end of the tenancy.

There are advantages to landlords too – renters who have invested more in making their house a home are more likely to look after the property, are less likely to leave without good reason, and may do more to avoid rent arrears if it jeopardises the home that they've invested in.

Recommendation:

- **Renters should be allowed to decorate the walls or have pets without their landlords' permission, but must repair any resulting damage or return the walls to a neutral colour and at the end of the tenancy.**

- 79 Electoral Commission, *Great Britain's Electoral Registers 2011*: 56% of 19- to 24-year-olds are registered to vote, compared to 72% of 25- to 34-year-olds, and 86% of 35- to 54-year-olds.
- 80 See Chapter 2 for more on renters' worries and hopes for the private rented sector.
- 81 YouGov 2011, base: 541 private renting GB adults. Fieldwork: 2 to 5 December 2011.
- 82 See Chapter 3 for more on the extent to which current practice in renting is working for the industry.
- 83 *ibid.*
- 84 Rhodes, C, Cracknell, R, McGuinness, F, *General Election 2010 – Commons Library Research Paper*, 2011.
- 85 Shelter, *Letting agent mystery shopping exercise (landlord scenario)*, May 2012.
- 86 Neale, J, & Nevett, M, *Can landlords' business plans sustain stable, predictable tenancies?* Jones Lang LaSalle, 2012.
- 87 Department for Communities and Local Government (DCLG), *Private Landlords Survey 2010*.
- 88 Council of Mortgage Lenders, *Buy-to-let market summary, Quarter 2*, 2012. One in 60 refers to the 1.67% of buy-to-let mortgages in arrears in 2010, the year in which the fieldwork for the DCLG, *Private Landlords Survey* was carried out.
- 89 YouGov 2011, base: 2092 GB adults. Fieldwork: 15 to 17 June 2011.
- 90 Resolution Foundation, *Squeezed Britain*, 2012.
- 91 DCLG, *Survey of English Housing 2006/7*.
- 92 DCLG, *Private Landlords Survey 2010*.
- 93 Neale, J, & Nevett, M, *Can landlords' business plans sustain stable, predictable tenancies?* Jones Lang LaSalle, 2012.

Figure 12: The Stable Rental Contract

What would the new type of tenancy look like?

The new type of tenancy would need a consumer and industry friendly name if it is to become the kind of product that both landlords and renters feel confident offering and asking for. We suggest it should be called **The Stable Rental Contract**, reflecting the two-way benefit of stability for landlords and renters.

The Stable Rental Contract would offer renters the chance of a stable home that they can make their own, with predictable rental costs that help them plan for the future, and get-out clauses giving them the flexibility they need as they respond to opportunities and changing circumstances. Landlords would benefit from rents keeping up with inflation, while renters invested in their home would mean fewer costly void periods and re-letting costs.



Recommendations

Bringing about more stable renting doesn't need to be a costly proposition. It is already legally possible, and a workable product can be developed that works for both landlords and renters, as both have an interest in stable and predictable renting. The challenges for policy makers are in overcoming established market norms in favour of a new win-win private renting offer, and improving landlords' confidence in the speed of the court system.

Bringing longer tenancies to market

The dominance of a single approach to private renting means that there is a clear default position which landlords will revert to, and which is reinforced by their peers and other players in the market. This tendency to revert to an established norm is affirmed by the Institute of Fiscal Studies' recent review of behavioural economics, which underscores some important lessons for policy makers concerned with encouraging people to make choices in a market situation.⁹⁴

Studies have shown that the presentation of choices can have a major impact on their take-up:

- Where choices are complex, people revert to simple 'rules of thumb', and tend to follow well-established behaviours by others.
- Immediate financial considerations are more likely to influence choices than long-term considerations.
- The pain of a loss is felt more strongly than an equivalent gain.
- People compare their outcomes with peers.⁹⁵

Shelter believes that the balance of tenancies on offer must change in order to meet the growing need and demand for more stable private renting. Moving practice away from a well-established default will not happen by itself, even if the new system is designed to be beneficial for both landlords and renters. Landlords and tenants will need further education and encouragement to see the benefits of longer tenancies and be reassured that they will meet their needs in practice.

The following sets out three different behavioural strategies that could be employed to ensure that landlords see the benefit in longer tenancies and are motivated to offer them to renters. Options vary from those which require only industry and government promotion, to those which involve fiscal and/or legal encouragement. The likely effectiveness of different strategies must be the key consideration for policy makers concerned with improving renting for England's 8.5 million private renters.

Option 1: Develop and promote the Stable Rental Contract

The Stable Rental Contract would be a strong offer for landlords. It would help them make a stronger return on their investment, improve the stability of their income stream, and leave them sensible get-out clauses in case their circumstances change. Assuming landlords were fully informed about the economic benefits of the Stable Rental Contract, the improved returns and reduced hassle of the product should be a strong economic prompt to landlords to offer the model.

We have acknowledged that a well-established default may inform landlords' choices more strongly than potential economic gains. However, an approach where Government and the industry seek to boost social and peer drivers around longer-term tenancies could provide stronger encouragement for more landlords to offer the Stable Rental Contract.

Developing the Stable Rental Contract

The absence of a specifically designed product means that there is no well-established precedent for longer tenancies. To counter this, Shelter will drive forward the development and promotion of a high-quality, longer-term tenancy product along the lines set out above. With input from legal and industry experts, landlords could be reassured that longer tenancies really can be a win-win.

Promoting the Stable Rental Contract

Competitive pressure could be introduced to the market by local and national Government using its influence to encourage landlords they work with to start offering longer tenancies. This would increase landlord and consumer awareness of longer-term tenancies, while more landlord peers providing the new tenancy would reassure landlords that it is a safe choice. Competitive pressure could be encouraged by:

- Shelter working with landlords and letting agents to encourage the take-up of the Stable Rental Contract. By offering additional support, monitoring

closely market responses and any issues arising, the evaluation of initial take-up could inform any additional encouragement needed to make longer-term tenancies more widespread in the market.

- Local authority and industry accreditation schemes already work with thousands of landlords across the country. These schemes should broker longer-term tenancies with their landlord members, working with landlords who are more confident in managing their portfolios and offering support to increase the local offer of the Stable Rental Contract, and building peer encouragement to other local landlords.
- Larger corporate landlords, institutional investors and housing associations providing private rented housing should be encouraged to provide longer-term tenancies as part of their portfolios. These landlords tend to take a longer-term view of their investment and may be better resourced to manage any transitional issues.
- Social letting agents and local authorities discharging their homelessness duty by placing households in the private rented sector should seek to broker longer-term tenancies for households, and should specify to housing providers that they will seek to broker Stable Rental Contracts wherever possible.

Communication of the benefits of offering stable tenancies will be vital for reinforcing landlords' choices:

- National Government should champion and promote the longer-term landlord business model by highlighting the economic and social benefits of the Stable Rental Contract.
- Professional landlord associations should work with Shelter to ensure that the Stable Rental Contract is developed to meet landlords' needs, and champion the use of the Stable Rental Contract to their membership and networks. Support packages could be developed to help improve landlords' confidence in using the court process.
- The Council of Mortgage Lenders should work with its members to remove restrictions on landlord borrowers offering the Stable Rental Contract. This could involve outright removal of these restrictions, smarter segmentation of customers to identify landlords more confident in offering longer tenancies, or developing new financial products that encourage longer tenancies.
- Associations representing professional letting agents should encourage the development of letting agent business models that work with Stable Rental Contracts and do not promote churn and uncertainty.

The Ministry of Justice should investigate ways of increasing confidence in court processes so that landlords feel confident about using possession grounds to end the tenancies of tenants who breach their contract.

The key advantage of a 'develop and promote' approach is that longer-term tenancies can be brought to market immediately, meaning that renters could benefit from greater stability and predictability in the short term. Effective framing of the arguments and communication of the benefits to landlords of adopting longer-term tenancies would encourage take-up.

But reaching landlords, especially small scale, part-time landlords, is notoriously difficult. And, as the current default is well-established and reinforced by other actors such as letting agents and mortgage lenders, it is hard to see that sufficient numbers of landlords would shift their choice to offering the Stable Rental Contract, based on information and encouragement alone.⁹⁶ It is likely that further action will be needed to encourage more landlords to offer longer-term tenancies.

Option 2: A stronger economic imperative for landlords

While the Stable Rental Contract should offer landlords economic benefits, the potential gains from any change are never certain, and so are unlikely to prompt enough landlords to shift their approach on their own. Changing behaviour may need a stronger economic imperative, framed around wins and losses. An effective way to create that imperative is through the tax system, as tax is a significant cost to landlords, and one that many will feel a strong desire to minimise.

The objective should be to encourage landlords to offer the Stable Rental Contract by introducing tax incentives that benefit landlords if they offer it, but not if they don't. This would help to overcome the existing behavioural bias towards short-term tenancies by ensuring that landlords who opted for short-term tenancies would effectively be making a positive decision to pay more tax than they needed to.

We have considered a range of possible tax incentives for landlords in order to assess their effectiveness in shaping behaviour. We have focused on income tax and capital gains tax (CGT) on any gains realised as part of their property investment, as these are the main taxes paid by landlords as private individuals. We have not considered corporate landlords, who pay Corporation Tax, in detail, but the same principles could apply.

Figure 13: Tax options to encourage the take-up of the Stable Rental Contract

Option	Why?	Why not?
Allow properties let under the Stable Rental Contract to be included in personal pensions.	Very attractive to landlords because pension savings have favourable tax treatment.	Would be complex, take a long time to implement and may only be possible for the wealthiest landlords. Not practicable in the short term.
Change the rate of income tax and CGT for income and gains on properties let under the Stable Rental Contract.	Transparent change creating tangible effects and strong incentives. Easy to administer.	Requires changes to 'headline' rates of tax, which may be controversial.
Change the way taxable profits and chargeable gains are calculated, for example, by introducing a depreciation allowance or indexation of gains for properties let under the Stable Rental Contract.	Allows incentives for Stable Rental Contracts without changing 'headline' rates of tax. Could also be applied to corporate landlords through Corporation Tax.	Makes tax calculations more complex. Effects are difficult to predict. Government has been resistant to depreciation allowances and indexation in the past.
A new tax on the value of properties let on short-term contracts.	Would send a strong message that Stable Rental Contracts are a preferable option and present a clear incentive for landlords to choose to offer longer tenancies.	A new tax would be costly to administer, and it would take a long time to introduce. Wider reform requires agreement on many other issues. Not practicable in the short term.

Changes to how taxable profits and gains are calculated would be effective, but would also be more complex, with uncertain effects. The options of a new tax, or allowing rental properties to be included in personal pensions, are unlikely to be achievable in a reasonable timescale.

Considering the administrative and political costs of different options, and the effects they would have on the choices presented to landlords, the most effective options are likely to be changes to rates of income tax and CGT.

These changes would encourage changes in behaviour in both the short and the long term. If landlords offered Stable Rental Contracts, they would avoid the certainty of additional income tax. In the long term, they would have the prospect of a bigger capital gain.

Changes in the rate of tax have the advantage of being very transparent, which should increase their incentive effect, and are relatively easy to administer. Their impact on tax revenue should also be easier to quantify.

A workable package of measures that would encourage landlords to offer the Stable Rental Contract could include:

- Changing the rate of income tax on rental income from short-term lets to make tax on this income equivalent to income tax and National Insurance

Contributions (NICs) on income from self-employment. This would mean landlords letting on short-term tenancies would pay an additional 9% tax on all earnings between £7,605 and £42,475 and an additional 2% on earnings above that amount.

- Allowing Entrepreneur Relief for CGT on the sale of homes let on Stable Rental Contract terms. This would mean landlords who let their property on the Stable Rental Contract would be relieved of some of their CGT burden, pro-rated according to the time they let their property under Stable Rental Contracts.
- Abolishing the Annual Exempt Amount for CGT on the sale of homes let on short-term tenancies. This would mean landlords letting on short-term tenancies would be ineligible for the Annual Exempt Amount of £10,600 that currently applies to all assets subject to CGT.⁹⁷

This package of tax reforms could be politically and economically workable, and would provide a strong message to landlords that Stable Rental Contracts are a more desirable choice:

- Politically it is in line with the Chancellor's 2011 budget proposal to combine the income tax and national insurance systems. This change could also be seen as fairer treatment of landlords compared to other self-employed people, who already pay NICs.

- The overall fiscal picture would likely be neutral – with some new long-term benefits from lower capital gains bills for landlords letting on longer tenancies, while landlords letting on shorter tenancies and paying a combined NIC rate would enhance Treasury revenues.
- It is likely that it would be effective in influencing landlords' behaviour as there would be an immediate loss associated with offering a short tenancy – potential losses being more salient than potential gains. Meanwhile, as landlords see capital gain as a key part of their long-term return, a significant reduction in the tax payable on this gain should have a strong positive incentive effect.

Landlords offering Stable Rental Contracts would pay no more income tax than before the changes, and keep more of their profit on the sale of properties. The very smallest landlords with earnings under £7,605⁹⁸ would see no immediate change if the NIC threshold is used as the basis for the income tax change, but they would still have the opportunity to benefit from the CGT change when they sell a home let under the Stable Rental Contract.

A small minority of landlords may actively evade income tax – an issue being investigated by HMRC. Tax-based incentives may have less of an impact on this group unless it is coupled with a crackdown on landlord tax evasion.

These changes would be relatively easy to administer through the existing self-assessment system. They could be introduced relatively quickly, and on a phased basis; and they would have no net cost for Government in the short term.

Option 3: Make longer tenancies the legal default

Tax incentives may work well for good landlords who want to operate in a professional way. But they may not be a strong enough incentive for the small minority of rogue landlords who actively evade and avoid taxes and whose business models are based on offering poor standard accommodation to vulnerable renters with little choice but to put up with it.

Beyond not responding to tax incentives, rogue landlords may not want to offer Stable Rental Contracts because it could mean that renters are better able to challenge poor practice without fear of being evicted without a good reason. To ensure that people who may be more likely to rent from rogue landlords can access the Stable Rental Contract – primarily more vulnerable renters – different nudges may be needed.

Shelter believes it is important that shorter contracts should still be available, primarily for 'accidental' landlords who are not looking to sell their home in the medium term, such as people moving temporarily for work. But this should not become a loophole for rogue landlords to continue to offer short-term contracts to vulnerable people.

Unnecessary use of short-term contracts could be discouraged by making the Stable Rental Contract the default tenancy, but allowing shorter tenancies to continue to be offered, subject to permission. This would resemble approaches in other countries, such as in Spain, where shorter contracts of up to a year are permitted alongside the standard five-year contract, and some authorities require landlords offering short-term tenancies to register with the local authority, and to apply and pay for a licence.

To avoid the misuse of shorter-term tenancies, a similar approach to Spain could be adopted. A precedent already exists in planning law in England, where authorities can require planning permission to be sought for people wishing to let accommodation for fewer than 90 days. The licensing framework could be expanded, either as a national policy, or a local power, to help local and National Government increase the attractiveness of Stable Rental Contracts over shorter tenancies. Shelter does not envisage that permission to let on shorter tenancies would be unreasonably withheld, but the effect would be to frame longer tenancies as a simpler and less bureaucratic choice for landlords.

Making well-designed, longer tenancies the legal default would increase the importance of addressing landlords' and lenders' concerns around the effectiveness and speed of the court system. It would only be the difficulty in securing effective remedies for breach of contract that may threaten landlord exit from the market, as the ability to raise rents by inflation would actually enhance landlords' returns above the current norms. The right to issue a Section 21 notice on production of documents clearly evidencing a binding exchange of contracts would mean their asset is still liquid.

Making this work in practice could involve a number of measures:

- Amendments to existing legislation would be needed to provide for the Stable Rental Contract as the default tenancy.
- The Ministry of Justice would need to investigate the potential for a 'paper-based' eviction process based on Ground 8 (two months' rent arrears). Landlords would need to prove that tenants were in two months of arrears at the date of service of the notice of seeking possession and also at the date

of determination by the court. Ground 8 itself would need to be amended, as it refers to two months arrears outstanding at the date of the court hearing. Tenants would be able to apply for the order to be set aside within 14 days, if they could show that they had an arguable defence to the possession claim.

- The Government would need to develop a licensing framework for shorter-term tenancies and consider a pricing strategy for short-let licences that encouraged longer-term tenancies but was not disproportionately burdensome for people who genuinely needed to offer shorter-term tenancies.
- The Government would need to weigh up how much autonomy local councils should have to set and enforce licensing frameworks, assessing whether they wanted national influence over the provision of longer-term renting, or whether it was a local power to encourage Stable Rental Contracts in markets where the demand for longer tenancies was not being met.

Conclusion

The basic economics of index-linked long-term renting should stack up, and a well-designed tenancy product should work well for most landlords. On that basis, **the property industry and policy makers should begin work with Shelter immediately to develop win-win contracts and begin bringing the Stable Rental Contract to market.** This work must be evaluated on an ongoing basis to ensure lessons are learned and landlords and renters become confident that Stable Rental Contracts are workable.

The lessons of behavioural economics tell us that small potential gains and public pressure will not be enough to change behaviour more widely in the market. Landlords are primarily investors, concerned about their overall return. **Nudges through the tax system will have a greater salience**, particularly if shorter tenancies are treated more negatively than Stable Rental Contracts, and where any financial disadvantages of offering short tenancies are felt more immediately.

Shelter therefore urges the Government to adopt our proposed package of tax reforms, which would provide a strong immediate nudge to landlords around the income tax treatment of rent from short-term tenancies, and a long-term encouragement of Capital Gains Tax rewarding the use of the Stable Rental Contract.

However, we recognise that rogue landlords may still not offer the Stable Rental Contract and may not be responsive to tax nudges, particularly where rent is paid in cash.

We therefore believe that local **councils should have a power to license short-term tenancies**, to create an additional encouragement for landlords to offer Stable Rental Contracts in these areas.

Next steps

As more and more people rent for longer, and worries around the stability and predictability of private renting grow, the time is right for Government and the industry to bring longer, better tenancies to market.

In the short term, national and local Government, the property industry and organisations concerned about the stability and predictability of renting in England must encourage the market to deliver renters the choice of longer-term tenancies.

- Shelter will drive the development of the Stable Rental Contract with legal and industry representatives to ensure that new contracts are developed and are workable for landlords and renters.
- Shelter plans to encourage the introduction of the Stable Rental Contract in different parts of the country. This will need comprehensive evaluation to improve the design and operation of Stable Rental Contracts, by identifying any barriers and developing appropriate solutions.
- Professional industry associations must challenge the status quo and work to overcome established cultures and practices that prevent mutually beneficial longer tenancies from being offered.
- National and local Government should work with institutional investors, housing associations and large corporate landlords in the private rented sector to encourage the offer of Stable Rental Contracts among larger, more professional operators.
- Local councils running accreditation schemes or placing homeless households in private rented housing should broker Stable Rental Contracts with the landlords they work with.
- The Greater London Authority should trial the Stable Rental Contract as part of the London Rental Standard and promote their use in large scale developments such as the Athlete's Village.

In the medium term, policy makers should take on board Shelter's recommendations for fiscal and administrative nudges to encourage landlords to offer Stable Rental Contracts. Shelter is convinced that well-designed Stable Rental Contracts would offer a win-win for landlords and renters, but greater encouragement will be needed to make it the norm. We believe that the social, economic and political benefits of offering England's renters a better chance of a home to make their own is worth encouraging.

Industry support is vital for overcoming cultural and practical barriers, but it is ultimately Government's responsibility to make sure that the market works for England's 8.5 million private renters. The case for greater action is clear – Government must spearhead efforts to deliver a more stable private rented sector that is better suited to our times, working with the industry and organisations like Shelter to make sure that no renter who wants stability is left out of the market.

94 Leicester, A, Levell, P, & Rasul, I, *Tax and benefit policy: insights from behavioural economics*, Institute for Fiscal Studies, 2012.

95 *ibid.*

96 *ibid.*

97 For further analysis on the impact of these options, see Appendix: Tax packages on page 44.

98 This would be a small number of landlords. The average annual rent is £8,700 (LSL, *Rental Index*, July 2012) and only 4% of landlords report their rental income makes up more than 75% of their overall income (DCLG, *Private Landlords Survey*, 2010).

Appendix: Tax packages

The following provides further detail on the changes to the tax system that could incentivise landlords to offer Stable Rental Contracts.

(1) Changing the rate of income tax on rental income from short-term lets to make tax on this income equivalent to income tax and National Insurance Contributions (NICs) on income from self-employment:

- (a) Class 4 NICs on income from self-employment are charged at a rate of 9% on profits between £7,605 and £42,475 and 2% on profits above that amount. Income tax on rentals could be increased to an equivalent rate (for example, moving the rate from 20% to 29% for a basic rate taxpayer). This would mean an additional annual cost of about £2,900 for a landlord making £40,000 of profit from short-term rentals.
- (b) If the change mirrored the NIC system, with its £7,605 annual threshold, very small-scale landlords would not pay any additional tax.

(2) Allowing Entrepreneur Relief for Capital Gains Tax (CGT) on the sale of homes let on Stable Rental Contract terms:

- (a) Entrepreneur Relief is currently available on the sale of business assets and allows a gain of up to £10 million to be taxed at 10% instead of the usual 18% or 28%. An equivalent relief could be introduced for the sale of homes let on Stable Rental Contract terms. It would be pro-rated for the period during which the home was let under a Stable Rental Contract and probably subject to a lower cap on the gain, say £1 million. This would create a tax saving of £36,000 for a landlord making a taxable gain of £200,000, if the home was let under a Stable Rental Contract throughout the period of ownership.

(3) Abolishing the Annual Exempt Amount for CGT on the sale of homes let on short-term tenancies:

- (a) The Annual Exempt Amount of £10,600 currently applies to all assets subject to CGT. Gains on homes let on short-term tenancies could be made ineligible for this allowance. This would mean an additional cost of up to £2,968 for landlords selling a home let on a short-term tenancy.

Until there's a home for everyone

In our affluent nation, tens of thousands of people wake up every day in housing that is run-down, overcrowded, or dangerous. Many others have lost their home altogether. The desperate lack of decent, affordable housing is robbing us of security, health, and a fair chance in life.

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