Shut out:

The barriers low-income households face in private renting

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CONTENTS

EXECUTIVE SUMMARY

"Every day I look at around 15 different estate agent sites online, trying to find properties. I find properties that would be suitable but they say no DSS, no pets, no smokers, no children. I speak to agents most days trying to plead my case and I buy local papers trying to find somewhere to live. But I have had no luck at all… God know what is going to happen to me, my son and my dog. The whole system is unfair, wrong and seriously needs to change. Landlords need to be more understanding with people receiving housing benefit."

Mother of two, 46, former trainer for people with disabilities

A total of 4.5m households now live in privately rented housing.[1] Over the last 20 years, the private rented sector (PRS) has seen considerable expansion, and has grown to overtake the social rented sector.[2] But the evidence suggests that even at a time of significant growth, it has become harder for people on low incomes to access the PRS. For people who rely on housing benefit to pay their rent, the barriers can be even higher. Many families find they cannot afford a privately rented home, or encounter landlords unwilling to let to housing benefit claimants.

As a result, Shelter's advisers see increasing numbers of clients who have run out of options. An adviser at Shelter's Bournemouth hub described how a family struggled to find a new home when the landlord decided to sell.

> *"The wife was a deputy headmistress, the husband stayed at home with their four children. The family tried to find other private rented housing but the prices had gone up so much since they had moved into their original place that they were no longer in the sort of situation where it was easy to get together the money upfront, as well as affording the actual rent. So things had really changed for them and they said 'we never go anywhere for help but we don't know what else we can do'."*

The inability to access a new home after losing a property in the private rented sector has become one of the main drivers of homelessness. Research by Shelter shows that 78% of the rise in homelessness since 2011 has been due to households losing their previous private tenancy.[3]

The Government acknowledges that the rise in homelessness acceptances because of the end of an assured shorthold tenancy "indicates that affordability is an increasingly significant issue, as more households facing the end of a private tenancy are unable to find an alternative without assistance".[4]

This briefing sets out the main barriers to low-income households accessing the PRS. It examines the wider housing market context, affordability and Local Housing Allowance rates, the attitudes private landlords have towards low-income tenants, and the upfront costs and additional hurdles that bar tenants who might have been able to afford ongoing rents. The briefing examines what current schemes are in place to assist people into accommodation, and sets out recommendations for change. It is based on a review of current literature and interviews with advisers at Shelter advice hubs all over England to understand what is going on in different areas of the country.

Major barriers to accessing private rented housing

Housing market changes

Housing market shifts, such as the inability of first-time buyers to purchase a home and the shortage of social rented housing, have led to an increasingly competitive private rental market. This competition has seen rents rise and allowed landlords to be choosier about who they let to. Consequently, rents that were once affordable have risen year-on-year, and housing benefit claimants are overlooked in favour of professional tenants.

Affordability and Local Housing Allowance

Government changes to Local Housing Allowance[5], particularly the four-year freeze on LHA rates, has caused benefit rates to become increasingly misaligned with local rents. Research by Shelter shows that by 2019/20, four fifths (83%) of England will be unaffordable to LHA claimants.

Housing benefit administration and Universal Credit

Housing benefit administration acts as a barrier, with potential delays to payments and the setup of rent paid in arrears clashing with landlord business models. Wholesale reform of the housing benefit system over the last 10 years has exacerbated landlords' reluctance to let to housing benefit claimants.

The transition from housing benefit to LHA dissuaded some landlords from renting to low-income households and the current changeover to Universal Credit is causing others to introduce blanket policies against claimants.

Landlord attitudes towards low-income households

There is significant reluctance among private landlords to let to LHA claimants. Although a large portion of the private rental market has historically been hostile towards housing benefit claimants, survey data suggests that landlord reluctance has increased. Welfare reforms, particularly the restrictions on LHA levels, have contributed towards the reticence of landlords to let to this group. Landlords are also influenced by media depictions and other factors such as mortgage and insurance rules barring letting to housing benefit claimants.

Upfront costs and guarantors

The upfront cost of private renting prohibits low-income households from accessing the PRS and means that many are forced to borrow, starting a tenancy in debt. For households experiencing multiple moves, the repeated costs of fees, deposits and rent in advance can pull them further into debt. Our advice services tell us that private landlords are increasingly asking for guarantors, who can be difficult for low-income households to secure.

Limits to existing schemes

Specialist PRS access schemes – schemes in the statutory and voluntary sector to help low-income households access a private rental – have been effective in helping to house some applicants.

However, limited resource means that these schemes are often limited to statutory homeless families and are not widely publicised or available. Such programmes have met barriers, including the failure of LHA rates to keep up with market rents at the bottom end of the market. This limits the ability of access schemes to source properties that are affordable for their clients, and in turn, reduces landlords' appetite to participate in such schemes.

PRS access schemes mostly do not, and cannot, aim to alter the structural barriers faced by low-income tenants. Instead, they aim to help tenants within current structural constraints, often with financial assistance.

In this briefing, we suggest ways that the Government and others could take action to reform some of these structural barriers, such as recalibrating LHA rates, making ambitious changes to deposit systems, and expanding welfare benefit advances. Combined, this could do more to radically address the barriers to the PRS faced by low-income tenants.

INTRODUCTION

Why do barriers to the private rented sector matter?

The inaccessible PRS is fuelling increased homelessness. Growing numbers of families are trapped for years in temporary accommodation because local authorities struggle to secure accommodation for homeless households. It is leaving many low-income tenants with no choice but to accept poor conditions and bad landlords.

•A total of 14,420 households were accepted by local authorities as homeless between October and December 2016, up by more than 50% since 2009.[6] The ending of a private tenancy is now the biggest cause of homelessness, as families that have lost their home struggle to secure a new rental.

•At the same time, tens of thousands of families are stuck in temporary accommodation, unable to move into a settled home. In December 2016, nearly 76,000 households were living in temporary accommodation, of which 60,000 were families with children or pregnant mothers. This is more than 10% more than the year previously, and 58% more since 2010 when just over 48,000 households were living in temporary accommodation.[7]

•Local authorities are unable to use the PRS to meet their statutory duties to secure accommodation for homeless families. More than 80% of local authorities say they have found it difficult to help homelessness applicants access private rented housing to prevent or resolve homelessness.[8]

•When people on low incomes do manage to find an affordable private rental, it's likely to be at the very lowest end of the market where standards are lower. Our advisers tell us that some families accept properties in desperation, and are forced to endure poor conditions and bad landlords.

Low-income tenants are increasingly limited to the private sector because there is no prospect of them getting on the housing ladder and there is a shortage of social housing. Therefore, more broadly, increasing the supply of genuinely affordable housing must be part of the solution. However, this will take time and we need to make sure that in the meantime, low-income households can find somewhere to live. Solutions aimed at the private rented sector are therefore essential.

RECOMMENDATIONS

1. The Government must end the freeze on Local Housing Allowance and restore rates to the 30th percentile of the rental market.

2. There should be a fundamental review of tenancy deposits. The Government should consider examples from New South Wales and New Zealand, in which tenants lodging deposits are able to directly manage their deposits online. The Government should consider ways that tenants can transfer their deposits from one tenancy other and pay for their deposits in instalments.

3. Employers should take up Shelter's rental deposit loan model to grant employees interest-free loans to help them secure a new rented property.

4. The Government must take action to ensure Universal Credit does not result in landlords refusing to let to benefit claimants. This should include giving tenants a choice over whether their housing element is paid direct to their landlord. Private landlords should have access to Trusted Landlord Status through a third party intermediary.

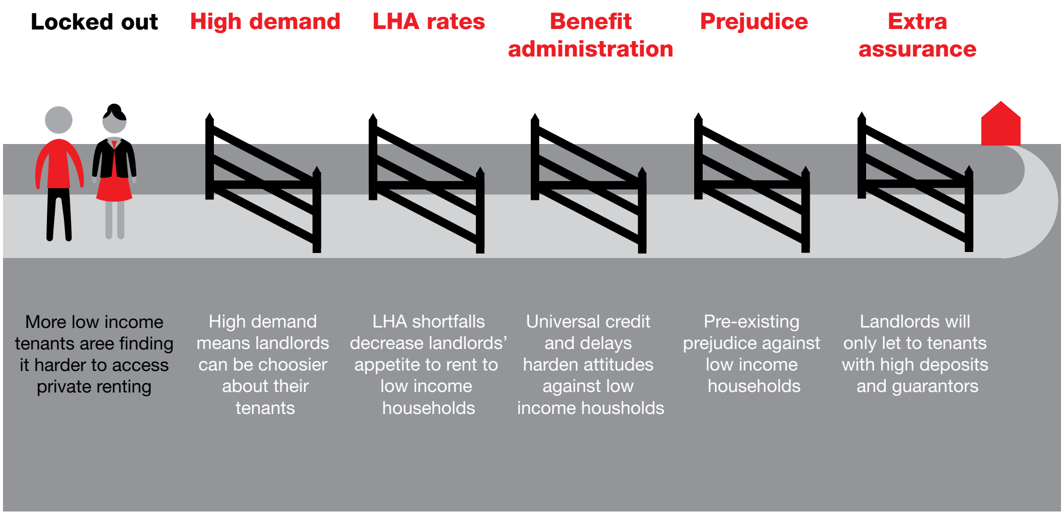
5. The Government should allow more tenants to access advance payments from their benefits, including Child Tax Credit and Working Tax Credit (and the equivalent in Universal Credit). Repayments for benefit advances should be set at reasonable levels and take into account claimants' ability to pay for essential items.

6. Mortgage lenders should stop barring landlords from renting to housing benefit claimants. UK housing charities should monitor the use of legislation in the Republic of Ireland to stop landlords barring housing benefit tenants from their properties.

7. The Government should collect data on local authorities' use of bond/ guarantee schemes (or fund non-government organisations to collect this data) as it is currently unclear how widespread and accessible these schemes are.

WHAT BARRIERS DO LOW-INCOME HOUSEHOLDS FACE?

There are a number of barriers stopping people from finding a home in the private rented sector and some of them interact to compound difficulties for low-income households. The changes in the housing market, which have increased demand in recent years, have interacted with the shortfalls in housing benefit to make landlords less willing to house LHA claimants. Even if a household could find somewhere they can afford to rent, the large upfront costs involved in private renting, including deposits and letting fees, makes the hurdles even higher.



Housing market changes

High house prices and loss of social housing has increased demand in the PRS

House prices have continued to increase, rising by 6.2% in the year to January 2017.[9] Bank of England analysts found that the primary driver of demand for private rented housing between 2008 and 2013 was the inability of people to borrow enough to buy a home.[10] Tighter credit conditions for first time buyers far surpassed demographic change and migration as creators of demand for the private rented sector.[11]

Meanwhile, the availability of social housing has declined for a number of reasons, including the Right to Buy, successive government's inadequate funding for new supply and developers' ability to negotiate down their affordable housing contributions. Social housing lettings to new tenants in England declined from 364,000 per year to 212,000 per year between 1995/6 to 2014/15.[12] This means that an increasing number of low income households must now find a private tenancy.

Shortages in available social housing also mean that a large group of households on low incomes, who would have previously been served by the social rented sector, must now find a private tenancy.

Increased demand facilitates higher rents and choosier landlords

Increased competition for private rentals means landlords and letting agents can be more discerning about who their tenants are. A study of private landlords in South London found that "young professionals" were considered the most desirable tenants because they were likely to need shorter term lets (allowing a higher turnover for new lettings and the ability to increase rents) and were seen as "good tenants".[13] The study predicted that the segment of landlords catering to low-income people would decline sharply over time as they turn to wealthier tenants.

An adviser at Shelter's London hub

described the difficulty of having to "pitch" their clients to private landlords over and above professional tenants.

"Once you move outside of social housing where allocations take into account vulnerability, in the private rented sector, it's just who is most likely to pay their rent on time, who is the least business risk."

Our Greater Manchester advice service told us that the city's economic growth and increased attraction for wealthier tenants were making access harder for low-income households.

"Because Manchester is becoming very quickly the second city, it's becoming a bit more like London, it's pushing people out of the centre… we are seeing demand rising for property and landlords are capitalising on that. When 10 people want a landlord's property, they can practically name their price."

In 2013, the DWP found that landlords were not as reliant on the housing benefit market as they had been in the past. One large landlord and letting agent in Portsmouth reported:

"It was all very stable like that for a long time. Now it's reversed, for the sort of property I let, the tenants will now get around £590 a month and I could let that property out tomorrow for £650 at least."[14]

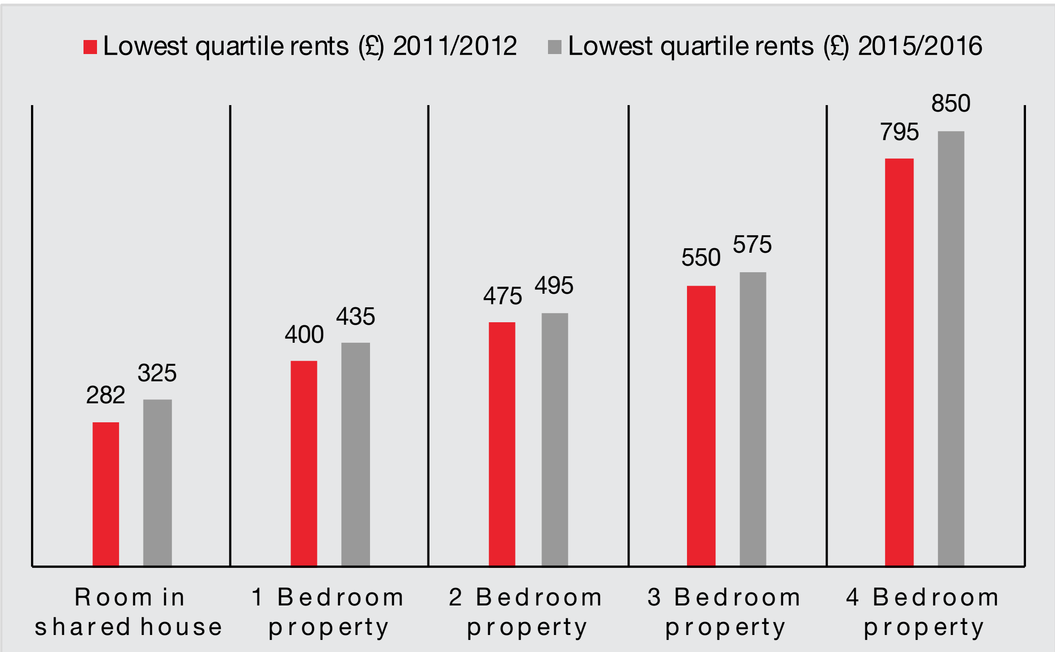
Our London service also reported increased incidents of "rental guzumping", where a tenant who has already agreed a tenancy with a landlord is "gazumped" by another tenant who offers to pay more.

"We are hearing about rental gazumping around once a month. This is where a prospective tenant has had an agreement the landlord, but someone else further down the queue later that day or that week says they would be willing to pay more than the advertised amount. The property goes to that tenant instead."

Increased competition has also allowed landlords to raise rents. Consequently, rents that were once affordable within the LHA rate have increased above it as demand has risen.

At the cheapest quartile of the market, rents for a one-bedroom property in England rose on average by 2% every year between 2011/12 and 2015/16. London saw some of biggest rent increases, with the cheapest average rents rising

Figure 1: Average monthly rents in the lowest quartile of the private rented market in England[18]



on average by 6% a year for both one and two bedroom properties. In Bristol, average rents at the lowest end of the market have also risen 6% a year for one-beds and for two-beds. In Luton, one-beds and two-bed rents have increased by 5% annually.[15]

Nationwide, the increase in rents is starkest for rooms in shared houses, with rents increasing by nearly 4% annually over the time period. In London, rents for rooms in shared houses saw annual increases of 7%.[16] A review by the Smith Institute recorded a council officer who said that rooms in the PRS that were previously used to meet housing need were now let out to professional young people who are able to pay higher rents.[17]

Affordability and Local Housing Allowance

Housing affordability is a measure of whether or not someone can comfortably pay for their housing on their income. An accepted rule of thumb to gauge whether housing is affordable is 30% or less of income spent on housing costs. A more nuanced version of affordability is whether or not people have enough of their income left over after paying housing costs to meet their other needs. Changes to LHA have reduced tenants' income, worsening affordability.

An adviser in Shelter's Manchester hub reported:

> *"The LHA rate doesn't cover the rent. Most regularly, there is a shortfall they need to pay from their other benefits."*

An adviser in Shelter's Sheffield hub added:

> *"We've got a significant number of people reliant on benefits and they are really struggling to access the PRS… even if you can get a tenancy, there will sometimes be a shortfall in your benefits and you'll have to top up, but you won't be able to do that."*

Changes to housing benefit in the PRS

Over the last 25 years, the welfare system used to support low-income tenants has gone through a series of changes:

•The 1990s saw the introduction of restrictions on eligible rents if the rent was more expensive than the mid-range of local properties.

•In 2008, LHA was introduced to calculate housing benefit in the PRS. This provided a fixed allowance based on location and family size. It paid tenants directly (rather than to the landlord) a fixed rate, based on the median of the local market.

•In 2011, LHA payments were restricted to the 30th percentile of the market and national 'caps' were introduced for LHA rates in accordance with the bedroom size of the property (e.g. £302.33 a week for a 2-bedroom property).

•In 2012, the Shared Accommodation Rate (SAR)[19] was extended from people aged under 25 to people aged under 35.

•Since 2013, Universal Credit, which combines six working-age benefits including LHA) has been rolling out across the country. There are more than half a million (520,000) households claiming Universal Credit – the Government does not give statistics on what proportion of these are in the PRS.

•In 2016, LHA rates were frozen at 2015/2016 levels for four years.

The impact of the LHA changes

Recent reform to LHA has deliberately limited claimants' entitlements and as a result widened the shortfall between the rents charged by landlords at the bottom of the market and the amount of LHA that tenants can receive. Analysis by Shelter found that people face large shortfalls between what their LHA rate will pay and their rent right now. In 2017/18, in one in four areas of England (25%), a family with one or two children living in a two-bedroom property must find an extra £100 a month or more to make up the shortfall in their rent.[20]

Families living in London face the greatest shortfalls in the country, but this problem is not limited to the capital. In Cambridge, for example, the same family would be expected to pay an additional £531.17 a month to top up their LHA in order to pay the rent for one of the cheapest homes in the area. In Bristol, this family would face a shortfall of nearly £217.51 a month.[21]

The LHA freeze will worsen existing affordability pressures. Shelter has carried out research to assess how deep these shortfalls will be by 2019/20 for a family in need of a two-bedroom home.

The analysis suggests that:

•In 269 (83%) of areas there will be a gap between LHA rates and the cheapest rents in England.

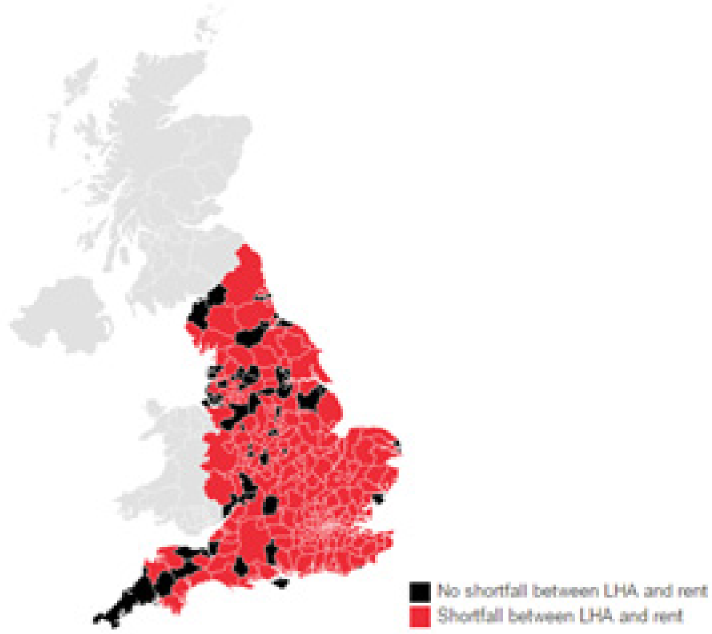
•In 184 areas (56%) there will be a gap of more than £50 a month between LHA and private rents at the bottom quarter of the market.

•In 117 areas (36%) there will be a gap of more than a £100 a month.

•In 51 areas (16%) there will be a gap of more than a £200 a month.

•In 16 areas (5%) there will be a gap of more than £500 a month between LHA and private rents at the bottom quarter of the market.[22]

Figure 2: Areas in England where by 2019/20 there will be a shortfall between two-bedroom LHA level and rents at the lowest quartile of the market[23]



•Further analysis looking at the whole of Great Britain (England, Wales and Scotland) reveals that 1,069,517 households live in an area where there will be a shortfall between the amount of LHA they can claim, and the cost of renting one of the cheapest homes by 2020. Once these households' tenancies end, they may struggle to find a new one, and be put at risk of homelessness.[24]

An advisor at our Merseyside advice hub told us that where the PRS remained affordable, it tended to be of far lower quality:

> *"There's a bit of a subgroup of tenants of landlords who own multiple properties, usually shared HMOs, where the tenant will literally go from one place to the next in the same landlord's accommodations.*

"There's never any tenancy agreement it's all a bit cash in hand, under the radar stuff and we've had clients that have moved three or four times, it's all a bit odd."

The impact on younger people

Most single, childless people under the age of 35 are only able to claim enough LHA to cover the rent for a room in a shared house (the Shared Accommodation Rate, "SAR"). This means that the shortfall is particularly hard to meet for younger people. In many areas, people are often only eligible for a very small amount of benefit and their problems are compounded by a lack of shared housing. In Warrington, for example, a single person would be eligible for just £212.35 per month (£49.55 per week). This means they would have to find an additional £233.05 a month to cover the shortfall between their LHA and the rent. In Oxford, under 35s would have to find an extra £219.28 a month to pay for a room.[25] Often, the only other benefit available for people to dip into is their Jobseekers Allowance (or the equivalent Standard Allowance in Universal Credit.)

Our Birmingham and Manchester services highlighted the particular impact on under 35s.

"The low level of LHA rates mean that a lot of people are excluded from parts of the city. Single, under 35s struggle because the LHA rate is £57 [a week]. There are very few places you're going to get for 57 quid."

"Single people just under 35 really struggle. It does begin to bite and it forces them to the bottom end of the market where there are more rogue landlords."

The impact of other welfare reforms

The effect of the LHA reforms cannot be seen in isolation. Since 2010, previous governments have enacted widespread changes to the welfare system, including the household benefit cap, the freeze on other working age benefits, the restriction of child tax credits to the first two children, the abolition of the social fund and council tax benefit. Each of these have impacted households' ability to find a new private rental by restricting how much money they are eligible for.

In particular, the benefit cap means that families affected by the cap are immediately excluded from many larger properties or expensive locations. Under the original £26,000 cap, the effect was minimal in places outside London. But under the reduced £20,000 cap (£23,000 in London), many more families will be restricted to a much smaller pool of affordable properties.

Previously, families living in two bedroom properties were not hit by the cap in any area outside of London. Under the new cap, such families with two young children sharing a room in need of a two-bedroom property are subject to the benefit cap in over half of areas in England. These include all areas of London and large cities, such as Bristol, Manchester, Leeds and Birmingham; large towns, such as Luton, Northampton, Plymouth and Gloucester; and rural areas, such as Yeovil and South Devon.[26]

Lack of negotiating power

LHA was introduced to encourage private tenants to 'shop around' to find a lower rent. However, early evaluations of LHA suggested this objective was not being met. Later evidence suggests that tenants lack negotiating power to lower rents and are frequently unable to find more affordable options. The DWP's 2014 evaluation of the LHA reforms showed that in 2013, the majority of claimants were unable to find long-term ways to reduce their rent. Just 16% of tenants had spoken to their landlord about lowering the rent charged and only 12% of movers and 6% of non-movers had managed to persuade the landlord to lower the rent. Instead, tenants were spending less on household essentials, which is likely to be unsustainable in the long run.[27]

Targeted Affordability Funding and Discretionary Housing Payments

MPs and peers have repeatedly confronted ministers on the shortfall between LHA rates and local rents in

Parliament.[28] Ministers' responses have been to highlight two schemes to mitigate the LHA freeze: Discretionary Housing Payments (DHPs) and the Targeted Affordability Fund, which allows LHA rates to rise by up to 3% in the areas with the largest shortfalls between rates and rents.

However, both of these mitigations are inadequate in addressing the shortage of affordable properties in the PRS for households that claim LHA. DHPs are by their nature discretionary and tenants are therefore unable to rely on them. Shelter clients have reported difficulties accessing DHP and in many cases, councils are failing to acknowledge requests. Our figures show that four in 10 clients (40%) were waiting between a fortnight and four weeks for a response, while 15% were waiting for more than four weeks.[29]

The Government has recycled 30% of the savings from the LHA freeze to use as Targeted Affordability Funding (TAF). While TAF is welcome, it is clearly not enough to mitigate the large shortfalls faced by households. Shelter's research into the current gap between LHA and local rents takes into account this year's TAF distribution. Therefore, even with the mitigation of the TAF, in 2017/18, households face a shortfall in 79% of the country. Indeed, the method for distributing TAF highlights its inadequacy: in 2017/18, only areas where LHA rates matched less than 5% of the local market qualified for TAF – this means that areas where 95% of the market was unaffordable did not qualify.[30]

Housing benefit administration and the introduction of Universal Credit

There is evidence that difficulties in administration and delays to payments under both locally-administered LHA and nationally-administered Universal Credit are a barrier to accessing a private rental.

Housing benefit maladministration and delays to benefit payments have long-presented a barrier to the PRS for tenants. Studies have shown that delays to benefit processing add tension to the relationship between the tenant and their landlord, reduce tenants' bargaining power if they are in arrears, and make it more difficult for tenants to ask their landlord to lower their rent.[31]

Evidence has previously found that landlords have to accept non-standard practices when letting to the housing benefit market.[32] This includes having to wait for housing benefit applications to be processed, with delays sometimes taking weeks, rent being paid in arrears when normally advance payment would be required, and benefit payments being made four-weekly, rather than by the usual calendar month. A subgroup of landlords has evolved to adapt their business models to reflect these changes and specifically let to the housing benefit market.[33]

While these problems were present prior to the 2000s, housing benefit did not present an insurmountable barrier to all landlords. Principally, once the claim was set up, rental income was guaranteed, with tenants able to request that payments were made direct into their landlord's bank account. Prior to the 2008 LHA reforms, the proportion of tenants choosing payments to be made direct to the landlord ranged between 20% and 60% throughout the country.[34] A Government review concluded: "For private landlords, although less tolerant [than social landlords] of arrears, direct payment to themselves offsets their general preference of not letting to tenants in receipt of [housing benefit]."[35]

The 2008 LHA reforms changed this to only permit the payment of benefit to landlords for vulnerable tenants and those in arrears of eight weeks or more. This greatly reduced the incentive to let to LHA claimants. A Government-commissioned review in 2010 found that private landlords and local authorities agreed that the introduction of direct payments had resulted in an increase in arrears. Landlords reported that 'model' tenants had become non-payers overnight. As a result, landlords spent a lot more time and effort trying to secure rental payments. Many landlords tried to mitigate the risk of arrears by barring LHA claimants. In some areas dominated by the housing benefit market, landlords felt they were left with little choice but to sell up in the area, restricting supply. Other landlords increased requests for guarantors or operated informal lists of blacklisted tenants.[37]

Universal Credit

Universal Credit was intended to normalise benefit-receipt and reduce landlord discrimination.[38] However, evidence instead suggests that Universal Credit has itself become a new barrier for claimants wanting to access the PRS.

Our Sheffield service described seeing large numbers of people who were experiencing difficulties with their Universal Credit claim.

> *"We are seeing people on Universal Credit all the time who are really struggling to get by because their claim is utterly messed up. They didn't get the money when they thought they were going to get it or it's not right or when it all comes in one big lump sum they are very confused about who they pay what to."*

Other advisers also report landlords operating blanket bans on Universal Credit claimants.

This was a problem reported by our service in the East of England:

> *"In Great Yarmouth particularly, because single people have moved onto Universal Credit, landlords are pulling out of the market and it's likely to be an issue across the county. Landlords have been in touch with us but there's little we can do… they are not renewing tenancies and while previously private landlords would work with the council to place more difficult individuals into accommodation, that market has completely changed with the introduction of Universal Credit."*

Our Bournemouth service reports a large local private landlord on the South Coast, which is a major provider of housing to LHA claimants, has said it will no longer take anyone on Universal Credit, and landlord associations have warned that their members are reluctant to take on UC claimants.

Universal Credit contains some safety mechanisms to protect landlords against rent arrears. Managed payments to landlords and Alternative Payment Arrangements (APAs) are available to provide assistance to Universal Credit claimants who have difficulty budgeting on a monthly basis. This allows the housing cost element to be paid direct to the landlord instead of the tenant. Government guidance states that APAs should be available from the beginning of a claim, if necessary, particularly where a tenant is likely to struggle to pay their rent from their monthly UC payment which might lead to homelessness. Being in temporary or supported accommodation, or homeless, is a 'tier-one factor' causing a highly likely/probable need for an APA.[39]

However, research suggests that a lack of knowledge is making it difficult for tenants to secure an APA without first accruing arrears.[40] Further arrears are often accrued while an application for an APA is being processed, putting tenants at further risk of eviction and homelessness. Local authorities have also reported errors in the processing of APAs, including applications disappearing, notifications arriving inconsistently and rejections often containing no reasons.[41]

Trusted Partner Pilots

Social landlords have been working with the DWP on a scheme to make it easier for tenants to transfer to an APA before they are in arrears. Transferring onto an APA means that that the payment of the housing cost element can be paid direct to the landlord. Under the 'Trusted Partner Status' pilot, landlords will be able to identify vulnerable tenants who may struggle to cope with having rent paid direct to them, and recommend an APA. Applying APAs before tenants are in arrears would prevent the threat of eviction and homelessness.

The 'Trusted Partner' pilots are, to date, only available to social landlords. But the problems with Universal Credit continue for private landlords too. Private landlords have reported difficulties attempting to secure APAs for their tenants.[42]

Upfront costs and guarantors

The upfront costs of renting – rental deposits, letting agency fees and rent in advance – can prohibit low-income households from securing a new property. Some tenants also face other upfront barriers, such as requests for guarantors.

The previous government recognised the need to remove some of these upfront costs, announcing in the 2016 Autumn Statement that it would ban letting fees for tenants. It is also consulting on proposals to cap deposits and to enable tenants to pay their deposit in instalments over the first few months of their tenancy.

The existence of upfront costs in the PRS

In 2015, more than half (55%) of private tenants were asked to pay rent in advance, while 42% had to pay a deposit and 42% a letting agent fee. More than a quarter (28%) had to pay a fee for credit checks.[43] Low income tenants may be liable for the largest costs: Shelter's private landlord survey found that two-thirds (61%) of private landlords who rent to housing benefit claimants ask for one month's rent in advance, compared with 49% who do not have tenants on housing benefit.[44]

Not all landlords require upfront costs and some will waive deposits and credit checks. However, an adviser at Shelter's Lancashire hub said this accommodation often tended to be in poor condition:

> *"We do have some private landlords who are slightly more accessible and they might accept a small deposit and don't require credit checks. We sometimes find it easier to access accommodation via that method. But a lot of the time, the accommodation that's offered is not a flat or a house, it's bedsit accommodation. And even if it is a house or a flat, unfortunately the conditions aren't always that fantastic. In a lot of cases that seems to be the common trend."*

Holding deposits

Many landlords require holding deposits, often in cash, to take a property off the market until the tenancy is signed or the tenant moves in. Tenants are likely to lose this money if they pull out of an agreement or fail a reference check. As holding deposits are not covered by the Deposit Protection Scheme and are often handed over at speed to secure a letting, they are particularly susceptible to fraud. There have been reports of unscrupulous agents taking multiple holding deposits from prospective tenants with no intention of renting out the property.[45]

The previous government was proposing to permit agents to continue charging holding deposits on the basis that tenants could speculate on multiple properties, leading to unnecessary and costly work for agents and landlords. However, it was proposing to cap these deposits.[46]

How are upfront costs a barrier to low-income tenants?

The most common ways that tenants pay for upfront costs is from their current account and from savings. A total of 40% of renters who had moved said they had financed upfront costs from their current account, over a third (35%) dipped into their savings.[47] However, borrowing is more common than average among families, female renters, younger renters, and those receiving housing benefit.[48] Shelter's private tenant survey found "a clear association" between tenants that did not move voluntarily and having to borrow to fund the move. This risks leading families into unsustainable debt.

An adviser at our Sheffield hub reported that some clients got into debt as a result of upfront costs:

> *"The demands of deposits/bonds, credit checks, fees: our clients just haven't got them and they get into debt."*

If low-income households do not have immediate funds and are unable to borrow, they may be prevented from securing a new property. Shelter's private tenant survey shows that LHA tenants are more likely than other tenants to be unable to access the PRS for this reason. Of the tenants who do not receive housing benefit, 3% have been refused or prevented from moving into private accommodation because they cannot afford the deposit or rent in advance. This figure rises to 10% for those claiming housing benefit. Research by Crisis further suggests that homeless people struggle to meet landlords' requests for additional financial safeguards and are consequently unable to find anywhere to live.[49]

An adviser at Shelter's London hub identified a substantial group of tenants that may just be able to afford on-going rent but are unable to overcome the hurdle of a deposit or one-month's rent in advance.

> *"For an increasing number of our clients it is the first month's rent and deposit and the fees [that is the main barrier] … Sometimes because the landlord has retained their deposit, sometimes because an issue over the deposit is unresolved, or because they have gone down to zero trying to retain their last property. People don't just [leave their home] when they start getting behind on their rent. They usually wait until they are in a couple of grand's worth of debt. They've often tapped out a few credit cards thinking they can turn it around."*

An adviser at our East of England hub highlighted the barrier of upfront costs for people without any savings or very low income:

> *"It's deposits, two month's rent in advance, agency fees… it's an enormous lump of money that you need to secure accommodation, and in some cases, people just have nothing."*

This suggests that there is a gap in housing benefit policy; while the entitlement is focused on people's ongoing rental liability, it does not recognise the additional costs of setting up a tenancy.

Guarantors

An emerging trend has been for landlords to ask for guarantors from housing benefit claimants as additional security. Guarantors agree to be legally liable for rent arrears and as such are attractive to landlords looking to minimise their own risks. People acting as guarantors have to meet certain criteria, normally earnings and sometimes home-ownership.

For example, an advisor at Shelter's Bristol hub reported that some landlords had guarantor requirements for younger families.

> *"Another thing we have come across with some landlords is that if they are a younger family – so under 35 – they have wanted some kind of guarantor. So that can be a barrier, particularly if people don't the family or friend connections to find a guarantor."*

Our research shows that landlords are more likely to require a guarantor from tenants who are claiming LHA. Of the landlords that do not have tenants on LHA, 16% ask for a guarantor. This rises to 24% of those who have tenants on LHA. In 2013, a DWP survey looking into the consequences of the LHA reforms found that landlords were using "stricter vetting practices". "Where the receipt of money upfront was no longer sufficient, landlords were using checks and guarantors", the study found.[51]

An adviser at our Dorset hub told us that requirements for guarantors earning 36 times the monthly rent was routine:

> *"Guarantors are a massive issue [the requirement to have a guarantor earning] 36 times the monthly rent seems quite normal. For example, there's one agent that says if housing benefit covers the full rent they do not need a guarantor, but if there is any top up required they need a UK homeowner earning 36 times the monthly rent."*

The ability to find someone who earns enough to act as a guarantor is restricted for people on low incomes and those who are homeless. Our survey of private tenants found that of those tenants not in receipt of housing benefit, 2% were refused or prevented from accessing private accommodation because they could not obtain a guarantor. This increased to 8% for tenants on housing benefit.[52]

Our research found that homeless households' friends and family were also often living on low incomes, so the informal support they were able to draw on to produce a guarantor, or borrow money for a deposit to access a private rental, was limited.[53] This research also found that those who became homeless quickly were less likely to be able to plan for the move, gather savings or arrange for someone to act as a guarantor.[54]

Assistance with upfront costs

Discretionary Housing Payments are available for those who need help with upfront moving costs, including deposits. However, a relatively small proportion of DHP funding is used for this purpose (10%), with the majority spent on keeping people in their homes.[55] DHPs are, by their nature, discretionary, meaning tenants cannot rely on them for support, and the competing demands on DHP mean that local authorities must ration assistance.[54]

Households struggling with deposits may qualify for financial assistance in the form of deposit bond or guarantee scheme. Responses to a survey by the Association of Housing Advice Services (AHAS) in 2010 found that nearly 80% of local authorities offered a deposit guarantee scheme.[56] There are no centrally collected figures on the use of deposit bond schemes.

Benefit advances

Low-income households, even those in work, are often unable to access borrowing facilities and credit cards. This is why interest-free benefit advances could be effective in helping these tenants pay upfront costs such as deposits. They are also a useful alternative to loan sharks and payday lenders. Payment in advance is sometimes accepted in the place of guarantors.

But currently, benefit advances are restricted to the very lowest income households, and repayments are so high that households are discouraged from taking them out. Budgeting loans are available for people who have claimed Income Support, income-based Jobseeker's Allowance, income-related Employment and Support Allowance or pension credit for the last six months. Universal Credit claimants can claim a Budgeting Advance if their earnings are below £3,600 in the last six months for a couple or £2,600 for a single person.

The Government does not publish figures on how many people claim these advances, so we do not know how frequently they are used. The very low earnings threshold means that only the very poorest claimants can receive these loans, so many claimants are locked out of claiming an advance. Additionally, the repayment for a UC budgeting advance can be punitive; repayments can be up to 40% of a claimants' Standard Allowance. This may discourage tenants from requesting an advance.

Landlord attitudes towards low-income households

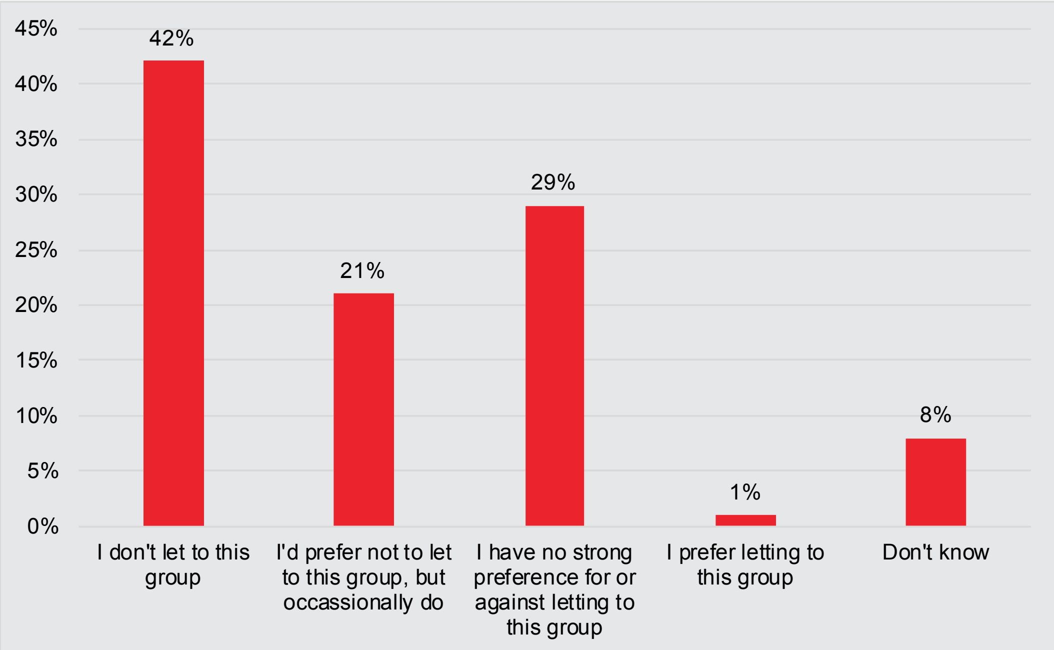
Private landlords' reluctance to let to people on housing benefit is not a new phenomenon. In 1995, the Joseph Rowntree Foundation noted that "finding a landlord who will accept people who are on housing benefit or unemployed" was a problem for prospective tenants.[57]

Shelter's survey of private landlords found that 63% of landlords would prefer not to let to LHA claimants, with 42% operating an outright bar.[58] Further, Shelter's survey of private renters revealed that more than a fifth (21%) of those claiming housing benefit said they had been discriminated against because of their LHA status in the last five years.[59]

An adviser in our Greater Manchester hub said:

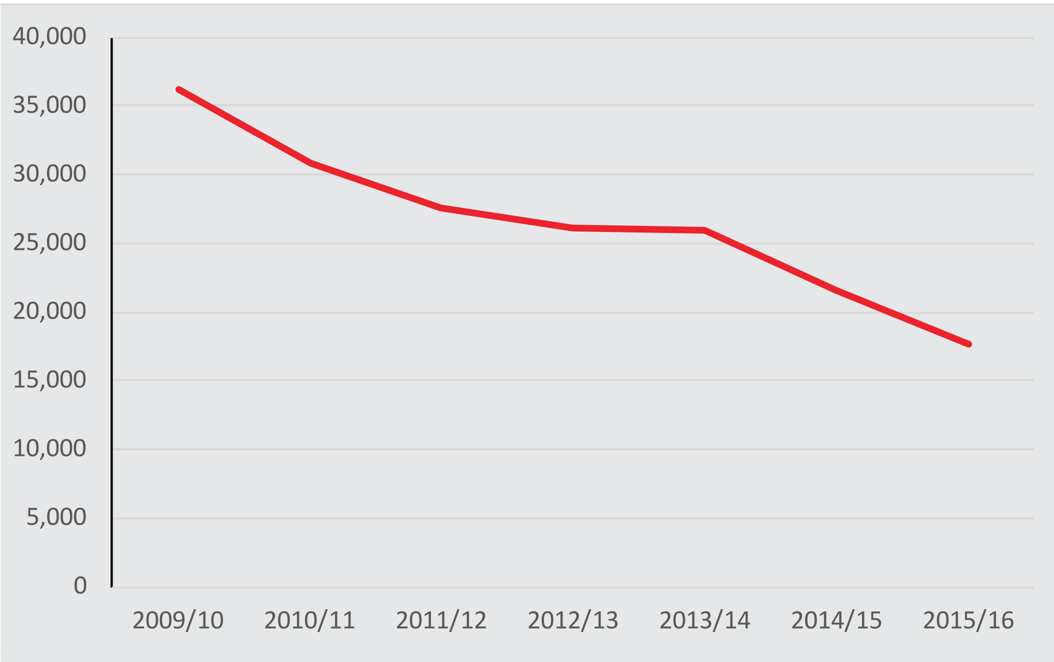
"There's are still a lot of private landlords

Figure 3: Landlords: What is your policy on letting to housing benefit/LHA claimants?



that won't deal with housing benefit mostly because of the delays, and the top ups which they feel they won't get… Over the last ten years, it's grown massively, that problem. There used to be a level of security in getting someone on housing benefit but now with things like the household benefit cap, landlords know it's going to get worse and they are nervous about renting to people on benefits because things can change and what's affordable for them one day isn't

Figure 4: Number of times local authorities in England prevented and relieved homelessness with an incentive paid to a private landlord[60]



affordable the next."

An adviser in our Sheffield service highlighted the widespread use of the term 'no DSS' in property adverts.

> *"There's so many adverts for private rented that say 'no DSS' despite the fact that the DSS was scrapped donkey's years ago. Especially the big estate agents. There are landlords that will take people on benefits but then the issue becomes the standard of those properties and the kinds of landlords that we're dealing with."*

Local authorities have powers to prevent and relieve people's homelessness through the PRS. Often, councils use incentive payments to persuade private landlords to let to homeless households and to persuade them to continue a letting.

Figure 4 shows that the number of households who had their homelessness prevented or relieved with PRS landlord incentives halved between 2009/10 and 2015/16. In 2013, Cambridge University's Centre for Housing and Planning Research noted the reduction between 2009/10 and 2012/13 and questioned "whether PRS access schemes are struggling in the current economic circumstances".[61] Combined with a fall in the number of landlords willing to provide temporary accommodation to local authorities, this strongly suggests that the PRS is becoming less accessible to tenants on low incomes, even when supported by a local authority and that landlords who traditionally engaged in the housing benefit submarket are looking elsewhere for tenants.

Reasons why landlords are reluctant to let to LHA claimants

Common reasons for prejudice against housing benefit claimants include media perceptions, bad experiences with tenants, rent arrears, market competition and mortgage requirements banning the renting to housing benefit claimants.

Shelter's survey of private landlords found that of those who preferred not to let to LHA claimants:

•29% said this was because of stories from the media and other landlords

•21% said it was because they had let to LHA claimants in the past and had bad experiences with tenants paying rent

•14% said their mortgage companies did not allow it.[62]

Other surveys have suggested landlord reluctance stems from fears about rent arrears and delays in housing benefit processing.[63][64] An advisor at our Birmingham hub said:

> *"Where landlords have got the choice across the city in terms of tenants, a lot of landlords would prefer not to take benefit clients… We're picking up on landlords turning away benefit clients because they see them as more problematic and also with Universal Credit coming through, they see that as another encumbrance."*

Research suggests that landlords' decisions can be made for reasons other than risk management.[65] These could be altruistic or paternalistic reasons. Some households interviewed said that landlords were not prepared to enter into arrangements with tenants that they saw as abusive or bad practices. Examples included landlords not letting to families if they perceive it would be unsuitable as the home was too small or that it would take too much of their income. This was presented as being on the basis that it would be bad for the children or the family, and they weren't prepared to put them in this situation, or be an 'exploitative' landlord.[66]

However, survey data also suggests that letting decisions may often be guided on the basis of personal prejudices. Four in ten landlords (41%) that do not delegate fully to a letting agent admit that it is 'natural for prejudices and stereotypes to come into letting decisions'. Landlords' own backgrounds can colour their decisions. For example, landlords who have children at home themselves are more open with their policies on letting to both children and LHA claimants.[67]

Some instances of landlord discrimination have attracted notoriety, none more so than the buy-to-let landlord Fergus Wilson, who has reportedly banned single mothers, “coloured” people, victims of domestic abuse, low income earners and plumbers from his properties.[68] It is difficult to tell how common Mr Wilson’s practices are in the wider lettings market – certainly few have chosen to be so public. However, the fact that four in ten landlords believe it is natural to be guided by prejudices and stereotypes suggests that this behaviour, while extreme, may not be unique.

Mortgages and insurance

A total of 14% of landlords say they prefer not to let to LHA recipients because their mortgage or insurance policies stop them from doing so.[69] This practice by mortgage providers appears to be widespread. Research by 3mc, a mortgage broker, has found that 66% of lenders in the buy-to-let market bar landlords from renting to tenants in receipt of housing benefit.[70] These providers include TSB, Santander, Virgin and Natwest, according to the research. Insurance premiums can also be higher if landlords decide to let to housing benefit recipients.

Banning discrimination against LHA claimants

Under the UK Equalities Act, benefit claimant status is not one of the specified ‘protected characteristics’. However, groups such as women and disabled people are often over-represented among LHA claimants, so it could be argued they are subject to ‘indirect discrimination’.

In 2016, the Republic of Ireland introduced a new clause in its equalities legislation to specifically prohibit discrimination against tenants in receipt of housing assistance. Landlords and estate agents can be fined up to €15,000 if they breach the new law. There have been few publicised cases of fines for those caught flouting the law. However in March 2017, an estate agent was reportedly fined 1,500 euros after telling a man “no rent allowance accepted”.[71] Charities in Ireland have reported emerging instances of “indirect discrimination”, where people in receipt of housing assistance are not discriminated against outright but landlords have put additional barriers in place such as extra deposits.[72]

Although it seems like an attractive solution, barring landlords from refusing to let to housing benefit tenants does nothing to address some of the biggest reasons (LHA rates and benefit administration) behind landlords’ decisions not to rent to LHA claimants. However, it would be helpful to collect information from Ireland to understand how effective the policy has been.

CURRENT AND POTENTIAL INTERVENTIONS

Current solutions to solving barriers to PRS access

The barriers facing low-income households have long been recognised by local authorities and voluntary organisations. Agencies have developed programmes to help such households overcome barriers.[73] Since the early 2000s, local authorities have been encouraged to offer a wider range of housing options to statutory homeless households, making greater use of the PRS to reduce the use of temporary accommodation. Consequently, PRS access schemes have increasingly been used to accommodate statutory homeless households, such as families with children, who might previously have experienced a (potentially prolonged) period in temporary accommodation before accessing a social tenancy.[74]

Some of the current methods to help low-income tenants access the PRS are:

- Cash rental deposit schemes
- Bond or guarantee schemes for rental deposits
- Incentive payments to landlords to let to certain groups (e.g. homeless households)
- Assistance with rent in advance
- Social lettings agencies
- Landlord and tenant matching schemes
- Support with claiming housing benefit
- Tenancy floating support schemes
- Private sector leasing schemes

Evidence suggests that such schemes are relatively extensive, especially in London. Crisis has previously received government funding to administer the Private Rented Sector Access Development Programme, which expanded support for access schemes for homeless people. A total of 153 schemes received funding under the programme, and coverage was broad across the country.[75]

A number of organisations have called for the expansion of 'social lettings agencies'. These are a type of PRS access scheme: lettings agencies specifically set up to help low-income and homeless households into the PRS and incentivise landlords to let to people claiming housing benefit. The Centre for Social Justice (CSJ) called for a £40m fund to aid the expansion of social lettings agencies and encourage the introduction of new entrants.[76] London Mayor Sadiq Khan pledged to establish a London-wide social lettings agency.[77] The previous government's Housing White Paper said ministers would "consider whether social lettings agencies can be an effective tool for securing more housing for households who would otherwise struggle".[78]

Challenges to expanding PRS access schemes and social lettings agencies

One of the biggest challenges to expanding PRS access schemes is landlord reluctance to participate. Shelter's private landlord survey shows that a substantial minority of landlords who will not rent to housing benefit claimants are adamant that nothing will change their mind.[79] A review of the PRS in South London concluded that because of the buoyancy of the local market, "any landlords willing to set up working arrangements with the local authority will be in a minority."[80] The shortfall between LHA rates and rents also limits the ability of PRS access schemes to source affordable accommodation for tenants, and to persuade landlords to let to people on housing benefit.[8182] Additionally, DCLG funding cuts have resulted in councils rationing local service provision, impacting their ability to establish and maintain PRS access schemes, particularly for those to whom no statutory duty is owed.[83]

PRS access schemes, especially social

lettings agencies, have had varying success in developing a long-term sustainable model.[84] London borough social lettings agencies are falling far short of cost-neutrality and are not financially viable. To increase overall viability, some councils have proposed broadening the scope of agencies to include market rent properties for higher income tenants, in order to subsidise lower value ones. Many councils are reluctant to go down this route – currently, practitioners' chief concern of meeting the urgent needs of their vulnerable residents supersedes the time and planning required to establish an alternative financial structure.[85]

Inadequate LHA rates have the potential to push PRS access schemes into offering unsuitable accommodation with disrepair issues and far away from people's home area. Shelter's Sustain report, which followed homeless households who had used PRS access schemes, found that after 19 months every home had a condition problem, the majority of people had to deal with problem landlords, and some people were moved into cramped, unsuitable accommodation.[86] The search for accommodation outside local authority boundaries also has the potential to increase competition between PRS access operators for a small pool of properties.[87]

Monitoring and assessing the success of PRS access schemes is difficult because of a shortage in local and national data. Clearly, it would be advantageous for the Government to collect further data on such schemes in order to evaluate their effectiveness.

Potential solutions

Current solutions to solving barriers to private renting do not seek to change the structural barriers for low income households, rather, they aim to help people within the current system – mostly with financial assistance.

However, there is the potential to change some of these barriers wholesale, which could mean that households could more easily house themselves without approaching local authorities, or that councils can spend less money attracting landlords. Transformative solutions require the Government to recalibrate LHA rates, transform the deposit system, adapt Universal Credit to better suit private landlords, make it easier to get advances in benefits, and combat prejudice against housing benefit tenants.

The Government must end the freeze on LHA and restore rates to the 30th percentile of the rental market

The only way to overcome affordability barriers faced by LHA claimants in accessing suitable homes in the PRS is to end the LHA freeze and make sure that, at the very least, LHA rates are readjusted to reflect the 30th percentile of the market. This is supported by organisations including the Local Government Association, the Joseph Rowntree Foundation and the Chartered Institute of Housing.[88] In 2017, Lord Freud, former Minister for Welfare Reform, described the current LHA rates as "all over the place" and recommended the return of a "simple, coherent system". Ending the LHA freeze and returning LHA rates to matching the 30th percentile of the local market is essential if low income households are to be able to access private tenancies.

There should be a fundamental review of tenancy deposits

The Government should consider examples from New South Wales and New Zealand, in which tenants lodging deposits are able to directly manage their deposits online. The Government should consider ways that tenants can transfer their deposits from one tenancy other and pay for their deposits in instalments.

Other countries offer a model for the wholesale reform of the system of deposit payments. Examples include allowing tenants to directly manage their deposits, which has the potential to increase transparency and cut down the delay in retrieving deposits in between moves.

For example, in New South Wales, Australia, agents and self-managing landlords must offer an online deposit scheme called Rental Bonds Online as the first option for lodging a deposit. This system allows the tenant pay their deposit directly to a government-administered agency. It also allows tenants to pay their deposit in instalments, with tenants logging into their account and managing their payments.[89] Further, in New Zealand, tenants are able to transfer their deposit to another landlord at the end of a tenancy if the new landlord agrees.[90]

Employers should take up Shelter's rental deposit loan model to grant employees interest-free loans to help them secure a new rented property

Since 2013, Shelter has pioneered a rental deposit loan scheme. Under the scheme, employees can borrow an interest-free loan to cover the cost of a deposit for a rented home up to the level of their monthly earnings. The scheme has since been taken up by organisations including the Greater London Authority, the DCLG, and the Co-operative Group. This scheme helps employees overcome the barrier of needing money upfront to secure a property. So far, the number of employers that have signed up to the scheme are in the minority. There are obvious advantages to the scheme being rolled out more widely across the UK. However, while this programme is part of the answer, other solutions must be found for those who are unemployed, self-employed or working low-paid jobs with irregular hours.

The Government must take action to ensure Universal Credit does not result in landlords refusing to let to benefit claimants

This should include giving tenants a choice over whether their housing element is paid direct to their landlord. Private landlords should have access to Trusted Landlord Status through a third party intermediary.

Private landlords need greater assurances that Universal Credit will not increase tenants' risk of arrears. Initiatives taking place in the social rented sector could be replicated to improve access.

Easing the ability of landlords to secure an APA for tenants who would struggle to pay their rent would stop tenants sliding into rent arrears and would persuade private landlords to rent to this group. Indeed, the Residential Landlords Association has said: "If a landlord can apply for an APA from the beginning, they may be more likely to offer a property to a UC-claiming prospective tenant, or keep on a tenant who is moving onto UC after a job loss or change in circumstances."[91]

Private landlords should be able to participate in the Trusted Partner scheme through an intermediary such as a local authority. This would work particularly well in cases where a homeless household has been helped by their local authority into a private rental.

The Government should allow more tenants to access advance payments from their benefits, including child tax credits and working tax credits (and the equivalent in Universal Credit)

Repayments for benefit advances should be set at reasonable levels and take into account claimants' ability to pay for essential items. The Government should allow a wider group of households the ability to access advance payment in legacy benefits and Universal Credit. For example, advance payments should be available to those claiming Child Tax Credit and Working Tax Credit (and the equivalent in Universal Credit).

This would allow these households access to upfront finance without entering into unsustainable borrowing. Repayments should be fair and reasonable, and reflect the household's ability to pay for household essentials. Additionally, this help should be better publicised and figures should be collected about the success rates of people applying.

Mortgage lenders should stop barring landlords from renting to housing benefit claimants. UK housing charities should monitor the use of legislation in Republic of Ireland to stop landlords barring housing benefit tenants from their properties

The mortgage provider market should self-regulate to address mortgage lenders that act as a barrier to landlords willing to accommodate low-income households. It is unclear whether mortgage providers' policies are based on evidence or merely prejudice. The mortgage industry should self-regulate to stop this practice, or else the Government should step in and put pressure on providers. The Government should monitor different options for preventing prejudice in the PRS and collect information about legislation to prevent landlords being prejudiced against housing benefit claimants.

The Government should collect data on local authorities' use of PRS access schemes (or fund non-government organisations to collect this data), as it is currently unclear how widespread and accessible these schemes are

Better local and national data on the use of PRS access schemes would help policymakers assess the effectiveness of this approach.

CONCLUSION

Our analysis shows that there is no single barrier to accessing the PRS. There are multiple barriers, which often interact with each other. For example, restrictions to LHA rates make landlords more likely to have a blanket ban on letting to claimants as they perceive the system to be unattractive. Market competition, affordability and the level of LHA, housing benefit administration, landlord attitudes to renting to housing benefit claimants and upfront costs, all make it harder for households to secure accommodation. These factors also make it difficult for PRS access schemes to flourish.

Schemes set up to provide solutions often hit the same barriers themselves, such as landlord reluctance to house LHA tenants, and existing schemes have struggled to remain financially viable. Therefore, while PRS access schemes are valuable, they will not be transformative without changes to the structural barriers to private renting, so that more households can find private rentals without help from local authorities or the voluntary sector.

It is debatable whether the PRS was ever structurally designed, equipped or prepared to provide homes for households on low incomes. Very little PRS is owned or managed by public or charitable landlords, which means that it is often ill equipped to support tenants who are struggling with their rent payments. Housing associations have made inroads into the provision of PRS in recent years, however, they have tended to focus on intermediate and higher rents. The majority of private landlords are reluctant to rent to housing benefit claimants. And the high rents commanded by the market are themselves an impenetrable barrier for many households.

Addressing lack of access will become more pressing as housing policy continues to rely on the PRS to accommodate households unable to access home-ownership. There is an assumption in housing policy that the PRS will be the default tenure for those priced out of homeownership or unable to secure a social tenancy, but this is increasingly not working. As the social rented sector contracts, private housing may replace it as the main tenure for people in housing need. But the PRS market's aforementioned limitations mean that significant Government intervention is needed if it is to play an expanded role in preventing homelessness and housing people on low incomes.

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