

Research: report

Taking the strain

The private rented sector in the recession



Money
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Foreword



Kay Boycott

To date, the Government's response to the impact of the economic downturn on housing conditions has focused principally on the plight of homeowners. Shelter and the Money Advice Trust (MAT) have been pleased to support this work. However, we are acutely aware of the impact that the recession is having on both tenants and landlords in the private rented sector (PRS), and the positive role that targeted advice and support can have. MAT therefore commissioned Shelter to carry out research with lower-income private tenants and landlords to explore how they are coping in the recession and to identify policy recommendations to meet the advice and support needs of these groups in future.



Joanna Elson

Our research found that the overwhelming majority – nine out of 10 – of the tenants we surveyed were struggling or falling behind with their financial commitments during the recession. Although almost one-third of tenants had received advice on their financial problems, it is alarming that one in five did not know where to go for advice if they needed it in the future. A significant minority of landlords we surveyed also said that they were struggling, among whom newer landlords were over-represented. The research found that the financial pressures of the recession are having an impact on tenants' physical and mental wellbeing and on the stress levels of landlords.

Shelter and MAT call on the Government to recognise the significant role that the PRS is playing in helping to pick up the pieces from the housing market crisis. We urge the Government to take forward our recommendations to address problems related to affordability and access to the sector for lower-income tenants, and to ensure that more and better targeted information is available to landlords and tenants in the PRS about their rights and responsibilities. Shelter and MAT believe that local letting agencies can be instrumental in this, but we also recognise our own role in ensuring that free independent advice delivers the necessary support to both tenants and landlords through the recession and beyond.

We look forward to working with the Government, landlords, tenants and other partners to take forward the report's recommendations as swiftly as possible.

A handwritten signature in black ink, appearing to read 'Kay Boycott'.

Kay Boycott
Director of Communications,
Policy and Campaigns
Shelter

A handwritten signature in black ink, appearing to read 'Joanna Elson'.

Joanna Elson
Chief Executive
Money Advice Trust

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November 2009

Written by Liam Reynolds and Jackie Smith

Cover photograph by Nick David

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The Money Advice Trust

The Money Advice Trust (MAT) is a charity formed in 1991 to increase the quality and availability of free, independent money advice in the UK.

MAT works in partnership with the Government, the private sector and the UK's leading money advice agencies to support individuals and micro-businesses in the UK with unmanageable debts and to improve the capacity, quality and efficient delivery of free-to-client, independent money advice through: advice to the public, co-ordination, influence, information, research and training.

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Key findings

Money Advice Trust commissioned Shelter in February 2009 to carry out research into the impact of the current economic downturn on the private rented sector and to identify ways in which advice services could serve the sector better. Shelter carried out quantitative surveys with lower-income private tenants and private landlords who were members of the National Landlords Association. More detailed telephone interviews were undertaken with smaller samples of tenants and landlords experiencing financial difficulties.

Lower-income private tenants in the recession

For many years private tenants have been found to be particularly vulnerable to financial pressures. Their housing costs are relatively high and this pushes a disproportionate number of them below the poverty line. Shelter's research reveals that the recession has exacerbated the financial difficulties of many private sector tenants.

The financial situation of lower-income private rented households

- Nine out of 10 lower-income private tenants (equivalent to 1.3 million households in England and Wales) were struggling or falling behind with their household finances in the recession. This is a significant increase from 51 per cent of a similar sample in 2006, before the recession hit.
- More than one-third (35 per cent) of lower-income private tenants were behind with at least one regular financial outgoing (such as rent or utility bills).
- Utility bills were the most common source of financial difficulty for this group.
- Struggling tenants interviewed did, however, display a strong resilience in the face of their difficulties and described a wide range of practical approaches to coping with their financial pressures, including managing the timing of payments and negotiating with landlords and utility providers.
- Just over half (52 per cent) of the lower-income private tenants surveyed were receiving housing benefit/local housing allowance (LHA). Of these more than 60 per cent received less housing

benefit or LHA than the cost of their rent, and only one-third of these were in part- or full-time work. Almost a quarter of benefit recipients were making up a difference of £49 or more per week.

- Private renting households falling behind with their financial commitments were more likely to be middle-aged, have lived in their current home for fewer than six months, have children present, be paying higher rents, and/or be making regular debt repayments.

Accessing advice and outcomes of advice

- Close to one-third of the lower-income private tenants surveyed had received advice about their financial problems.
- Unsurprisingly, private tenants who were behind with their financial commitments were much more likely to have sought advice about their debts than those who were managing or struggling but not falling behind. However, almost half (46 per cent) of those who had fallen behind with at least one financial outgoing had not sought advice in the last 12 months.

Worryingly, one in five respondents felt that they would not know where to go for advice if they needed it in the future.

- Private tenants had a wide range of ideas about how to improve advice services and access to advice. These included the targeting of specific groups such as people attending a job centre for the first time and people leaving hospital; better targeted marketing such as television slots; and developing accessible, high-quality and trustworthy online sources – maybe through local authorities.

Landlords in the recession

This research confirms that the current economic climate and rapidly changing housing market is also posing challenges for landlords.

The financial situation of landlords

- The majority of private landlords participating in this research (60 per cent) were managing financially during the recession without too much difficulty. Around one in 10 were constantly struggling or falling behind.

- New landlords (those who have been operating for fewer than five years) were the worst affected and more than half were struggling or falling behind with their finances.
- Landlords struggling or falling behind with their finances were more likely than all landlords to have seen an increase in the number of their tenants claiming housing benefit since the start of the recession (51 per cent compared with 30 per cent).
- The number of landlords increasing the size of their portfolio had halved since the start of the recession (54 per cent had increased their portfolio before the recession, compared with 22 per cent in the last two years).

Rent levels and managing rent arrears

- Almost half of the landlords surveyed (47 per cent) reported having tenants in rent arrears. The rate of arrears was higher among landlords struggling or falling behind with their finances (57 per cent), but highest among those letting to housing benefit/ LHA claimants (65 per cent).
- The majority of landlords (62 per cent) said that they would maintain rents at the same level over the next 12 months.
- Landlords reported that the recession has meant that they are vetting potential tenants more carefully than in the past, as a means of reducing the risk of rent arrears.

The supporting role of private landlords

- The interviews revealed that a number of landlords were performing a valuable support role for their tenants, in some cases signposting tenants to support agencies or offering them some flexibility in their rent payments.
- Generally, when rent arrears first arise, landlords tried hard to come to an arrangement with the tenants.
- However, several landlords interviewed were reconsidering their approach, particularly in the context of direct payment of LHA to tenants. Several remarked that they need to be less 'soft' and to take action more quickly when tenants missed rent payments.

Support and advice for landlords

- A quarter of landlords surveyed had sought advice about the finances of their property portfolio over the last 12 months.
- The most common source of advice was the landlord's bank or independent financial adviser. This also applied for sources of advice they would use in the future. The second most common source of advice was 'other landlords'.
- One in 10 of landlords struggling or falling behind with their finances did not know where to go for advice, compared with one in 20 of landlords overall. This is of concern given that the struggling landlords were the ones most likely to need advice.
- The landlords participating in this research were all members of the National Landlords Association (NLA). They were very supportive of their trade body and reported that they benefited from the services and advice the organisation offered.

Background

In spite of abundant evidence about the financial vulnerability of private sector tenants, the sector has received little attention during the economic crisis. This research aims to provide much-needed insight into the impact of the recession on tenants and landlords in the private rented sector and the role that advice services play in the sector. This chapter looks at existing evidence and provides the policy context for this research, before outlining the research aims and methodology.

In the last two years we have witnessed a major economic downturn, both in the UK and worldwide. In the UK, after a decade of unprecedented house price inflation, prices began to fall in late 2007. At the time of writing, the country remains in a recession¹ that officially began in the second quarter of 2008, though there was clear evidence of emerging problems, at household and macro level, prior to this. The economic turmoil has dominated UK politics and media this year: attention has focused on repossessions in the owner-occupier sector with little attention on the private rented sector (PRS).

There is, however, considerable evidence that people living in private rented housing face particular difficulties with housing affordability and their finances in general.² Furthermore, in many ways it is the PRS that picks up the pieces of housing market crashes and recessions. Previous recessions have seen growth in the sector and it has played a key role this time round. The PRS is both experiencing the symptoms of the recession and providing solutions for it.

Changing supply and demand in the PRS

The PRS has been growing in recent years: from 10 per cent of all households in England in 2000 to 14 per cent by 2008.³ A number of long-term trends have contributed to this; for example, the limited availability of social housing, the increase in the cost of owner-occupation, changes in lifestyle such as young households settling down later, the rise in one-person households and the increase in migrant

workers. This demand has been met by the rapid growth in buy-to-let landlordism since buy-to-let mortgages were launched in the late 1990s.

Instability in the housing market and the economy has meant that the PRS continues to play a significant and complex role. The majority of households whose homes are repossessed will move into the PRS⁴, as will many other people who may move voluntarily when their mortgages become unaffordable. The PRS is also being used increasingly to accommodate households approaching their local authority for housing or homelessness assistance.

On the supply side, the recession has led to some increase in the supply of private lettings as homeowners either defer sales or are unable to sell and become so-called 'reluctant landlords'. However, levels of repossessions on buy-to-let mortgages now stand at about the same level as for homeowners (0.24 and 0.22 per cent repossessed in the first half of 2009 respectively)⁵, which has resulted in more unplanned moves for some tenants in affected properties and may have also resulted in a reduction in the overall number of properties available for private rent. The PRS is clearly taking the strain of the recession – for tenants and landlords alike.

Housing costs pushing private tenants into poverty

A focus of this research is on how private tenants are managing financially in the recession. Research published by the Department for Work and Pensions

1 A recession is officially defined as two consecutive quarters of negative economic growth.

2 For example: Shelter, *Breaking point – How unaffordable housing is pushing us to the limit*, 2008, see england.shelter.org.uk/professional_resources/policy_library

3 CLG, *Housing in England 2007–08*, September 2009.

4 CLG [online], Survey of English Housing: Live tables S345 (accessed November 2009): <http://shltr.org.uk/33>

5 Council of Mortgage Lenders (CML) [online], Table AP8, August 2009: www.cml.org.uk

(DWP)⁶ provides clear evidence of the way the high costs associated with private renting can push households, and particularly families with children, into poverty. Figure 1 below shows that although poverty is distinctly more common among social tenants than private tenants before housing costs are factored in, the gap narrows significantly once housing costs are included. Housing costs push families that are renting privately into poverty in a way that the other tenures do not: with housing costs factored in, children in private renting households are almost as likely to live below the poverty line as those brought up in social renting households. This illustrates the high costs of renting in the PRS.

Shelter's *Breaking point* research⁷, carried out in March 2008, just before the recession hit, found that private tenants were much more likely than those in other housing tenures to be spending half or more of their income on their housing (24 per cent, compared with 15 per cent among social renting households and seven per cent among owner-occupiers). Although, on average, private tenants do have higher incomes than social tenants, Shelter's research found that they were just as likely as social tenants to be constantly struggling or falling behind with their housing costs (18 per cent of private tenants and 17 per cent of social tenants). Statistical analysis of the 2007 English and Welsh Civil and Social Justice Survey also reveals a higher incidence of problematic debts among private tenants than among those in other tenures.⁸

Who seeks housing advice and what are their problems?

The number of clients who come to Shelter with problems related to the PRS has always been disproportionately high in comparison with the size of the tenure: in 2008/09, these clients accounted for around a quarter of our cases where tenure was recorded. Shelter has dealt with more than 14,000 advice problems relating to the PRS over the last year⁹; over the same time period, our web advice pages on the PRS received 765,000 page views. This reflects a considerable demand for advice and help on issues relating to the PRS.

Research for this report analysed 120 Shelter cases where the client was a private tenant and their problem concerned their finances, debts or housing affordability. It revealed the following details:

- disproportionately high rates of lone parenthood (28 per cent) and the presence of dependent children (52 per cent)
- half the clients were in rent arrears, among whom three-quarters had arrears of more than £1,000
- one in seven clients had other priority debts such as council tax arrears
- high levels of mental and physical health problems among these clients and their dependents – for example, one-fifth reported that they had mental health problems

Figure 1: Likelihood of being below the poverty line (60 per cent of median income) by tenure, individuals and children

	% below poverty line before housing costs	% below poverty line after housing costs
All individuals in UK		
Owner-occupiers	14	14
Social renting	36	47
Private renting	20	38
Children in UK		
Owner-occupiers	14	19
Social renting	47	59
Private renting	28	54

Source: DWP, *Households Below Average Income – An analysis of income distribution 1994/95 – 2007/08, 2009*.

6 Department for Work and Pensions (DWP), *Households Below Average Income – An analysis of income distribution 1994/95 – 2007/08, 2009*.

7 Shelter, *Breaking point – How unaffordable housing is pushing us to the limit, 2008*.

8 Pleasence, P, et al, *Civil Justice in England and Wales: Report of the 2007 English and Welsh Civil and Social Justice Survey*, LSRC Research Paper No. 22, Legal Services Commission, 2008.

9 October 2008 to September 2009.

- shortfalls between housing benefit and rent were a major issue for more than one-third of clients
- one in seven clients had a problem concerning the state of repair of their home.

Debt and money advice

Considerable evidence around using and accessing advice comes from the Government's Financial Inclusion Taskforce¹⁰ and research commissioned on financial capability in 2005.¹¹ The research identified financial capability clusters and found that private tenants are over-represented in the clusters that are the least financially capable and are significantly less likely than others to plan ahead. We might, therefore, expect this group to be a significant beneficiary of improved and more accessible debt and money advice.

There is a large body of recent research on the more general issues of financial inclusion, debt and money advice, which have helped to shape this research and might apply equally to tenants and landlords.

A Legal Services Research Centre (LSRC) study¹² found that people sought advice for debt problems when encouraged to do so by others, when they needed information and to reduce their debt, or when they were desperate for help or someone to talk to. Advice could be formal or informal and the decision to seek advice was influenced by family, friends, respected professionals, previous experiences, perceptions, and advertising. Citizens Advice was by far the most common source of formal advice, with banks, local authority offices and solicitors also mentioned as sources of advice. Some people experiencing debt problems sought no advice: this was mainly driven by shame and embarrassment, but also by low awareness of advice services and perceptions about the inaccessibility of such services.

The LSRC research found that experiences of advice were generally positive, with clear emotional and practical benefits. In cases where advice was not considered a positive experience, this was attributed to a lack of new information, clarity or practical solutions drawn from the advice experience, and to the client's financial situation having deteriorated after they had received advice. Three main types of advice were identified as important: factual

information, advice and guidance, and emotional support; and advice needed to be delivered in an independent, impartial and accessible way.

The Government has embarked on a number of initiatives to improve financial inclusion and capability, and access to financial advice for those who need it. In July 2008, it announced its response to the Thoresen review into financial advice¹³: the launch of its financial capability action plan¹⁴ and a pathfinder to pilot the review recommendations around advice provision. The pathfinder began in April 2009 in the north west and north east of England and will run for two years under the brand 'MoneymadeclearTM'. The Financial Services Authority (FSA) is responsible for delivering this and the pathfinder will be independently evaluated. Although this should bring benefits around signposting and early advice to all households, as yet there is little targeted attention on private tenants.

Research aims and methodology

In this context, the Money Advice Trust commissioned Shelter to carry out research on the impact of the current economic downturn on the PRS (tenants and landlords) and to explore ways in which advice services could better serve the sector. Shelter has drawn on existing evidence and the policy context discussed above to shape primary research with both tenants and landlords in the PRS.

The main objectives of this work were to:

- explore the relationship between debt, housing costs and other financial pressures, and the risk of eviction and/or homelessness
- explore the extent or threat of evictions in the recession and how landlords handle their own potential arrears/financial pressures and those of their tenants
- use the data collected from landlords, tenants and advice workers to identify solutions for targeted advice aimed at private tenants and landlords.

The following more detailed questions were addressed in the research:

- What are the features of the lower-income bracket within the PRS and how do these tenants differ from other private tenants?

10 For more information, see www.financialinclusion-taskforce.org.uk/research

11 Atkinson, A, et al, *Levels of Financial Capability in the UK: Results of a baseline survey*, Financial Services Authority (FSA), 2006.

12 Turley, C and White, C, *Assessing the Impact of Advice for People with Debt Problems*, Legal Services Research Centre (LSRC), 2007.

13 Thoresen, O, *Thoresen Review of generic financial advice: final report*, HM Treasury, 2008.

14 FSA, *Helping you make the most of your money: A joint action plan for financial capability*, 2008.

- How are households on low incomes living in private rented accommodation dealing with their housing costs, bills and debts in the recession?
- How do lower-income private tenants access and use advice services and is there unmet need for advice among this group?
- How have private landlords' businesses been affected by the recession and is this having a knock-on effect on their tenants?
- How do private landlords access and use advice services and is there unmet need for advice among this group?

Tenant survey and interviews

Shelter commissioned YouGov to conduct an online survey in May 2009 of 745 private tenants with a gross annual household income below £20,000 (or below £25,000 in London). These amounts were selected as being just below median average incomes in the PRS. The results were weighted for income and geographic region, giving a good representation of the 1.5 million private renting households in England and Wales who fit these income criteria.¹⁵ Results based on the whole sample are subject to a statistical margin of error of up to 3.5 per cent.

In addition, follow-up telephone interviews were carried out with 29 tenants who had responded to the YouGov survey. Respondents who were experiencing particular financial difficulties were deliberately selected for interview to better understand the specific issues and causes of their problems, and to explore people's attitudes to advice. The interviews were undertaken over a three-week period in May 2009.

Seventeen of the interviewees were male and 12 were female. Two-thirds were currently receiving housing benefit or local housing allowance (LHA); around one-third had incomes below £10,000 and a further third had incomes of £10–15,000. One-third were aged over 55 years and eight of the 29 interviewees were under 35.

Landlord survey and interviews

The National Landlords Association (NLA) carried out an online survey on behalf of Shelter of 440 private landlords from among its members (approximately 18,000) in July 2009. Landlords who are members of NLA are, on average, more experienced, hold larger

portfolios and are less likely to employ agents to manage their properties than private sector landlords overall.¹⁶ Only 17 per cent of all landlords are part of a membership body in England. This means that the results in this study, while being a good representation of landlords in a membership body, do not represent all private landlords. There are clear benefits to being part of a membership body and some problems raised by landlords in this survey are likely to be more keenly felt by other landlords. Results based on the whole sample are subject to a statistical margin of error of up to 4.5 per cent.

The results presented in this report include some tables where landlords are grouped into categories:

- struggling landlords: landlords who said that they were struggling financially from time to time or constantly, or that they were falling behind with their finances (base: 179)
- landlords who accept housing benefit/LHA claimants: this group includes landlords who are currently letting to at least one housing benefit or LHA claimant, and those who are not currently letting to claimants, but would do (base: 226)
- new landlords: landlords with five or fewer years' experience as a landlord (base: 82).

In-depth telephone interviews were conducted with 15 landlords, 14 of whom responded to the NLA survey and one of whom was sourced from Business Debtline. As with the tenant interviews, respondents experiencing particular difficulties were deliberately selected for interview.

The 15 landlords interviewed had highly diverse businesses throughout the UK. For some, being a landlord was their main business and a full-time job; some were retired and saw letting as a sideline activity; for others, renting out property was one of a portfolio of businesses. The approaches to the management of rental properties and the level of contact with tenants were also diverse. Some landlords saw their tenants every week (often at the low end of the market), others let through agents and saw their role purely as the property owner. The scope of their businesses ranged from three properties (as a pension investment) to being 'the main landlord apart from the housing association in the area'; for example, one landlord had 60 properties and another had more than 100 bed spaces in houses in multiple occupation (HMOs).

¹⁵ Where estimated figures for numbers of households affected appear in the report, these are based on proportions of these 1.5 million households.

¹⁶ In comparison with results in CLG, *English House Condition Survey 2006: Private Landlords Survey*, 2008.

Lower-income private renting households in the recession

The recession is having a severe impact on lower-income private tenants: the number struggling or falling behind with their finances has almost doubled since before the recession. This chapter discusses the findings of this research into how the recession is impacting on this group.

How do lower-income private tenants compare with the sector overall?

In order to better understand the nature of lower-income private tenants, the profile of respondents to our survey¹⁷ were compared with that of the whole sector, using data from the Survey of English Housing.¹⁸ This revealed the following:

- Lower-income private tenants were much more likely to have lived in the sector for longer: 56 per cent had lived in private rented housing for more than five years, compared with 28 per cent of private tenants overall.
- Lower-income private tenants were more likely to have lived in their current home for longer: 22 per cent had lived in their current home for fewer than 12 months, compared with 40 per cent of all private tenants.
- Lower-income private tenants tend to move home for less positive reasons, for example relationship breakdown or being unable to meet their housing costs. Across the whole sector, moves for employment reasons and wanting a bigger or better home were more common drivers.

The financial situation of lower-income private tenants in the recession

Prior to the recession, in 2006, data from research commissioned by the FSA found that half of lower-income private tenants were struggling or falling behind with their household finances.¹⁹ The survey undertaken by Shelter in May 2009 for this research asked lower-income private tenants the same

question and a far higher proportion – 90 per cent – said that they were struggling or falling behind with their finances. In 2006, just six per cent of this group were falling behind with some bills or payments or having real financial problems, but this rose to 16 per cent in 2009, during the current recession.

Figure 2 (opposite) compares the results from 2006 and 2009 when respondents were asked to describe their current financial situation. The table also includes an estimate of the number of households to which the percentages for 2009 equate.

Falling behind with financial commitments

Figure 3 (opposite) shows which financial outgoings lower-income private tenants are falling behind on. This paints an even more worrying picture: more than one-third had fallen behind with one important financial commitment and a fifth with two or more.

Causes of financial difficulties

Utility bills were the most common regular outgoing this group were falling behind with (Figure 3). Likewise, Figure 4 (page 14) shows that ‘unexpectedly high utility bills’ were by far the most common reason given by lower-income private tenants for their current overall financial difficulties. This is despite the fact that according to the Office of National Statistics (ONS) 2009 saw low inflation on utility bills for the majority of customers, which follows a number of years of rises.²⁰ This is of particular concern given that the PRS contains the oldest and least energy-efficient homes²¹ of all the tenures. A fifth of lower-

17 For more details about the survey and interviews with tenants, see methodology on page 11.

18 CLG, *Survey of English Housing Preliminary Results 2007/08*, 2009.

19 Atkinson, A, et al, *Levels of Financial Capability in the UK: Results of a baseline survey*, FSA, 2006. Sample size of lower-income private tenants: 400.

20 Office of National Statistics (ONS), *Focus on Consumer Price Indices September 2009*, 2009.

21 CLG, *English House Condition Survey 2007: Headline Report*, 2009.

Figure 2: Current financial situation of lower-income private tenants, 2006 and 2009

	% of lower-income private tenants, 2006	% of lower-income private tenants, May 2009	Estimated number of households, 2009
Managing without any difficulties	50	10	150,000
Managing but it is a struggle from time to time	35	36	540,000
Managing but it is a constant struggle	9	38	550,000
Falling behind with some bills or payments	4	9	135,000
Having real financial problems and have fallen behind with many bills or payments	2	7	105,000

Base/source: Lower-income private tenants, 2006: 400 lower-income private tenants in FSA survey of financial capability in the UK, 2006. Lower-income private tenants, May 2009: 745 responses Shelter/YouGov survey of lower-income private tenants, May 2009. Estimated number of households, 2009: 1.5 million private renting households with gross annual household income below £20,000 (£25,000 in London), CLG, Survey of English Housing 2007/08: Table 1.12.

income private tenants said that loss of income due to unemployment was the main factor behind their current financial difficulties. This proportion was even higher among respondents who were falling behind with one or more regular outgoing (see Figure 4 on page 14).

A separate question in Shelter’s survey established that two-thirds of lower-income private tenants were making regular repayments for debts that they had accrued and of these 45 per cent were repaying more than £100 per month. Figure 4 (on page 14) shows that struggling to deal with debt repayments was

particularly common among respondents who were falling behind financially.

One in eight (13 per cent) of respondents gave difficulties with managing a budget as one of the main reasons for their financial problems. Respondents are sometimes reluctant to admit this in surveys and this result points to a significant need for advice and support, particularly as this answer appears to be more common among those falling behind with their finances. Just below half of the respondents who gave this reason had sought advice in the last 12 months.

Figure 3: Financial commitments lower-income private tenants are falling behind on, 2009

	% of lower-income private tenants falling behind with this outgoing	Estimated number of households, 2009
Utility bills	16	240,000
Credit cards	13	195,000
Council tax	9	135,000
Rent	8	120,000
Personal loan	8	120,000
Other debts	6	90,000
Behind with at least one outgoing	35	525,000
Behind with two or more outgoings	21	315,000
Not behind with any outgoing	65	975,000

Base/source: Lower-income private tenants behind with particular financial commitment, 745 responses Shelter/YouGov survey of lower-income private tenants, May 2009. Estimated number of households, 2009: 1.5 million private renting households with gross annual household income below £20,000 (£25,000 in London), CLG, Survey of English Housing 2007/08: Table 1.12.

Figure 4: Main reasons for current financial difficulties

	% of all lower-income private tenants	% of lower-income private tenants falling behind financially
Unexpectedly high utility/fuel bills	41	43
Loss of income – unemployment	20	29
Debt repayments too much	17	34
Increase in rent	14	18
Loss of income – reduced hours	14	16
Loss of income – sickness	13	18
I’m not good at managing a budget	13	18

Base: 1,076 responses from 673 respondents (respondents could tick more than one reason); Shelter/YouGov survey of lower-income private tenants, May 2009; 211 lower-income private tenants falling behind financially.

Financial and housing vulnerability

In-depth telephone interviews with struggling lower-income private tenants revealed that people in vulnerable situations in one aspect of their finances can be more vulnerable to pressure and exploitation in another area. For example, some of those interviewed who were facing debts did not feel they were in a position to ask a landlord for leeway or essential maintenance because they were afraid of eviction or a poor rental reference. People on low incomes who fear being made homeless or going without food or fuel may be more vulnerable to being sold expensive credit. The interviews revealed further details on this:

- Some respondents felt that financial services, including major banks, had sold them loans that they could not afford and had taken advantage of their inability to grasp information presented as interest rates rather than absolute amounts. Few even knew what interest rate they were paying on their loans. Interviewees found that home credit²², although very expensive, was clear and upfront about payment terms.
- Tenants felt that utility providers had sometimes misled them with respect to prices (though it is possible that they might have misunderstood what they were told). For example, some people reported that they had been told, incorrectly, that it would be cheaper to leave the heating on all day. The company said they would provide cheaper rates, but then took out higher direct debit payments.
- Several people felt they were being chased for debts that they had not incurred or that they thought were ‘void’ because so much time had

elapsed since the debt was incurred. Many people had been harassed with multiple daily phone calls by debt collectors. One respondent had been cold-called by a company and accepted a debt management plan with high administration fees. She was happy with the service and would recommend it, but reported that the debt management agency was taking half her payments as admin charges.

- Options for people on low incomes to deal with their financial situations may be limited. One woman discovered that if she took the option of bankruptcy, she then faced the possibility of losing her lease. Another respondent spoke of being unable to access Individual Voluntary Arrangements and debt management because of his low income as a carer.

The impacts of financial struggle

Figure 5 (opposite) shows the detrimental effect financial difficulties were having on many private tenants and their families. Four in 10 respondents (39 per cent) agreed that debt was affecting their physical or mental wellbeing, which is the equivalent of almost 600,000 households. This increased to almost 50 per cent for households with children.

The interviews revealed in more detail how the economic downturn had affected this group. Respondents mentioned the following impacts and reactions, with the first being the strongest impact on them:

- increase in prices of utilities and food, rationing use of utilities and petrol, cutbacks in food consumption, as well as cutbacks in social activity

²² Often known as ‘doorstep loans’.

- a sense of hopelessness in the face of rising unemployment, fewer jobs to apply for and increasing rejections to job applications
- anxiety over rent increases or perceptions that the landlord might sell the property because of financial hardship
- conversely, some private tenants felt more stable because of the recession because they felt that with house prices being low their landlords were less likely to sell the property.

‘We have gone a few times paying rent and food for the kids, and then gone without food for myself.’

‘I did go without utilities. I felt cold but wasn’t putting the heating on. I’d leave it till the last thing. Till my teeth are chattering! You’ve got to have warmth – I had a bit of damp in one room I had to air out.’

‘High rent and debts are a barrier to getting out. I have become virtually a recluse [sic], partly because of my health but more because of money.’

‘There are no jobs; there is no work; there is no money. I don’t think anything will change in the next six months.’

Coping strategies

It was clear from the interviews that tenants responded differently to the uncertainties of renting in the recession: some put their concerns to one side because they felt they had little control, others felt constant stress about their situation. However, respondents in this sample did display a strong resilience and described a wide range of practical approaches to coping with their financial pressures. These included:

- managing the timing of payments – using different income streams from work and benefits to pay for

the most immediate (but not necessarily the most important) payment requests

- negotiating with landlords over rent and repaying rent arrears
- negotiating utility payments – some respondents reported that utility companies had been understanding and offered flexible repayment plans where underpayment had occurred
- approaching MPs to challenge or speed up benefit payments
- using pawn shops or selling off possessions on online auction sites such as eBay
- internet research for information about how to deal with creditors and debt-collectors
- borrowing from family, sometimes from parents, who are themselves on low incomes; home credit or credit cards.

‘I used to pay £8 a month. It was raised to £15 a month, I noticed, and they said it was based on how much I used. Now I’ve made a deal with them [the gas supplier].’

However, some tenants had employed less successful self-help approaches, delaying contact with their creditors, which in turn had caused their circumstances to deteriorate.

Coping in the future

More than one-fifth (22 per cent) of survey respondents said that they expected to miss more repayments on bills and debts this year than last year. Significantly, however, 46 per cent did not, which indicates an optimism about the future of their own circumstances or that of the wider economy. Figure 6 (see page 16) shows which groups of lower-income tenants were expecting to miss more repayments on bills and debts this year than last.

Figure 5: Impacts of debt on lower-income private tenants

	% of all lower-income private tenants	% of lower-income private tenants falling behind financially
Dealing with debt is affecting my physical or mental wellbeing	39	48
Dealing with debt is harming relationships in my household	19	34
I expect to have to move to a cheaper/ lower-quality home this year to cope	18	20

Base: 745 responses Shelter/YouGov survey of lower-income private tenants, May 2009; 211 lower-income private tenants falling behind financially.

The role of housing benefit and LHA

Housing benefit and LHA help lower-income tenants to pay for their housing. It is particularly important in the PRS where rents are on average much higher than in social rented housing.²³ Housing benefit in the PRS is currently undergoing reform and a new system, LHA, has been in place for all new claims since April 2008. Shelter is carrying out detailed research on the impact of reform to housing benefit in the PRS, which will be published in December 2009. It is, however, relevant for discussion here because the majority of lower-income private tenants are, or could be, claiming it and it can have a considerable impact on how tenants are able to manage in the PRS.

The interviews with private tenants were based mainly on their own experiences and revealed some of the barriers to take up of housing benefit and other benefits, and the impact this can have. The barriers identified included:

- fear of filling out forms
- lack of information about eligibility for health-related benefits
- lack of information about LHA
- confusion about the offers from utility providers for people on benefits, which some had found out about by accident and others reported to be inconsistent
- negative experience of housing benefit overpayments/clawback
- a sense of pride and wanting to manage alone: cultural and generational factors were observed

by some respondents, in particular a sense of stoicism among rural farm workers and older people.

The survey results showed that 52 per cent of lower-income private tenants were receiving housing benefit/LHA. Respondents reported the amount of rent they were paying and the amount of housing benefit/LHA they were receiving in bands, so precise analysis of the differences is not possible. However, the results show that:

- at least 61 per cent of respondents received less in housing benefit/LHA than the cost of their rent, and only one-third of these were in part- or full-time work themselves (information on partners' income was not collected)
- at least 23 per cent were making up a difference of £49 or more per week.

Most of the tenants interviewed were receiving housing benefit. The interviews with private tenants highlighted a range of problems with housing and other benefits that they had experienced, including:

- initial housing benefit claims taking a long time, leading to rent arrears and ultimately repossession orders on their landlord's property
- miscalculated housing benefit and child tax credit leading to overpayments that subsequently needed to be repaid
- delays in housing benefit due to recalculation when a claimant started work
- fear of telling landlords about being a housing benefit claimant (one of the stated aims of LHA is

Figure 6: Respondents who were expecting to miss more payments on bills and debts this year than last year

	% of respondents
All lower-income private tenants	22
Lower-income private tenants:	
With children	27
Under 34 years old	28
Currently making debt repayments	29
Lived in current home for less than six months	30
Already behind with one or more outgoing	49

Base: 745 responses Shelter/YouGov survey of lower-income private tenants, May 2009.

²³ In 2007/08, the median average rent was £67 per week for social rented housing and £115 per week for private rented housing: CLG, *Housing in England 2007–08*, September 2009.

to remove the need for this, but in practice most landlords require references)

- lack of clarity over whether housing benefit payments include bills, causing incorrect payments and making it hard to assess whether rents would be affordable
- delays in resolving small mistakes on forms leading to delays of up to a year in receipt of carer's allowance
- letters communicating benefits and liabilities were hard to understand, in some cases leading to default on payments such as council tax.

Types of lower-income private tenants most likely to be falling behind

Shelter's survey of lower-income private tenants revealed a number of subsets that were more likely to be falling behind with one or more of their regular outgoings or with their finances overall. Twenty-eight per cent of the total sample fell into this category, so any subsets of respondents with 35 per cent or more were statistically significantly more likely to be falling behind than the average lower-income private tenant.

Demographics

- Middle-aged private tenants (40–59 years old) were more likely to be falling behind, at 35 per cent. This may be due to the increased likelihood of redundancy for this group²⁴, having dependent children, and the surprising fact that their average incomes were lower than younger tenants.
- Households with children present were more likely to be falling behind than those without (39 per cent compared with 22 per cent).
- Lower-income private tenants in the north of England were more likely to be falling behind than those living in London (33 per cent compared with 22 per cent).
- Respondents who were unemployed or economically inactive (36 per cent) were more likely to be falling behind than those working (25 per cent) or retired (21 per cent).
- Larger households (those with three or more people) were more likely to be falling behind than one-person households (32 per cent compared with 23 per cent).

Moving home

Lower-income private tenants who had been in their current homes for fewer than six months were more likely than average to be falling behind (36 per cent).

This could be due in part to the fact that some had moved because of their financial problems, but the set-up costs involved in a new private rented tenancy are likely to be a contributing factor.

Those who had moved for financial reasons were more likely to be falling behind than those who had moved for relationship or employment reasons (34 per cent compared with 18 per cent). Many of the tenants in the interviews raised the difficulty of finding the funds for a rent deposit as contributing to financial problems:

'It's very difficult. I really don't want to move on a regular basis. Unless the council help with moving costs I will be in difficulty.'

Rent levels

Lower-income private tenants paying higher rents (above £100 per week) were more likely to be falling behind than those paying rents below £100 per week (32 per cent compared to 25 per cent).

The interviews with private tenants revealed significant fears of rent rises, despite the fact that media coverage about rent levels has tended to suggest rents are not increasing. Some private tenants lived in constant worry about imminent rent rises in the knowledge that they would not be able to afford a higher rent and would have to move out of the property if an increase were to occur.

The reasons interviewees gave for their fears about rent increases were based on experiences of having had a number of rent increases in the past few years, or on the following perceptions:

- market rents have been rising in general
- landlords may be struggling financially and therefore need to find more rent
- because people are losing their homes, excess demand for rental property was putting landlords in a strong position to increase their rents further
- recent refurbishments to properties and communal blocks meant that landlords would be able to command higher rents
- where a property was located in a holiday destination, landlords might be tempted to demand higher seasonal rents given the tourist industry's expectation of people spending more holidays in the UK.

Debts

Lower-income private tenants who had regular debt repayments to make were far more likely to be falling

²⁴ ONS, *Statistical Bulletin: Labour market statistics*, September 2009.

behind than those who had no debts (36 per cent compared with eight per cent). The amount of the regular debt repayments made little difference to the likelihood of falling behind, but those with higher repayments were more likely to give 'debt repayment too high' as one of the main reasons for their financial difficulties.

The interviews with private tenants revealed more about the relationships between being a private tenant on a lower income, debts and 'staying afloat' (or avoiding a financial crisis). Interviewees described how being able to survive financially week to week depended on being able to meet immediate red-letter demands, with other financial commitments being relegated to a back burner. Most tenants used direct debits, but some had to stop these and make manual payments to avoid going overdrawn and incurring bank charges.

Inflexibility in the payment dates for outgoings – typically rent, council tax, debt repayments and utility bills – can lead to financial crisis. Another trigger was where the tenant had no control over the timing of incoming money. This may be due to irregular working patterns, for example with freelance work, or where the fixed payment dates for housing and other benefits does not synchronise with the landlord's rent collection dates. In some cases, delays in the receipt of benefits and a lack of information about negotiating with creditors and utility providers meant that a preventable crisis was deepened.

In several cases, the combination of pressures relating to the tenant's relationship with the landlord, their lack of security of tenure, aggressive debt collection by creditors, and rising living costs had led a crisis point at which tenants had recognised that they were experiencing depression. This may in itself have been a contributing factor, preventing tenants from dealing with their circumstances effectively.

Some respondents had ended up in private rented accommodation as a direct result of crisis and the need to relocate quickly due to ill-health, eviction, to escape from abuse, or to meet a sudden caring commitment (such as for an elderly parent). At such a time they felt particularly vulnerable to emotional stress, which for some affected their ability to manage their finances. Borrowing to fund the cost of relocation into the PRS can lead to debts that then remain as underlying concerns on top of the other stresses encountered by private tenants on low incomes.

Other factors

The interviews with lower-income tenants revealed more about the types of people in this group who were most vulnerable to financial problems:

- tenants suffering from depression, who were struggling to deal with their illness
- tenants who had experienced sudden sickness and loss of employment, and who were having to adjust to their new physical limitations, as well as their new financial limitations
- tenants who were carers, who were tied to a particular location and type of property to be near to a sick or disabled relative, and who could also be suffering from physical and emotional stress relating to caring responsibilities
- young people, who might not be thinking about their long-term future and succumb to a culture of high debts – there was a perception from some younger respondents that the social stigma attached to bankruptcy had reduced although it was felt that some people who went down this route did not fully consider its implications
- self-employed people – a few respondents reported difficulties due to irregular or lower income and being unable to insure themselves against loss of employment.

'There is a new fad for people to make themselves bankrupt, then they mess up their credit ratings and can't get their own home, especially young people. It used to be unheard of.'

Lower-income private tenants and advice

Although a significant proportion of private tenants had received advice about their financial problems, almost half of those currently in financial difficulty had not. This chapter explores the findings about private tenants' interaction with advice services and discusses how such services could be improved to better meet the needs of private tenants.

The survey included questions about advice that respondents had recently received and their preferred means of accessing advice. The outcomes of the advice were also captured. The in-depth telephone interviews explored private tenants' experience of accessing advice and their ideas for improving access to and the quality of that advice.

Accessing advice

Just under one-third (31 per cent) of lower-income private tenants said that they had received advice about their debts in the last 12 months. Lower-income private tenants who were falling behind with their finances were much more likely to have sought advice about their debts than those who were managing or struggling. However, almost half (46 per cent) of those who had fallen behind with at least one financial outgoing had not sought advice in the last 12 months.

The most common sources of advice among respondents were friends or family (51 per cent of those who had sought advice) and Citizens Advice bureaux (35 per cent). Eleven per cent of those who had recently sought advice had contacted the free National Debtline, but a greater proportion (17 per cent) had contacted a fee-charging debt management company. Such services charge clients in return for taking over the process of debt repayment to creditors.

What were the outcomes of advice?

Figure 7 (see page 20) shows that advice delivers a range of benefits. Respondents were slightly more

likely to report benefits such as emotional support and regaining control of their lives than more specific and quantifiable benefits such as longer repayment periods (though respondents may have picked both). More than one-fifth said that advice had made no difference to their situation, although other research has found that this is often a reflection of the client's circumstances rather than the quality of the advice.²⁵ The most common sources of advice reported by those saying that the advice they had received had 'made no difference' or had 'made things worse' (albeit a small number of respondents) were friends and family (27 people) and Citizens Advice (21 people). Other less common responses, which do not appear in Figure 7, were: debts being written off or reduced (nine per cent); consolidation of debts (seven per cent); and made the situation worse (two per cent).

There were small differences in the outcomes reported by those falling behind financially, compared with those of all respondents. For example, those falling behind were more likely to report practical help (help dealing with creditors and making a plan to pay off debts over a longer period) as an outcome of advice than all private tenants surveyed.

There were also differences in the outcomes of advice depending on the source of the advice. For example, those receiving advice from friends and family were more likely to report feeling emotionally supported, whereas those accessing advice from National Debtline or a debt management company were more likely to report help in dealing with creditors as an outcome.

²⁵ Turley, C and White, C, *Assessing the Impact of Advice for People with Debt Problems*, Legal Services Research Centre (LSRC), 2007.

Figure 7: Outcomes of advice

	% of all respondents who had sought advice	% of respondents falling behind financially who had sought advice
Feeling supported emotionally	30	27
Increased feeling of control	27	25
Helped me to deal with creditors	24	31
Increased confidence in dealing with debts	22	20
Debts being repaid over a longer period of time	22	32
Made no difference to my situation	22	25

Base: 231 respondents who had received advice on debts in last 12 months; 113 respondents falling behind financially who had sought advice; Shelter/YouGov survey of lower-income private tenants, May 2009. Respondents could tick more than one outcome.

The interviews with private tenants revealed a number of positive and negative experiences of advice. Most tenants reported that advice had helped them to take control of their situation:

- some tenants had found the help they needed on the internet or through friends and relatives
- others had received advice from an advice agency and now had the confidence to deal with negotiations, creditors and money management alone.

‘People can be helped by having a better understanding of how things work. Since I went to CAB [Citizens Advice], I have even dealt with companies on my own. I send them a sheet with my outgoings and incoming, and write to them offering them £1 a month. Some of them are a bit funny: one company rang and said they would take it as a token offer. But I know that if they took it to court it wouldn’t stand up. Now I am quite confident.’

However:

- some respondents had found advice services inaccessible, with sporadic and limited opening hours and several weeks’ waiting time before receiving advice
- some found that benefit departments and smaller debt advice services²⁶ gave them what they considered to be poor advice that made their situation worse in the long term
- more than one person felt that they had received incomplete or incorrect advice about their housing entitlements by the local authority and therefore had missed out on housing benefit or other benefits

- government leaflets were felt to be patronising, not based on real understanding of people’s circumstances and lacking in understanding of different needs, for example, of people living in rural and urban areas.

Accessing advice in the future

Face-to-face or online advice services were the preferred sources for accessing advice in future among lower-income private tenants.²⁷ Younger tenants (aged under 35) and those in social groups ABC1 (upper, middle and lower-middle class) were more likely to prefer online advice.

The main advantage given for face-to-face advice was that it was easier to explain complex household circumstances and finances in this manner. However, some private tenants were concerned that they were

Figure 8: Preferred means of accessing debt advice services

	% of all respondents who had sought advice
Face to face – pre-arranged	36
Face to face – drop-in	35
Websites	34
Email	23
Telephone	20
Don’t know	20

Base: 745 responses Shelter/YouGov survey of lower-income private tenants, May 2009.

²⁶ These were community-based advice services, not Citizens Advice or National Debtline.

²⁷ The sample was drawn from an online panel, so preference for online channels may be overstated here.

judged as 'able to cope' by their outward appearance and preferred to access advice through more remote channels.

In addition, advice services based in local, community or faith-based organisations were valued for the trust and compassion such services offered, the opportunity to restore self-respect by supporting the organisation in return for the advice received, and working with people's faith to strengthen them emotionally in hard times.

What do private tenants want from advice?

Some lower-income private tenants who were falling behind with their financial commitments felt that it was socially uncomfortable to discuss money worries. This can result in a reluctance to engage with more formal sources of advice. Interviewees suggested many ways in which advice, in its broadest form encompassing preventative and crisis support, could be provided or improved for private tenants. These included:

- providing a preventative money advice service, a drop-in for people worried that they might fall into financial trouble, to enable them to mitigate it – there was a perception that Citizens Advice or debt advice services were for people 'in worse situations' than themselves
- better information and online advice from local authorities about the rights of private tenants in relation to rents and other landlord and tenant issues – this was seen by some to be very difficult to find or simply not available
- better information on the advantages and disadvantages of private renting – this would be useful to those choosing between other tenure options
- more visible advertising of advice services through magazine articles and the media
- increasing the capacity of good but overloaded advice services
- more accessible and approachable legal aid system for tenants facing eviction.

Reaching those in need

One in five lower-income private tenants in Shelter's survey said that they did not know where they would go if they needed advice in the future. In the interviews, tenants highlighted expensive debt management companies because these are easy to find on the internet and were seen as more readily available and easily accessible than free-to-client advice services.

Ten per cent of respondents agreed that they needed advice but were too embarrassed to ask for it. This finding was more prevalent among the under-24s (16 per cent) and far higher (24 per cent) among those who were falling behind. It is a major concern that a quarter of respondents falling behind felt this way.

Interviewees suggested a number of ways in which advice could reach private tenants in need better:

- television slots on money management and advice were thought to be very useful, especially to reach those without internet access
- target the marketing of advice on benefits and money management at: young people, including giving young people personal financial management advice in school; people leaving hospital with sickness/injury, even where the effects may not be considered long term; people visiting job centres, particularly first-time visitors; people moving into private rented homes, particularly those who have been evicted or are escaping harassment or a difficult relationship
- improve online advice by having one well-known and trusted site for debt advice and another for private tenants (with information about tenants' rights)
- details of local advice services for people facing arrears to be given out by landlords and letting agencies.

Private sector landlords in the recession

The majority of private sector landlords participating in the research were managing financially during the recession, but the impact of the current economic climate was being felt. This chapter explores how landlords have been affected by the recession and their interaction with advice services.

The landlords taking part in this study²⁸ were members of NLA and were therefore more experienced and had a greater number of properties in comparison with the overall landlord population.²⁹ As members of a trade organisation they also had access to professional advice and support. Fewer than one-fifth of private landlords (17 per cent) are members of a professional trade body³⁰; it is therefore likely that the sample of landlords participating in this research was struggling less in the recession than a representative group of all landlords.

The financial situation of landlords in the recession

The majority of landlords in Shelter's survey (60 per cent) were managing financially during the recession without any difficulty. Just over one in 10 were constantly struggling or falling behind, with one-third struggling from time to time (see Figure 9).

Landlords with outstanding finance commitments on smaller proportions of their portfolio should, in theory, be in a better position to ride out any problems brought on by the recession. Overall, just under half of landlords (48 per cent) taking part in the survey had financial commitments outstanding on all the properties in their portfolio, with a further third having finance on some or most of their properties. Struggling landlords were more likely to have finance commitments on a larger proportion of their portfolios (56 per cent).

If landlords are unable to cover their mortgage repayments and repair and maintenance costs

Figure 9: Current financial situation of private sector landlords

	% of all landlords
Managing without any difficulties	59
Managing but it is a struggle from time to time	30
Managing but it is a constant struggle	9
Falling behind with some bills or payments	2
Having real financial problems and have fallen behind with many bills or payments	0.5

Base: 440 landlords, Shelter survey of NLA members, July 2009.

from the rent they collect from their tenants, they will need to get this money from elsewhere in their business or personal finances and the sustainability of their landlord business will be at risk (see Figure 10 on page 23).

Additionally, the research indicates a link between the length of tenancies and financial difficulties: landlords who were struggling financially were less likely to agree that their tenants were tending to stay longer in their homes since the recession.

28 For more details about the survey and interviews with landlords, see methodology on page 11.

29 CLG, *English House Condition Survey 2006: Private Landlords Survey*, 2008.

30 Ibid.

Figure 10: Current financial situation in terms of rent collected

	% of all landlords	% of struggling landlords
Rent collected always covers the mortgages and other costs relating to landlord’s rental properties	63	33
Rent generally covers mortgage and other costs	25	47
Rent does not come near to covering the mortgages and other costs relating to landlord’s rental properties	8	15

Base: 440 landlords, Shelter survey of NLA members, July 2009.

The impact of financial difficulties on landlords

Close to half (49 per cent) of landlords agreed that being a landlord during the recession was stressful; one-third disagreed. Agreement with this statement was highest among struggling landlords (78 per cent).

A small, but notable proportion of respondents – seven per cent – agreed with the statement ‘I can’t see myself being a landlord in 2010’. This reached nine per cent among the landlords who were struggling financially. If this figure is similar for non-NLA members, this would mean around 100,000 landlords doubting that they have a future in the business in 2010. This potential turnover of landlords is a concern if experienced landlords are replaced by inexperienced or even reluctant landlords.

The in-depth interviews with landlords revealed the implications of financial problems for some landlords:

‘It’s harder [to manage my finances] – it’s been very stressful... I have felt very worried. I have curtailed my expenditure [and] I have gone as far as renting out my own home to live with mother.’

‘We’ve cleaned our savings out, maxed our credit cards out. We had £45,000 of rent not paid over this period [since LHA came into the area] – people used local housing allowance to pay for Christmas, so that was a particularly hard time for us.’

Portfolio growth before the recession

The years leading up to the housing market crash and recession saw portfolio growth among more than half of the landlords surveyed (54 per cent) (see Figure 11 below). This corresponds with official figures that show an unprecedented increase in the size of the PRS since 2000.³¹ In this study, 12 per cent of landlords had increased the size of their portfolio rapidly, 42 per cent had increased the size gradually between 2005 and 2007, 40 per cent had kept it at the same size, and only five per cent had reduced their portfolio. Landlords spoke about this expansion in the interviews:

‘I started with one [property], built on that, then five years ago doubled my portfolio, remortgaging using equity from properties... always interest only to keep expanding.’

Portfolio growth during the recession

The proportion of landlords expanding their portfolios between summer 2007 and 2009 was less than half that reported in the previous two years (see Figure 12 on page 24). Overall, landlords expanding in the recession (22 per cent) still outnumbered those contracting their portfolios (nine per cent), but by far the most common response was that their portfolio had ‘stayed the same’.

Figure 11: Change in rental portfolios, 2005–2007

	% of all landlords	% of struggling landlords
Portfolio increased gradually or rapidly	54	59
Portfolio stayed the same	41	35
Portfolio decreased gradually or rapidly	5	6

Base: 440 landlords, Shelter survey of NLA members, July 2009.

31 Office of National Statistics (ONS), *Focus on Consumer Price Indices September 2009*, 2009.

Figure 12: Change in rental portfolio since summer 2007

	% of all landlords	% of struggling landlords
Portfolio increased gradually or rapidly	22	19
Portfolio stayed the same	69	70
Portfolio decreased gradually or rapidly	9	11

Base: 440 landlords, Shelter survey of NLA members, July 2009.

Figure 13: Planned portfolio growth over next 12 months

	% of all landlords	% of struggling landlords
Will increase portfolio over next 12 months	28	22
Will keep portfolio the same over next 12 months	60	58
Will reduce portfolio over next 12 months	11	19

Base: 440 landlords, Shelter survey of NLA members, July 2009.

The landlords who described themselves as ‘struggling’ in Shelter’s survey of NLA members have experienced the most dramatic shift. Before the recession these landlords were three times more likely to be expanding their portfolio than since 2007.

One landlord who was interviewed described how he had left himself particularly exposed financially through rapid expansion of his portfolio:

‘I borrowed money from a loan shark for a short period. Very soon after buying I would remortgage for the full market value. I acquired 12 properties in a short space of time. Initially all 12 were let but now seven are let and I’m struggling to find tenants.’

The recession as a business opportunity

More than half (52 per cent) of the landlords responding to the survey agreed that now was a really good time to grow their portfolio; these landlords outnumbered those who disagreed by two to one. Those letting in the housing benefit or LHA market were most likely to agree strongly that the recession, and presumably the accompanying reduction in house prices, presented an opportunity for expansion.

The in-depth interviews revealed that many landlords felt better off at the moment because of lower interest rates, but some had serious concerns about what a rise in interest rates could mean for them over the coming months and years. The recession was also holding back some landlords who wanted to expand:

‘It is staying the same [size of our portfolio]. We would like to expand, but we have hit a brick wall. We got three properties last year. We’re raising finance to put the deposit on [more

properties] and hoping to release the amount of deposit required. When we remortgaged, we were left with a lot of credit card debt and three properties which were not increasing in value...’

Portfolio growth after the recession

At the time of writing, the UK economy remains in recession, but is contracting by less and is showing some signs of slow recovery. House prices have begun to rise slowly in most regions since summer 2009. However, the majority of landlords remained cautious about their expansion plans over the next 12 months; their plans were similar to their actual experiences between summer 2007 and 2009 (see Figure 13 above). Among struggling landlords, there was little difference in the proportions expecting to expand or contract their portfolio: the majority were planning to keep their portfolio at its current size.

The group of landlords showing the most optimism in terms of their expansion plans over the next 12 months were those letting to housing benefit/LHA claimants. Among this group 36 per cent were expecting to expand their portfolio.

Mortgage arrears, repossessions and selling up

The rate of mortgage arrears among the landlords surveyed was low, at two per cent, but was higher among new landlords (four per cent) and struggling landlords (three per cent). Data from the Council of Mortgage Lenders indicates that 29,400 buy-to-let mortgagors were in arrears at the end of June 2009, which is 2.31 of all buy-to-let loans and a rise of 142 per cent in a year.

A small proportion of NLA landlords responding to the survey – two per cent – had experienced repossession of one of their properties since summer 2007. Although the proportion is small, there are more than one million private landlords in England and these NLA members are likely to be better equipped to avoid repossession than the average landlord. This equates to more than 20,000 landlords that are likely to have experienced a repossession over the last two years. A similar proportion of surveyed landlords (two per cent) said that they expected to have to evict tenants at short notice because of repossession in the next 12 months.

Most landlords (80 per cent) had experience of selling a property at some stage in their landlord career. Of these, two-thirds had had to evict tenants before selling and the remaining third said that they had only sold properties when they were already empty. Of those selling properties and removing tenants, the vast majority (88 per cent) aimed to give tenants two or more months' notice.

Rent arrears

Almost half of landlords surveyed (47 per cent) reported having tenants in rent arrears. The rate of arrears was higher among struggling landlords (57 per cent), but highest among those letting to housing benefit/LHA claimants, at 65 per cent (see Figure 14 below). This higher rate may be explained in part by the fact that housing benefit is paid in arrears and is often subject to administrative delays, which can result in rent arrears, but shortfalls between the rate of benefit and the rent are very likely to be another significant factor.

Landlords were much more likely to agree than disagree that they had more tenants in arrears now than before the recession and again the likelihood was

highest among struggling landlords and those letting to housing benefit/LHA claimants (see Figure 14 below).

Landlords were also asked whether they expected to need to evict tenants due to rent arrears this year. Close to a quarter (23 per cent) did expect to, again with higher proportions among struggling landlords (32 per cent) and landlords in the housing benefit/LHA market (29 per cent). Landlords with tenants currently in arrears were much more likely to expect to have to evict tenants for this reason, at 44 per cent.

More than half of the landlords interviewed reported that missed rent had a huge impact on their finances. Exceptions were generally long-standing tenants and tenants in the mid-range market (families and people living in small houses).

'It's been a nightmare – we are now getting straight. Three of 18 [of our tenants] are not paying; at worst it was six or seven.'

'Half but not three-quarters are paid up at the moment – when they don't pay I give them a ring or call and see them. I always get something. By virtue of contact, I make an informal agreement [with them] regarding money. I have to make contact or I wouldn't get rent. Twenty-five per cent [of my tenants] pay in cash. This year non-payments have been crippling. We've changed our lifestyle to subsidise rental business and switched all mortgages to interest only. I am thinking of disposing of units with bad tenants.'

Interviews with landlords showed that at the bottom of the market there were serious concerns about a minority of tenants who landlords felt were not renting responsibly. This impacts on the attitude of these landlords to let to people reliant on welfare benefits.

Figure 14: Rent arrears

	% of all landlords	% of struggling landlords	% of landlords who accept housing benefit/LHA claimants
Currently have tenants in rent arrears	47	57	65
Have more tenants in arrears now than before 2007 – % agree	27	39	33
Have more tenants in arrears now than before 2007 – % disagree	3	3	4

Base: 440 landlords, Shelter survey of NLA members, July 2009.

Rent levels

There have been a number of media stories this year claiming that rents in the private sector have fallen³² and in certain areas of oversupply this is certainly likely to be the case. The true picture, however, is more complex, with demand and supply factors competing. The more robust monitors tend to point to a slowing in rental inflation, but overall not a clear decrease in average rents charged. For example, Hometrack's September 2009 Index shows national rents remaining steady, having increased by 1.2 per cent since April 2009.³³ Results from this research support this, with landlords who have increased rents over the last 12 months and those planning to increase them outnumbering those who have decreased, or plan to decrease, by around two to one. A large and, over time, increasing proportion of landlords were maintaining their rents at the same level (see Figure 15 below). The large increase in landlords stating that they will keep their rents the same suggests a high degree of uncertainty about which way the housing market is going and a desire to assess the situation carefully before making changes to rent levels.

The interviews with landlords backed this up: more landlords reported that their rents had stayed the same than reported that their rents had increased or decreased. Some landlords noted that demand for rented properties from migrant workers had reduced significantly, which could cause rent inflation to slow. Others noted that, contrary to expectations, repossessions and the lack of availability of mortgage credit for first-time buyers had not driven up rents, which some attributed to the recession.

Some landlords showed flexibility and sympathy towards their tenants with regard to rent increases:

'I am reluctant to put the rents up because I assume that the credit crunch will affect everyone and I would rather know that a tenant who has been there for a while is happy. As long as the rent covers the mortgage, I am not bothered with putting the rent up. If a property is empty it can take a whole month to look for someone.'

The in-depth interviews with landlords revealed that some were willing to accept a slightly lower rent to secure the 'right type' of tenant, which often meant a tenant who was not claiming LHA. This was often due to the landlord having negative experiences of benefits being paid direct to tenants (as LHA is) in the past or concerns about this arrangement.

In the survey of NLA landlords, almost one-third (30 per cent) of landlords said that they were now asking for larger deposits or more rent in advance, but almost half (46 per cent) disagreed that this was the case.

More commonly, landlords reported that they were vetting prospective tenants more thoroughly now than they used to: 39 per cent agreed that they did and 21 per cent disagreed. Struggling landlords were particularly likely to say that they were paying more attention to vetting tenants: 61 per cent agreed. Many landlords are, therefore, taking extra steps to mitigate the risk of rent arrears, while trying to avoid increasing financial demands on tenants.

Increased vetting of prospective tenants was found at a similar level among those letting to housing benefit/

Figure 15: Rent levels in the past and future

	% of all landlords	% of struggling landlords
Over the last 12 months:		
Increased rents	39	31
Kept rents the same	37	38
Decreased rents	25	31
Over the next 12 months:		
Increase rents	26	15
Keep rents the same	62	69
Decrease rents	12	14

Base: 440 landlords, Shelter survey of NLA members, July 2009.

32 Evening Standard [online], 'Rents fall as slump pushes sellers into becoming landlords', 17 March 2009: <http://shltr.org.uk/36>; Times Online [online], 'House rents fall as unsold properties flood market', 18 November 2008: <http://shltr.org.uk/37>

33 Findaproperty.com [online], Rental Index, September 2009: <http://shltr.org.uk/2u>

LHA claimants, showing that vetting was driven by general fears over rent arrears in the recession, rather than purely by concerns landlords had over direct payment of LHA to tenants. This was reflected in some of the interviews with landlords:

'Now I'm a lot more fussy – I avoid DSS [tenants receiving benefits]. I am checking people more carefully... I speak to previous landlords, visit them at their parents' [home].'

Under pressure: focus on new landlords

Landlords with five or fewer years' experience were facing a particular set of difficulties. More than three-quarters had outstanding finance on all of their properties and, related to this, fewer than half (48 per cent) said that the rent they collected always covered their mortgage payments. As a result, more than half (52 per cent) of new landlords were struggling or falling behind financially.

New landlords in the survey were more likely to have expanded rapidly in the years leading up to the recession (one-quarter had expanded rapidly and a further 38 per cent gradually). One-third had continued to expand during the recession, but the majority (61 per cent) had kept their portfolio at the same size since summer 2007.

This group tended to see the recession as an opportunity for growth (56 per cent agreed), but they had a problem looming in terms of the rents they were able to generate from those properties. New landlords increasing their rents over the last 12 months were outnumbered by those decreasing them (24 per cent increasing; 32 per cent decreasing). However, when asked what their plans were for rent levels over the next 12 months, those saying that they would increase outnumbered those expecting to decrease by two to one. So some new landlords were aiming to achieve better rents than they had over the past year, but if the market is not able to support this many are likely to encounter difficulties.

The housing benefit/LHA market and letting to a broader range of tenants

The supply of decent private rented homes to housing benefit/LHA claimants is vital, particularly at a time when unemployment is rising and an increased number of lower-income tenants are seeking a home in the sector.

Landlords surveyed for this research were split fairly evenly between those who had a policy of not letting to benefit claimants (48 per cent) and those who did accept claimants (51 per cent). A small proportion of the latter group – five per cent – said that they in fact specialised in the housing benefit/LHA market. Acceptance of benefit claimants was more common

among larger and longer-established landlords, but also among the struggling landlords. This can be explained as the former group being better able to spread the perceived increased risk, while the latter perhaps being more likely to feel under pressure to accept a broader range of tenants for financial reasons.

Landlords were also asked whether or not they had found themselves letting to a broader range of tenants since the recession and, more specifically, whether or not they had noticed an increase in the proportion of their prospective tenants who were claiming benefits. Landlords were more likely to agree than disagree with these statements, but by quite a small margin: for example, 39 per cent agreed that more of their tenants were claiming benefits and 31 per cent disagreed. Struggling landlords were significantly more likely to report these changes though: 51 per cent agreed that they were letting to more benefit claimants and 41 per cent agreed that they were letting to a broader range of tenants, compared with 30 per cent of all landlords.

The interviews with landlords also produced some interesting findings. Landlords operating at the lower end of the market (specialising in housing benefit/LHA and cheap units for single people) felt that demand for their properties was currently high: two had waiting lists and several mentioned being on lists of accommodation providers held by Citizens Advice or the local authority. A few landlords sensed an opportunity in the current climate, in that significant numbers of other landlords may need to get out of this part of the market because of financial difficulties, and this reduction in supply could push competition for properties up further.

Letting policies and strategies differed according to the dynamics of the local rental market in which the landlord was operating. For example, a landlord operating in a coastal town said that they had a waiting list for their properties because one-bed flats for single men on housing benefit were not easy to find in that area. Landlords often distinguish between different types of housing benefit claimants, typically by age. A younger, male-dominated market exists, which often requires intensive management on the part of the landlord, but there is also a market of older households made up of people who have retired or been made redundant. Unsurprisingly, the latter type tend to be preferred tenants.

Several landlords mentioned reasons why they did not like letting to benefit claimants, and potential solutions to those problems:

'Because of recent changes in legislation I am not going to rent to DSS – I had two [tenants] and they just spent the money.'

'It would be helpful if housing benefit could be paid more quickly to landlord. Where direct payments [to the tenant] are not working, there should be an option for direct payment [to the landlord]... It's unfair on those with low incomes. There is less to juggle if payments are made to landlord.'

The supporting role of private landlords

The interviews revealed that some landlords were performing a valuable supporting role in their tenants' lives. Landlords reported trying to be flexible with tenants because they empathised with their situations, especially in relation to people moving back into work after a period on benefits. Generally, when first arrears arose, landlords tried hard to come to an arrangement with tenants.

'There was a couple, she had just had a baby and the chap had lost his job. I gave them a month off [from paying rent].'

'She's doing her best; she's a good person [who's] had [a] rough time. [She] has a job and is paying back arrears. [The arrears] were £1,500, [she was] paying £28 a month. We came to that arrangement, she wanted to pay more.'

However, several landlords interviewed mentioned that they were reconsidering their approach, especially in the context of direct payments of LHA to tenants. Several landlords said that they need to be less 'soft' and to take action more quickly when their tenants missed rent payments.

'One has housing benefit – [I've] had terrible trouble, she doesn't give council info[rmation]. [In] December [her] money dried up. [She's] four months in arrears. I want to protect people, but [I] am coming to the end of my tether.'

Landlords letting houses in multiple occupation (HMOs) were particularly likely to become involved in providing a support role. It is welcome that so many landlords are willing to perform this role, but it is one they are unlikely to be trained for. This raises a number of questions about the 'social safety net' and mechanisms for providing information about support services to vulnerable people who are not able to access social housing.

Accessing help and advice

Just over a quarter of landlords surveyed (26 per cent) said that they employed agents to manage some of their properties. Use of agents appeared to be slightly more prevalent among struggling landlords at 31 per cent. This may suggest that the use of agents, and the reduced margins that result, may add to landlords' financial difficulties or, alternatively, that

when landlords are struggling they are more likely to hand over management responsibilities to an agent.

The interviews with landlords suggested that it was more common for smaller landlords to use agents than larger operations. Some landlords felt that agents were not proactive enough at promoting their properties over others:

'I felt they [letting agents] didn't put urgency on our properties – we were just 'part of business'. They thought a property can be empty for four to six weeks...'

Overall, a quarter (25 per cent) of landlords had accessed advice about the finances of their property portfolio during the last 12 months. New landlords (37 per cent) and struggling landlords (34 per cent) were more likely to have sought advice than landlords overall. The most commonly mentioned source of advice was the landlord's bank or independent financial adviser (IFA) – 41 per cent of those who had received advice had done so from this source. The second most common source of advice was 'other landlords', at 15 per cent.

When asked where they would go for advice in the future, should the need arise, the most common source was again the landlord's bank or IFA (37 per cent). The second most common response was a 'landlord organisation or local authority' at 21 per cent, perhaps surprisingly low from a group of NLA members. Five per cent of landlords said that they would not know where to go if they needed advice. Worryingly, this was twice as high among landlords who were struggling financially and who were consequently those most likely to need advice. Given that the surveyed landlords were members of an organisation specialising in advice for landlords – the NLA – this figure is cause for concern because it is certain to be far higher among landlords who are not members of a trade body such as NLA.

In the interviews, landlords were very positive about the service provided by NLA and felt that they had little need for additional advice: dealing with changes to the operation of LHA and the law and court processes were considered much more important than additional advice provision.

'[There is] no [need for more advice]. The National Landlords Association covers everything, especially now they have introduced clearance and rent guarantee insurance.'

'When I need advice, I call the NLA advice line. [It is] very helpful, a mine of information.'

There was, however, some demand for increased support and assistance in dealing with LHA.

Recommendations

Shelter has developed a series of recommendations for how to tackle some of the issues identified in this research and to improve advice provision for tenants and landlords in the PRS.

Ensuring the PRS is affordable

This research revealed that nine out of 10 lower-income private renters are struggling or falling behind with their household finances during the recession. Shortfalls in housing benefit/LHA are a particular problem for many private tenants and utility bills were the most commonly cited cause of financial problems for renters. In light of these findings, Shelter makes the following recommendations:

- The Government must publish its long-awaited consultation on housing benefit as an urgent priority. Alongside consideration of work incentives and the simplification of administration, this should include a review of the features of housing benefit/LHA that are impacting on housing affordability and access to the private rental market for claimants. These include broad rental market areas, LHA direct payments, single room rent (and the equivalent LHA shared room rate) and non-dependant deductions. A review of direct payments of LHA to tenants could also help landlords who have suffered loss of rental income as a result of the new system.
- The Government and energy companies should review their current policies for helping those on low incomes meet or avoid high utility bills to ensure these are effective. The Government should introduce legislation for a mandatory social tariff with set eligibility criteria across all energy suppliers and consistent benefits offered to all households. Currently there is inconsistency in the level and quality of assistance provided, the eligibility criteria for assistance, and the length of time for which a tariff is available. It should also look at the effectiveness of the Warm Front programme, the eligibility criteria for Winter Fuel Payments, and the cost of pre-paid utility meters.

Helping tenants access the PRS

The research found that lower-income private tenants moving into a new home are more likely than others to face financial difficulties. In the interviews, many tenants raised the difficulty of finding a deposit and rent in advance as contributing to these difficulties. To address this, Shelter recommends:

- Assistance with deposits and rent in advance should be universally available to tenants claiming housing benefit/LHA in the PRS. Estimates suggest that only two-thirds of local authorities have a rent deposit scheme and 54 per cent a rent bond scheme.³⁴
- Local authorities should ensure that their full discretionary housing payment (DHP) budget is used to help tenants in short-term financial need. This should include training and raising awareness with staff in local authority housing benefit departments on how DHP can be used. One way to achieve this could be through employing a housing benefit 'champion' in each local authority, whose role would be to ensure that the DHP budget is used for those in short-term financial need. There needs to be liaison with other local authority departments such as housing, social services and Supporting People teams to help identify tenants who may require DHP, and also better links to wider support services.

Advice and support for lower-income private renters

The research revealed that around a quarter of lower-income private tenants did not know where to go to get advice. Other tenants reported being unable to find the information they needed and expressed concerns about the reliability of advice they received. To address this, Shelter recommends:

³⁴ CLG, *Local authorities survey of homelessness prevention – policy briefing 19*, June 2007.

- Local authorities should recognise the role played by independent advice to private tenants as part of their strategies to prevent homelessness. This should include supporting and funding free independent advice to private tenants and should be addressed under local authorities duties laid out in the 2002 Homelessness Act.
- Local authorities, landlord organisations and advice agencies should do more proactive work together. This should promote and signpost people to websites and services that provide free independent information and advice about tenants' and landlords' rights and responsibilities in the PRS. There are some good examples of other work being done to promote advice to tenants for example, a recent initiative by LACORS (Local Authorities Coordinators of Regulatory Services).
- Shelter and MAT plan to work together and will look to work with other agencies to develop new marketing of services targeted to those in the PRS.
- Local letting agencies should be set up to foster stronger links between landlord and tenant advice services and to support landlords in letting to tenants with low to medium-level support needs. It is clear that some landlords are performing a valuable support role in maintaining tenancies at the bottom end of the market, particularly those with rent arrears. However, a more co-ordinated approach via the local letting agency model would be beneficial.

Promoting better use of existing online resources could also help to address the reluctance among some to seek face-to-face formal advice because of embarrassment (as identified by the research). Such services could also act as an early prevention information source.

Helping landlords with financial difficulties, advice and support needs

This research found that a significant number of landlords participating in the survey, particularly new landlords, are struggling financially in the current financial climate. More than half of new landlords were struggling or falling behind with their finances. Shelter's recommendations to tackle this are:

- The Government must maintain momentum on implementing landlord registration. Landlord registration has the potential to deliver advice and information to the many landlords who are not members of a trade body such as NLA. This will help landlords to have a better understanding of their rights and responsibilities and to plan their finances more effectively.
- Buy-to-let lending must be brought under FSA regulation following the FSA's mortgage market review. The current lack of regulation has allowed many lenders to act irresponsibly and for many landlords to take on mortgages that they cannot afford to maintain. Lenders should be required to carry out affordability assessments of potential landlords to prevent this situation. Such protection would also benefit tenants, many of whom are losing their homes because of landlord repossessions.

Until there's a home for everyone

We are one of the richest countries in the world, and yet millions of people in Britain wake up every day in housing that is run-down, overcrowded, or dangerous. Many others have lost their home altogether. Bad housing robs us of security, health, and a fair chance in life.

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