

March 2012

**Shelter response:  
PRS investment review call for  
evidence**

**Robbie de Santos, Policy Officer**

## Introduction

Shelter welcomes the opportunity to respond to the Department for Communities and Local Government's PRS Investment Review.

More than one million people a year come to us for advice and support via our website, helplines and national network of services. We help people to find and keep a home in a place where they can thrive, and tackle the root causes of bad housing by campaigning for new laws, policies, and solutions. Our response will address only those questions raised by the review where Shelter has expertise from our research and services to contribute.

The private rented sector has grown substantially in the last decade and plays a vital role in housing millions of people; yet, Shelter's experience is that the sector as currently constituted is not adequately meeting the needs and aspirations of all private renting households.

Problems in the private rented sector are widespread and disproportionate to the size of the sector:

- 36% of those who seek Shelter's help in dealing with housing problems are private renters, compared to 16% of all households in England.
- 37% of private rented homes are classified as 'non-decent' compared to 25% of owner occupied and 20% of social rented homes.<sup>1</sup>
- Local authorities dealt with a 22% increase in the number of complaints about the private rented sector in the three years to 2011: more than 86,000 complaints about private renting were made to local authorities in 2010-11.<sup>2</sup>
- Median rents are unaffordable in 55% of English local authorities.<sup>3</sup>
- Private renting households are ten times more likely to have moved in the last year than those paying a mortgage.<sup>4</sup>

Shelter sees many of the problems in the private rented sector as being driven in part by a market where demand outstrips supply in many parts of the country. This leads to market failure, where landlords, as suppliers, have little competitive pressure to offer high standards of accommodation and management, and private renters, as consumers, have little power to challenge poor practice or make informed choices due to intense competition for accommodation, particularly at the lower end of the market.

These problems can be exacerbated by the fact that many landlords see letting property as a sideline investment and are not fully aware of their legal responsibilities. However, the market conditions of short supply and high prices make it easier for rogue landlords, with many households' budgets only stretching to the lower end of the market. A Shelter Freedom of Information Request found that local authorities had seen complaints about the most serious health and safety hazards increase by 25% in the past two years.<sup>5</sup>

Shelter supports the premise of the PRS Investment Review - increasing the supply of homes available for private renting is one way of improving standards and affordability in the sector, by potentially increasing competition and diversification in the market. However, it may take significant investment in new stock and improved management to have any bearing on landlord and tenant behaviour across the market.

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<sup>1</sup> DCLG, 2012. English Housing Survey 2010/11, Table 16. As defined by the DCLG, a decent home is one which does not have any category 1 hazards as defined by the HHSRS, is in a reasonable state of repair, and has reasonable and modern facilities and thermal comfort.

<sup>2</sup> Shelter, 2011. Asserting Authority: calling time on rogue landlords.

<sup>3</sup> Shelter, 2011. Private Rent Watch Report 1.

<sup>4</sup> While some mobility is positive and the sign of a healthy labour market, when you consider that 1 in 3 private renting families move every year, it's hard to imagine that so many families would endure the cost and disruption entirely by choice

<sup>5</sup> Shelter submitted a Freedom of information request to all English local authorities. This asked about complaints received concerning private rented accommodation. Out of the 326 local authorities contacted we received 322 responses. The statistics relate to trends in the past three years from 2008/09 to 2010/11. Response rates for each question varied.

Nevertheless, any additional subsidies or incentives geared at encouraging investment in the private rented sector should be focused on particular areas of unmet need and demand. This should have the effect of raising the bar in meeting the needs of different groups of private renters, namely those renting for the longer term and looking for greater stability, and encouraging existing providers to compete along these lines too.

## Response

### **What evidence is there about the ability of the private rented sector to respond to future demand, and the impact of this on labour markets and growth? Is there a market failure?**

Shelter argues that the growth in the private rented sector in the last decade has not kept up with increasing demand. As it stands, we are unconvinced that the sector will adequately respond to future demand.

Private rents have increased twice as fast as wages in the last decade,<sup>6</sup> with particularly rapid increases in rent levels in the last two years. Demand is outstripping supply in many parts of the country - across all regions, some 73.6% of ARLA's respondents stated that there were more tenants than properties (rising to over 84% in the South East). This suggests that there is market failure which is preventing the sector from meeting people's needs. Shelter's analysis has shown that median private rents are unaffordable to people on average incomes in 55% of local authority areas in England.<sup>7</sup>

Shelter believes the demand for private rented homes will continue to grow as increasing numbers of households are priced out of owning a home, and cannot access social housing. The Resolution Foundation's analysis suggests that it may take 22 years for low-middle income households to save up the deposit needed to get a mortgage.<sup>8</sup> Almost three million private renting adults expect to be renting for at least the next five years.<sup>9</sup>

Where supply outstrips demand and prospective tenants must compete for accommodation, they are in a weak position to demand tenancies that would better suit their needs, such as longer contracts for households who expect to be renting for the longer term. This was reflected in focus groups we conducted with families with children in the private rented sector. The participants expected to rent privately for the long term and worried about the instability of renting and their inability to make their rented house a real home. Significantly, only one had a tenancy for longer than 12 months.

Shelter has carried out extensive work with tenants, landlords and policy makers and has identified a number of barriers that prevent the sector responding effectively to future demand:

- A private rented sector dominated by private individuals, each with a small number of properties, can make it hard for local authorities to make plans in response to demand for private rented housing. We know that many local authorities struggle to build relations with local landlords, who may not perceive the strategic significance of the housing they provide.
- If private individual landlords add to their buy-to-let portfolios from the existing stock rather than supporting new development, the fundamental structural problems of scarce housing supply leading to high housing costs are unlikely to be addressed. Converting additional homes from

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<sup>6</sup> Based on analysis of the DCLG's Survey of English Housing 1999/0, English Housing Survey 2009/10, and Annual Survey of Household Earnings 2000 and 2010.

<sup>7</sup> Shelter, 2011. Private Rent Watch.

<sup>8</sup> Resolution Foundation, 2012. Squeezed Britain.

<sup>9</sup> Shelter commissioned an online survey from YouGov. Total sample size is 2092 GB adults. Fieldwork was undertaken between 15th -17th June 2011. The figures have been weighted and are representative of all GB adults (aged 18+). Estimates of the number of adults affected have been calculated by Shelter. These estimates are based on 2010 population estimates from the Office of National Statistics which indicate that there are 47.8 million adults in Great Britain.

the owner occupied stock to private renting may make the problems of affordability worse rather than better.

- Landlords may not be fully informed about returns in different markets and using different business models, e.g. longer term tenancies for families. The lack of information could mean that landlords investment decisions are out of kilter with local need and future demand, and prevent existing and future private renting stock from being better used to meet need.

The failure of the private rented sector to respond to demand, particularly in areas with strong labour markets, has the effect of raising rents and creating disincentives to move to more expensive locations for work. Our analysis finds a direct negative correlation between the affordability of rent and the strength of local economies. In not one of the ten most buoyant local economies identified by the Centre for Cities does the average private rent on a two bedroom property cost less than 40% of average local take-home pay.<sup>10</sup>

The high cost of renting affects labour mobility: 21% of private renters said that high housing costs are affecting their ability to move for work.<sup>11</sup> These concerns are reflected in government analysis from 2009, which noted that four in ten employers struggling to recruit staff blame high housing costs, and that one in ten employers in the South East had had to increase pay to offset high housing costs.<sup>12</sup> Meanwhile, more than 70% of London's business community see the lack of affordable housing as a key constraint on the labour market.<sup>13</sup>

Shelter argues that, in addition to high rents, the current default set-up of tenancies can also act as a barrier to labour mobility. Tenants locked into fixed term contracts may find it difficult to move, particularly if the landlord or letting agent is unwilling to negotiate with them to end the tenancy early without penalties. Few employers will wait six months for a new starter, and few job-seekers can afford to pay double rent for months. The cost of moving, with large deposits and fees that must be paid upfront, may present cash flow issues for job-seeking private renters.

### **How does this compare to other countries?**

Shelter policy analysis on the tenancy frameworks in other countries found that many systems offer a better balance between stability and predictability for longer term tenants, as well as flexibility for those who need to move for employment or if their household composition changes.<sup>14</sup> For example, in Spain tenants have 5 year contracts and can leave with 1 month's notice at annual intervals. In Germany tenants have indefinite contracts and can leave with 3 months notice. In France, tenants have 3 year contracts with the ability to leave with 3 months notice at any point in the tenancy.

### **What drives current landlords' business plans – costs, income, risks, long term strategies?**

Commissioned by Shelter, consultants at Jones Lang LaSalle have taken an in-depth look at a range of business plans by private landlords. They found that the main return in the business plans of landlords they interviewed were primarily long term capital growth, with rental income making up a necessary but relatively marginal part of the overall return on investment over a 15 year buy-to-let holding.

Looking at investment portfolios over a 15 year lifespan, and applying different scenarios to the landlord's portfolio, Jones Lang LaSalle's modelling indicates that many landlords' returns would have

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<sup>10</sup> Shelter, 2010. Research briefing: Housing Investment Part 1.

<sup>11</sup> Shelter commissioned an online survey from YouGov. Total sample size is 5,438 GB adults. Fieldwork was undertaken October 2009.

<sup>12</sup> National Housing and Planning Advice Unit, 2009. Affordability – more than just a housing problem.

<sup>13</sup> LSE London, 2011. The Case for Investing in London's Affordable Housing.

<sup>14</sup> Shelter, 2011. Briefing: Generation Rent - learning from different rental markets.

been higher if they had offered tenants longer contracts with predictable, indexed rent increases than the current status quo of short contracts, sporadic rent increases and uncertainty for tenants.<sup>15</sup>

We know that a small number of landlords do offer tenants longer, more stable tenancies. However, our work with the industry has revealed a number of perceived risks affecting their consumer offer. Landlords participating in the sounding board of the Jones Lang LaSalle project stated that their mortgage lenders would not allow landlords to offer fixed term tenancies for longer than six or 12 months.

We understand that these restrictions are motivated by perceived liquidity risks - that tenants may not pay the rent and threaten the landlord's ability to keep up mortgage payments. This risk may not be borne out by landlords' experience - CLG's private landlord survey finds that 10% of landlords experienced rent arrears, and in fewer than half of those cases did landlords lose money as a result.<sup>16</sup>

Landlords may want to retain the flexibility to sell their buy-to-let property as their circumstances change; nevertheless, 80% of landlords expect to in the renting business in five years time and 59% in ten years time.<sup>17</sup>

### **How has the sector responded to the changing profile, expectations and aspirations of those who rent?**

Shelter is not convinced that private rented sector has adapted its offer to the changing profile of private renting households. New Shelter research, as well as analysis of the government's English Housing Survey, sheds light on some key trends in the private rented sector:

- More and more families with children now rent privately – some 31% of private renting households. There are now 1.1 million families with children in England living in private rented homes – the number has almost doubled in the past five years.<sup>18</sup> The sector is no longer predominantly the domain of mobile young professionals and students.
- 2.9 million private renting adults expect to be renting for at least the next 5 years. This includes 39% of private renting families with children, 33% of private renters without children at home, 35% of private renting Londoners, and 30% of ABC1 private renting households.<sup>19</sup>
- The income spread of the private rented sector is fairly reflective of society as a whole; however, in the last two years the growth of the sector has come disproportionately from households with incomes of £10-15k and households with incomes in excess of £40k.<sup>20</sup> This suggests that the expansion is driven by both those who would have typically been expected to buy and those who might previously have sought social rented housing.

Our research and analysis has evidenced that the private rented sector has not successfully adapted to meet the needs of longer term private renters, and particularly those with children for whom stability and certainty is all the more important.

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<sup>15</sup> Jones Lang LaSalle, 2012. Can landlords' business plans sustain stable, predictable tenancies? (not yet published, report available on request)

<sup>16</sup> DCLG, 2011. Private landlords survey 2010.

<sup>17</sup> Ibid. Table 4.12a.

<sup>18</sup> DCLG, 2012. English Housing Survey Table1. DCLG, 2011. Live Table FT1241 (S117).

<sup>19</sup> Shelter commissioned an online survey from YouGov. Total sample size is 2092 GB adults. Fieldwork was undertaken between 15th -17th June 2011. The figures have been weighted and are representative of all GB adults (aged 18+). Estimates of the number of adults affected have been calculated by Shelter. These estimates are based on 2010 population estimates from the Office of National Statistics which indicate that there are 47.8 million adults in Great Britain.

<sup>20</sup> DCLG, 2011. English Housing Survey Live Table FA1331 (S188). Survey of English Housing Live Table S188. DCLG, 2009, 2011.

- Private renters, including those with children, are ten times more likely to have moved house in the last year than people who pay a mortgage on their home.<sup>21</sup> Yet, some two thirds of private renters (66%) agreed that they would like the option to stay in their tenancy longer term if they wanted to (e.g. for five years with a 3 month notice period).<sup>22</sup>
- Almost half (48%) of families with children in the private rented sector worry that their landlord will put up their rent to a level they cannot afford.<sup>23</sup> Almost a third of all private renting households would be unable to sustain a rent increase of more than £50 a month.<sup>24</sup>
- We found that four in five people (79%) renting privately would support their landlord not being able to increase their rent above a specified level.<sup>25</sup> Yet, people renting privately do not know whether their landlord will increase the rent over the course of their tenancy, and there are no limits on potential rent increases. In an under-pressure market with high rent inflation, Shelter advisers have dealt with a 72% increase in private renters faced with an unexpected or unaffordable rent increase in the last year.<sup>26</sup>
- For those households who are likely to be renting privately for the medium to long term, even if they expect to buy their own home eventually, the current default private renting offer is not meeting their needs. The lack of stability not only has the potential to disrupt children's education and put family finances under strain; it can undermine families' sense of home. Almost half (44%) of the families with children responding to our survey do not think of their private rented house as 'home'.<sup>27</sup> Yet, 77% of families with children in the private rented sector would like to be able to decorate their homes without worrying about what their landlord would do, as would 68% of those without children at home.<sup>28</sup>

The evidence demonstrates that there is a substantial, but untapped, market for longer, more stable and predictable tenancies. Yet, the market failure caused by an imbalance of supply and demand means there is not yet an articulated pressure on landlords to offer tenants products that better meet their needs.

The shift towards expectations of longer term private renting is the most significant dynamic in the market and, we would argue, the greatest unmet need in the sector. If the review proposes incentives to encourage investment in new private rented homes, Shelter would urge that these are linked to the provision of longer term tenancy products for households who want them.

#### Contact:

Robbie de Santos, Policy Officer

[robbie\\_de\\_santos@shelter.org.uk](mailto:robbie_de_santos@shelter.org.uk)

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<sup>21</sup> Analysis of English Housing Survey 2009/10. Source: Table FA4121: Demographic characteristics of moving households, 2009-10

<sup>22</sup> Shelter commissioned online survey from YouGov 2nd - 5th December 2011.

<sup>23</sup> Shelter commissioned an online survey from YouGov. Total sample size is 2118 GB adults. Fieldwork was undertaken 21st April - 3rd May 2011. The figures have been weighted and are representative of all GB adults (aged 18+).

<sup>24</sup> Channel 4 commissioned survey carried out by Ipsos Mori. 1,006 British adults aged 16+ interviewed face-to-face in-home. Fieldwork was undertaken between 11th -17th November 2011. Data weighted to national population profile.

<sup>25</sup> Shelter commissioned online survey from YouGov 2nd - 5th December 2011.

<sup>26</sup> Shelter service statistics, November 2011.

<sup>27</sup> Shelter commissioned online survey from YouGov 2nd - 5th December 2011.

<sup>28</sup> Ibid.

## Until there's a home for everyone

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

Shelter believes everyone should have a home.

More than one million people a year come to us for advice and support via our website, helplines and national network of services. We help people to find and keep a home in a place where they can thrive, and tackle the root causes of bad housing by campaigning for new laws, policies, and solutions.

We need your help to continue our work. Please support us.

Visit **shelter.org.uk** to join our campaign, find housing advice, or make a donation.