



Housing and  
Communities

# Private Renting: Can social landlords help?

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## Foreword

In recent years, more and more Housing Associations (HAs) have entered the Private Rented Sector (PRS). From initial experimentation, largely in response to the challenging social housing funding landscape, private renting is now seen as one of a range of housing solutions for people with different housing needs at different price points. Over time, PRS can also generate cross subsidy to help housing associations deliver social rented and other affordable homes.

Some housing associations are transferring existing homes into their PRS portfolio but there is increasing appetite to build specifically for this rapidly growing tenure. Although currently only a small proportion of housing association stock, PRS offers an opportunity to be innovative and to extend the range of our housing offer to help people unable or who don't wish to buy.

The housing associations featured in this report are taking different management approaches but are consistently transferring what works from their core business - good customer service and the wellbeing of residents are common themes. There is also shared enthusiasm to approach the variety of PRS models as a learning opportunity: this report reflects the findings that Clarion and others have gained from these exploratory schemes.

The views and expectations of private renters can both differ, or in fact be quite similar to social renters in unexpected ways. For example, tenants of both social and private homes are satisfied with their tenure with 64% of each saying they want to stay in their current home<sup>1</sup>. Interestingly, each group considers their tenure to be superior to the other. We have learnt about the diversity of the PRS sector and those living in it. And we know that although it will never be a desirable option for every market, there is clearly demand for high quality and long term PRS homes in many areas.

While demand is still driven largely by the urban housing market, with young professionals aged 25 to 34 making up the largest proportion of private renters, housing associations want to provide for different demographic groups. Increasingly, we are helping priced out families and single person households unable to access ownership. These groups can have different needs – where young professionals may value flexibility, families more frequently prefer the stability of longer tenancies.

Clarion's emerging PRS strategy is based on analytical research into market opportunity, products and the expected financial returns that we can use to support our overall charitable mission. Our priority is the 2.7 million households who are 'mid-market' renters: typically key workers and young families living in and around the edge of cities and towns. These are people who do not qualify for social housing, but have been locked out of the home ownership market. Our objective will be to provide this growing group with the good quality, affordable and efficiently managed home they want. There will be a premium on delivering a high quality customer service, with a focus on responsive maintenance / repairs and building management, even concierge services. Ultimately, we aspire to create a portfolio of desirable, affordable and secure homes with a strong community identity – that will benefit a group of people who need a new type of PRS product to best meet their needs, pockets and aspirations.

As this report shows, housing association and local authority partners are developing our private rental offer in a responsible and thoughtful way. The demographic and economic trends in the UK

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<sup>1</sup> Clarion. (2018). *Understanding what social landlords can offer private tenants*. Research undertaken by Ipsos MORI with 1,034 Social and 1,045 PRS residents Feb / March 2017 (*Weblink to Clarion report follow*)

suggest this will sustain an increasing, mature demand for decent PRS stock - good quality PRS will make a contribution to the variety of approaches and tenures needed to fix the broken housing market. There is space within this diverse and rapidly evolving sector for all housing associations to play a part.

Keith Exford CBE  
Chief Executive of Clarion Housing Group



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## Key Headlines

### Private Renting

- Private renting now plays as big a role as social housing. It is invaluable to many groups who can neither afford to buy and are not able to access social housing.
- Private renting is weakly regulated, offers little security, is increasingly relied on by low income families with children and homeless families via local authorities, and vulnerable people desperate for housing.

### Social Landlords

- Social landlords have experience in managing rented housing and a strong track record in providing long-term, secure, decent homes. They have an ethical purpose and a core mission to house people, so they should not seek to maximise profits as their main purpose.
- Social landlords have shown that they can break even, or produce a small surplus if they let property at sub-market rents.
- With limited grant funding many social landlords are developing intermediate market rentals to house key workers and people on limited income.
- Social landlords, as major institutional investors, have the potential to make the private rented sector more stable, more secure, more affordable and of better quality. They also have a duty to provide decent quality and secure homes to people who need them and private renting is one way they can do this.

### Government Action

- Local authorities are increasingly setting up housing companies and special arms to provide housing for rent or sale directly. This trend is set to increase.
- Local authorities (and the devolved governments of Scotland, Northern Ireland and Wales) are playing a growing regulatory role, with licensing schemes, enforcement powers, and proactive support of decent landlords, widely welcomed as it enhances the reputation of private renting.
- The private rented sector deserves far higher priority in housing policy as it helps many squeezed and needy groups.

# 1. Private Renting – Can Social Landlords Help?

## Introduction

Private renting has a bad reputation in Britain. Yet it has played a critical role throughout history in housing people – until 1910 in Britain, it housed up to 90% of the population. In Germany today it still houses 60%. In this report we present evidence from 20 social landlords, local authorities, leading housing charities and several private landlord organisations to show what social landlords, public and private bodies are doing to improve the quality of private renting.

First there is a brief history of private renting:

- How it came to shrink from nine out of ten to less than one in ten homes;
- How it revived rapidly from the late 1980s to house nearly 20% of all households, including many families with children;
- Why social landlords got involved and what their track record is;
- How public bodies including councils and government, are slowly intervening to prevent the worst abuses and improve minimal standards;
- What the devolved governments of Scotland, Wales and Northern Ireland are doing that is different and what we in England can learn from their experience;
- The scope for intermediate and sub-market renting to allow access to people on modest incomes who cannot afford full market rents, but who cannot get access to social housing.

The research project arose from a Housing Plus Academy Think Tank in 2016 at Trafford Hall on private renting that brought together leading housing associations, housing charities, councils, private landlord organisations, homelessness projects and academics. It became clear that private renting now plays a crucial role; that housing associations are contributing more and more to its growth; and that there is an urgent need for security, quality, affordability, management and repair.

Invaluable experiments are underway, and we wanted to uncover the hard-won experiences of social landlords in providing private renting with security, affordability, sound management and maintenance of modest but reasonable quality home, to people on limited incomes. This report sets out to see whether the track record of social landlords can improve private renting and whether it points towards a role for social landlords in expanding it.

## History

When the First World War broke out, building and repair work all but ceased as all resources were diverted to the war effort. When rents rose because of shortages, low income families couldn't pay. A famous rent strike led to the government introducing tight rent controls on private tenancies. The strike was led by women helping to build war ships on the Clyde in Glasgow, while male workers were away fighting. These controls stayed in place, virtually unchanged, until 1987 leading to a radical shift in housing policy towards owner occupation and council housing.

Rent controls led to a steady decline in both the quality and quantity of private renting as landlords sold off some of their property, often to sitting tenants, or simply allowed its condition to deteriorate due to lack of repair resulting from extremely low rents. Turnover in controlled-rent properties was extremely low. At the same time, low-cost mortgages became more available and working households were often able to buy cheaply. There was a strong growth in owner-occupation, as Figure 1 shows.

Meanwhile, funding for council housing allowed *over a million new council rented homes* to be built in the inter-war period. Rents for council housing were far higher than private "controlled rents", excluding thereby the poorest people. This important point is often forgotten. This led to greater concentrations of poverty and over-crowding in the old, decaying "slums" and by 1930 the

government announced a large national slum clearance programme, targeting two million homes, which further blighted private renting and undermined any ambition to improve property.

The inter-war government also generously supported low-cost owner-occupation, leading to a large expansion of cheap suburban semis. In all *nearly three million new private homes were built* between the wars. It became cheaper for working class tenants in work to buy than to rent. By 1939, the size of the private rented sector had shrunk from over seven million homes to six and a half million – still by far the largest tenure.

Figure 1: Tenure change (dwellings) 1914-1938

<b>Tenure Type</b>	<b>1914</b>	<b>1938</b>	<b>Trend</b>
Owner-occupation	800,000	3,700,000	Grown over four-fold
Local authority	20,000	1,100,000	Grown over 55 fold
Private Rented Sector	7,100,000	6,600,000	Declined by 7%
Housing Association	-	-	-
Total Stock	7,900,000	11,400,000	Growth over two fold
Increase in stock from previous point		+ 3,500,000	

## Post-War Boom

The Second World War interrupted all building programmes and a housing emergency after the war resulted from bomb damage, returning soldiers and a baby boom. Many families were “billeted” in under-occupied or empty property. The quick construction of pre-fabs helped ease the situation and a rapid, large-scale basic improvement programme for the pre-1914 terraced stock of over five million homes, still mostly owned by private landlords, saved many homes and actually improved their quality. Much of the old stock was in slum clearance programmes that had been suspended since 1939. Clearance was restarted in 1956.

A massive new council building programme was unleashed, alongside subsidies for owner occupation. As a result, by 1960, *owner occupation almost doubled from its pre-war high to over six million; council housing increased three-fold to over three and a half million; and private renting declined by a third to just over four and a half million*. The loss of private renting units and the new slum clearance programme coincided with a rapid rise in immigration from the Caribbean and other new Commonwealth countries. Newcomers were invariably excluded from council housing and suburban owner occupation was generally out of reach to new immigrants, as were controlled private tenancies.

Immigrant landlords bought up cheap, mainly slum clearance, property in declining inner areas and let rooms to immigrant families on insecure furnished tenancies to escape rent controls. Through this loophole in private renting, overcrowding, exploitative rents and insecure tenancies proliferated. As slum clearance programmes progressed, minority concentrations and over-crowding became acute in the remaining slum areas, causing conditions to deteriorate further. In many urban areas, secure sitting tenants of long-standing shared the declining inner city with insecure, furnished tenants of immigrant origin, often holding British passports, but in no way enjoying a similar status.

The combined pressures of declining private rental supply, with slum clearance decommissioning two million properties, the restrictions on council rehousing excluded newcomers, high immigration, a rapid growth in furnished lets, alongside a colour bar in more “respectable” areas, caused massive

dislocations in the housing market. Rachman-style landlords emerged, who charged tenants exorbitant rents for atrocious, insecure conditions, evicting at will anyone who complained, with no effective controls. *Cathy Come Home*, the famous documentary drama that led to the founding of Shelter, the homeless charity, portrays the agony of a family in the late 1960s, pushed through rental crisis after rental crisis, until they end up separated, in a homeless hostel, with their children taken into care.

Many scandals ensued, culminating in Holloway, Islington, in a slum clearance area of 500 terraced houses, where the Council instructed private landlords letting around 500 furnished tenancies, to secure vacant possession i.e. evict insecure, furnished tenants, so that the council could acquire the properties for demolition, without rehousing obligations. This crisis of evictions of over 500 families with around 1500 children, most of them black, triggered the beginnings of reform. The government suspended the slum clearance programme in the early 1970s, though it took a decade or more to work through existing contracts.

Figure 2: Tenure change (dwellings and %) 1960-1974

<b>Tenure Type<sup>2</sup></b>	<b>1960</b>	<b>1974</b>	<b>Trend</b>
Owner-occupation	6,400,000	9,800,000 (44% total)	Grew by 50%
Local authority	3,600,000	5,000,000 (25% total)	Grew by 30%
Private Rented Sector	4,600,000	3,000,000 (32% total)	Declined by 33%
Housing Association	-	-	
Total Stock	14,600,000	17,700,000	Grew by 20%
Increase in stock from 1960-74	-	+ 3,100,000	

### Government Changes Tack

The government felt forced to take action to stem the decline of inner cities and the abuse of private renting that led to so many scandals:

- Firstly, it introduced *General Improvement Areas in 1969* with grants to councils for physical improvements to streets and properties in old slum areas, as the slum clearance programme turned into a renovation programme in the early 1970s;
- Secondly, it gave security to furnished tenants and offered limited rehousing entitlements in 1974;
- Thirdly, it reduced rent controls on new tenancies by creating “fair” rents that were still capped but at a higher level;
- Fourthly, it brought in *race relations legislation in 1976* outlawing discrimination, particularly in housing; it passed *homeless legislation in 1977*, obliging Councils to offer council housing to people who became “statutorily homeless”<sup>34</sup>;
- Fifthly, it opened up existing council housing, often in unpopular estates, to more recent arrivals, particularly ethnic minorities;

<sup>2</sup> Note: Philanthropic associations such as Peabody Trust, Guinness, William Sutton (not part of Clarion), and Samuel Lewis (now part of Southern) were listed under private landlords.

<sup>3</sup> UK Government. (1976). *Race Relations Act 1976*.

[http://www.legislation.gov.uk/ukpga/1976/74/pdfs/ukpga\\_19760074\\_en.pdf](http://www.legislation.gov.uk/ukpga/1976/74/pdfs/ukpga_19760074_en.pdf)

<sup>4</sup> UK Government, (1977). *Housing (Homeless Persons) Act 1977*.

<http://www.legislation.gov.uk/ukpga/1977/48/contents/enacted>

- Sixthly, it supported the rapid expansion of housing associations as a “*third tenure*” that offered a private but non-profit landlord structure and were small and flexible enough to tackle the legacy of slum clearance and the new threats of homelessness and gentrification at community level;
- Seventh, it introduced Housing Action Areas with housing associations receiving grants to upgrade and let properties, while allowing private landlords to upgrade their rented properties with grants as long as they guaranteed fair rents and reasonable security to existing tenants.

As a result of improvement grants, gentrification became an explosive threat in the old slum clearance areas, where investors “winkled” out sitting tenants with large payments (up to £5000 in Islington) and did up property with generous improvement grants. Barnsbury, Islington; Notting Hill, Kensington; Jesmond, Newcastle; Victoria Park, Manchester, are just a few examples.

These changes over the 1970s had a massive effect on tenure and the distribution of a rapidly growing supply of housing. The total stock rose from almost *eight million in 1914 to nearly eighteen million sixty years later in 1974*. Owner occupation reached over 55%. Council housing over 25%; and private renting shrank to under 17%. This trend continued right through to the 1980s, with the loss of private renting causing a major crisis of homelessness. For families on low incomes not eligible for council housing, the options shrank rapidly as private renting disappeared with few quick access alternatives, apart from a “homeless” sub-market of “Part 3” council accommodation, reserved for families in crisis.

When the supply of ready-access private renting shrinks too far, as arguably it had by the 1980s in this country, then many bottlenecks appear in the housing market and homelessness becomes acute.

Ironically, mounting pressure for private renting coincided with a surplus of council housing. By 1974 the government was worried about the apparent shortage of applicants for new council estates – which quickly became known as “*difficult to let*”. By the late 1970s, the problem of empty council-owned homes including empty property awaiting demolition was a public scandal and council housing was opened up to far wider groups, particularly homeless families and previously excluded minorities.

By the 1980s, the rapid growth in housing associations, the attractive incentives to owner occupy, such as the Right to Buy, and continuing rent controls meant private landlords shrank to under one and a half million, almost a quarter the number in 1914 and from *90% to just over 9% in 1989*. Council renting also began to shrink under the impact of the popular Right to Buy, offering big discounts to sitting tenants.

Figure 3: Tenure change (dwellings) 1984-1989 (England)

<b>Tenure Type</b>	<b>1984</b>	<b>1989</b>
Owner-occupation	11,550,000 (62% total)	12,971,000 (66% total)
Local authority	4,705,000 (25% total)	4,081,000 (21% total)
Private Rented Sector	1,778,000 (9% total)	1,849,000 (9% total)
Housing Association	455,000 (2% total)	567,000 (3% total)
Total Stock	18,488,000	19,496,000
Increase in stock from 1984-1989	-	+ 1,008,000

## Rebirth of Private Renting

Under Margaret Thatcher, the determined free marketeer who disliked council housing and rent controls with equal force, all private rent was freed of controls, security of tenure was greatly reduced, eviction procedures greatly accelerated and simplified, and certain tax inducements for private renting were introduced. Private renting immediately re-expanded from its low in 1989 of just 9% of the stock.

Many demographic and social changes played into the regrowth in private renting, which now offered freer access, compared with buying a home or qualifying for council housing that has many barriers. There are low upfront costs, compared with buying; there are no repair or long-term investment commitments; it allows quick entry, assuming a supply is available; it supports job mobility and encourages people to seek available work opportunities rather than stay anchored by home ownership or protected rents, tied to a particular property (as in council housing or controlled secure tenancies); it helps people in life transitions such as young people leaving home, students, couples who are forming or separating; people threatened with eviction; it does not require special eligibility criteria except for ability to pay rent, unlike social housing.

## Demographic and tenure change

In 1981, when the housing market collapsed, many owner-occupied properties were repossessed by building societies; others went into negative equity – threatening the whole financial system. Loans became far more difficult to access and young people in work were forced to rent rather than buy so demand for private renting rose.

Other long-term trends also fuelled demand for private renting; job mobility increased; access to higher education expanded; people were settling down and marrying later; having children later; and living longer. More and more single and childless adult households were forming as a result, the large majority of whom could not afford to, or did not want to, buy and were not entitled to council housing.

The government introduced tax incentives by discounting “buy-to-let” loans, making repairs, improvements and other costs free of tax; it also introduced short term tenancies – “affordable shorthold” – as an encouragement to landlords afraid of the old controls and the barriers to ending tenancies. An accelerated eviction process was introduced whereby landlords could fast-track an eviction with minimal justification in court. This combination of measures made it attractive for small investors to become private landlords, often when they inherited a home from parents. The average private landlord owns one or two properties and there are very few large institutional landlords, although this is beginning to change.

To attract long-term, stable investors, clear standards are essential above the minimal regulation that currently exists; some security beyond three or six months assured short-hold tenancies, and quality control. Some institutional investors, particularly housing associations, universities, insurance companies, are developing private renting. This may point to a brighter future for private renting. They can offer longer-term, more secure, higher quality renting compared with short-term, buy to let renting and profiteering private landlords, exploiting the chronic shortage of social housing for needy families and individuals.

Since the international financial crisis in 2007, owner occupation has been harder to access and people are buying much later than previously, so owner occupation is shrinking significantly for the first time in many decades.

Social housing is also shrinking due to continuing Right-to-Buy sales, demolition of large council estates, big funding cuts for new social housing, and the conversion of new tenancies into “affordable” sub-market rents, gradually replacing the lower social rents. There is also a significant

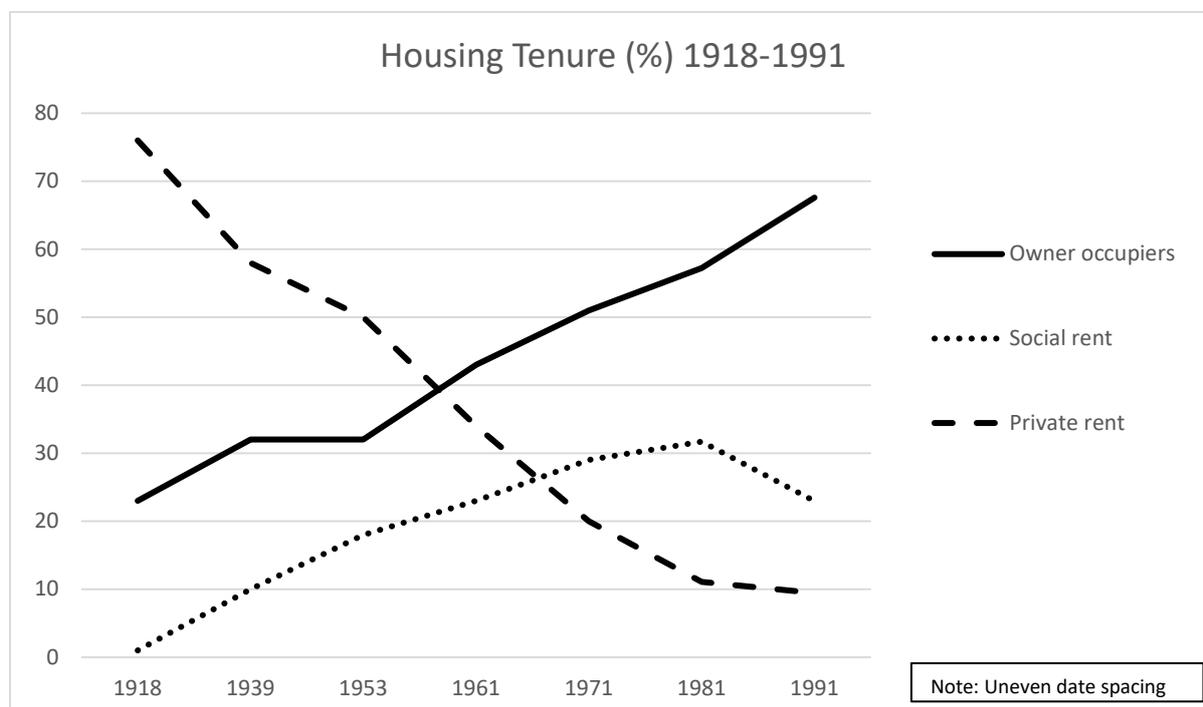
increase in shared ownership where the tenant becomes part-owner of the property. These trends have underpinned an unexpectedly fast expansion in private renting.

One of the most contradictory and problematic developments in private renting lies in the accelerated growth in buy-to-let tenancies on council estates. Former Right-to-Buy property is often converted to private renting. Many councils no longer have enough accommodation for homeless families that they are obliged to help, so they house them in private lettings in former Right to Buy properties on large social housing estates. Around 40% of all Right-to-Buy properties are now re-let privately<sup>5</sup>. This poses major challenges for housing management; it drives up Housing Benefit bills, and it causes maintenance problems on flatted estates. At the moment, there are no proposals to tackle this new form of problematic private renting in England. But the Scottish government has abolished the Right to Buy, and the Welsh Government is proposing to do likewise.

## Conclusion

The following two diagrams summarise the two main phases of tenure change. The first figure shows the step rise in owner occupation, and social renting (to 1981); and the steep fall in private renting. The second figure shows more recent trends with the levelling off, then decline of owner occupation, the slow fall in the share of social renting and the renewed rise in private renting. The timeline summarises the evolution of private renting over the 20<sup>th</sup> century and the first decade of the 21<sup>st</sup>. Social landlords have long-run management and maintenance experience, they understand what decent standards and reasonable security mean; they are credit-worthy and can borrow to invest; they can open the door to a workable private renting model that helps low-income households. This is how they began and many are set to become the “slow, patient, long-term investors” of the future. The rest of this report explores this option.

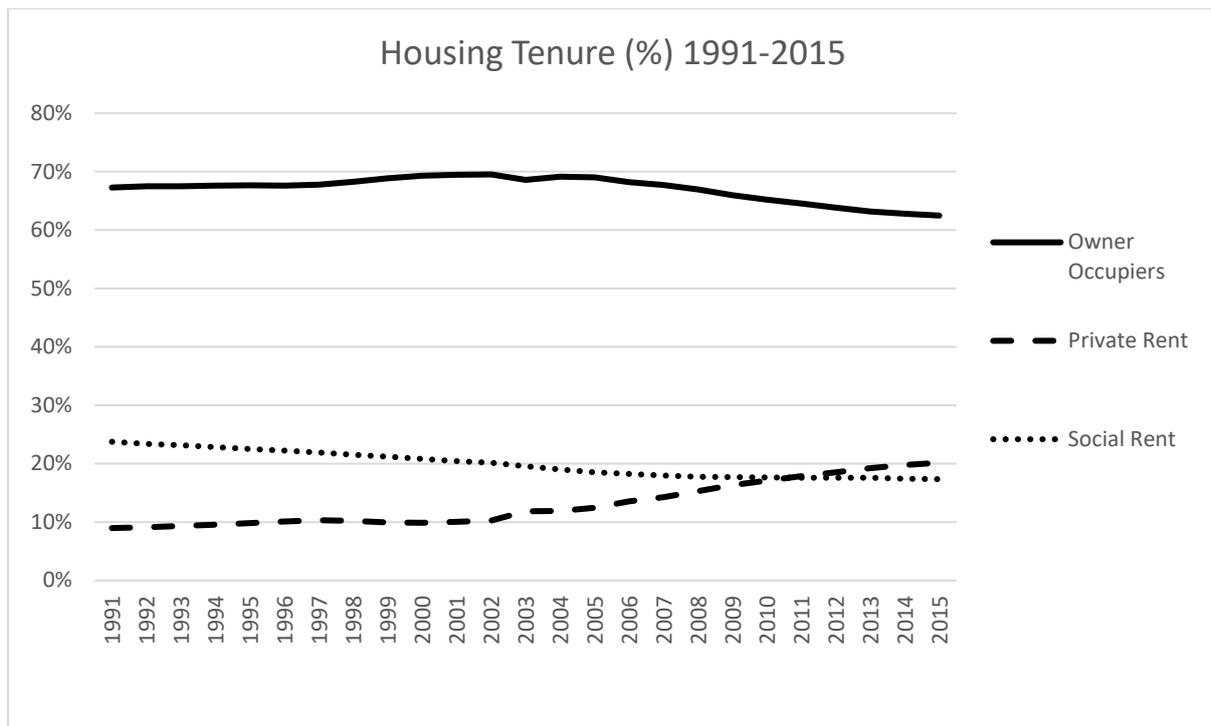
Figure 4: Tenure change (%) 1918-1991



Sources: 1918: Estimates by Alan Holmans of Cambridge University Department of Land Economy. 1939 to 1971: "Housing Policy in Britain", Alan Holmans, Table V1. 1981 to 1991: DOE Labour Force Survey Housing Trailer. 1992 to 2008: ONS Labour Force Survey.

<sup>5</sup> Inside Housing. (2017) *Exclusive: 7% Rise in former Right to Buy homes now rented privately*. <https://www.insidehousing.co.uk/news/news/exclusive-7-rise-in-former-right-to-buy-homes-now-rented-privately-53507>

Figure 5: Tenure change (%) 1991-2015



Source: DCLG Live Table 104 (including "other public sector" as social housing)

## Timeline of Private Renting Development

Pre-1914	90% of population are private tenants
1914-1918	World War I – building work stops
1915	Clydeside rent strike, tight rent controls. Private renting begins long decline
1918	General subsidies for building. Council housing and owner-occupation takes off.
1930	Slum clearance programme with special subsidies for overcrowding relief
1939-1945	World War II – halt to all building
1945	Chronic housing shortage due to bomb damage, continuing tight rent controls, baby boom. Prefab hastily built, bathrooms added to Victorian terraces
1947	Plan for new towns, imposition of green belts, big expansion in council housing
1956	Expanded slum clearance programme, makes room for inner city council estates - Introduction of high rise subsidy - High immigration from Caribbean and other new Commonwealth; growth in furnished rooms in sub-divided houses in slum clearance areas, with no security and no rent controls
1960s	Government hits highest ever building target for council housing and owner-occupation
1966	Private renting continues to decline. Shelter forms following “Cathy Come Home”
1968	Ronan Point tower block in Newham explodes. High rise subsidy cancelled
1969	General Improvement Areas begin to upgrade existing slum clearance areas blighted since 1930 Private tenants “wrinkled” out as gentrifiers and speculators move in. Housing associations expand as third tenure
1974	Housing Action Areas launched as slum clearance programme is cancelled. Housing associations receive generous subsidies to renovate existing homes, guaranteeing existing tenants an improved home in the area. New funding for council housing ends. Private landlords receive improvement grants if existing tenants guaranteed right to stay in improved flat. Fair rents introduced to protect tenants
1975	Furnished tenants given security and fair rents. Also some rehousing rights
1976	Race Relations Act outlaws racial discrimination in housing, employment, etc.
1977	Homeless Persons Act, guarantees rehousing by councils for statutory homeless households, mainly families with children and pregnant women, elderly and disabled people.

1979	<p>Conservative Government elected with Margaret Thatcher as Prime Minister</p> <ul style="list-style-type: none"> <li>- Council housing out of favour, many difficult to let estates, surplus stock in many parts of the country including parts of London.</li> <li>- Housing associations and renovation still supported</li> </ul>
1981	Right-To-Buy for existing council tenants – rapid take up
1985	Large scale voluntary transfer of council stock to housing associations
1989	<p>Housing Act abolished rent controls after over 70 years and security seriously reduced. Private finance for housing associations introduced, making them more private, as grants are cut.</p> <p>Private renting begins expansion, helped by favourable tax incentives</p>
1991	Housing “bust” made it harder for first time buyers to borrow. Other demographic changes encourage growth in demand for private renting
2000	Homeless legislation tightened
2007	<p>International banking crisis forces much tighter controls on borrowing, further expanding private renting. Institutional investors begin to move in. Housing associations expand further.</p> <p>Intermediate rental market grows</p>
2010 onwards	<p>Local authorities begin registration schemes for private landlords to improve standards.</p> <p>Private renting expands very fast. Increasingly used by local authorities to house homeless people</p>
Since 2010	<p>Growth in sub-market and intermediate market renting. More enforcement on ‘rogue’ private landlords</p> <p>Housing associations proactively expand their private rental housing. Much greater reliance on PRS by families with children on low incomes. Right to Buy re-lets are often used to house homeless and vulnerable families at higher rents on insecure tenancies.</p> <p>Private renting is relied on by growing groups of young professionals</p> <p>All devolved governments introduce obligatory registration schemes</p>

## 2. What are social landlords doing to help improve private rented provision in the UK?

### Social Landlord Survey

We interviewed a sample of fifteen housing associations in order to find out what role social landlords are playing in improving the PRS. We also interviewed one private institutional landlord and one private managing agent, to understand wider trends in the market and compare social landlords with other private institutional investors. In addition we spoke with five other social landlords that are involved in private renting, who added information to our research.

All housing associations in our survey have an intermediate or/and other sub-market rent portfolio meaning that they rent some properties for lower than full market rents to help those on lower incomes. We included questions about these alternative approaches and interviewed seven housing associations who offered sub-market rentals.

The survey focuses on:

- **‘Pure’ market rent properties:** properties for which rent levels are set according to local market rent levels. Social landlords have complete freedom to charge whatever they want for these properties.
- **Intermediate/ sub-market/mid-market/discounted market rent properties:** properties for which tenants are charged a discounted market rent. They can include: Rent to Buy or Rent to Save, Key Worker accommodation, Intermediate Rent, Discounted Market Rent or London Living Rent properties<sup>6</sup>. These rental properties have some eligibility criteria attached, such as earning below a certain income threshold or work/residence requirements. Allocations are usually through expressions of interest via the ‘Shared Ownership’ website or other online property portals, such as Rightmove and Zoopla. These applicants are often young mobile professionals and working families. Increasingly, it includes households who are not high enough priority to qualify for social housing but who cannot afford the cost of buying. Sub-market rent properties are sometimes subsidised by government or GLA (in London) funding. A few housing associations in our survey have developed a sub-market rent portfolio using their own resources and borrowing against their assets.

In practice, affordable rents originating from the social housing perspective increasingly overlap with intermediate and sub-market rents originating from the private market perspective.

The growing interest in intermediate lettings helps a group of people who previously may have been first time buyers, or standard private tenants often in poor quality rented housing as they failed to qualify for rehousing through the traditional “housing needs” based social housing list route. It recognises that large numbers of households cannot afford full market renting or buying but can afford “below market” rents that are still classed as private tenancies.

We decided not to include “mainstream affordable rent” housing which is part of the housing association supply to which local authorities have “traditional” nomination rights. Nor have we included temporary housing, managed by housing associations, owned by private landlords, as part of a partnership with the local authority to provide temporary accommodation for statutorily

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<sup>6</sup> London Assembly, (2018). London Living Rent: <https://www.london.gov.uk/what-we-do/housing-and-land/renting/london-living-rent>

homeless families. Both these approaches are part of the longstanding mission of housing associations to focus on those in greatest acute need. We accept that the line between private and social renting is in this way blurred.

### Policy context

A range of government initiatives since the early 2000s have encouraged Housing association and institutional investment in the private rented sector.

- The New Labour government first introduced the idea of intermediate renting in the early 2000s, to allow working households to rent at a discounted price (up to 80% of market price) while saving for a deposit. Housing associations started building intermediate rent properties with the incentive of HCA grant funding. Eligibility criteria varied, with some housing associations only making schemes available to ‘key workers’ such as nurses, teachers, or emergency service workers<sup>7</sup>.
- The Homes and Communities Agency PRS initiative in 2009, pump primed investment in private renting.
- The Private Rented Sector Housing Debt Guarantee Scheme in 2012 allocated £3.5 billion of debt guarantees to support the development of new housing in the private rented sector.
- The Rent to Buy fund in 2012 provided loans covering up to 50% of development cost for new-build PRS schemes that were intended for conversion to owner-occupation by the tenant. This scheme closed in 2016.
- In October 2017 the existing range of low cost home ownership schemes were extended until 2021, including Help to buy shared ownership schemes where tenants can buy 25% or more of the equity, and rent the rest, often from housing associations. An additional £10bn funding has been made available for these schemes.

To address wider conditions in the private rented sector, the Conservative government introduced a Housing (Tenants Rights) bill in 2016, planning second reading on 12 May 2017. This was derailed by the general election that was called prior to the bill’s second reading, and there are no current plans to re-introduce it. It proposed measures to establish “*a Living Rent Commission to conduct research into, and provide proposals for, reducing rent levels in the private rented sector and improving terms and conditions for tenants; to require the Secretary of State to report on the recommendations of the Commission to Parliament; to introduce measures to promote long-term tenancies; to establish a mandatory national register of landlords and lettings agents; to prohibit the charging of letting or management agent fees to tenants etc.*”<sup>8</sup>.

More recently a Housing White Paper, “Fixing our Broken Housing Market”, was published for consultation on 7 February 2017, and the new government confirmed its commitment to a bill in the Queen’s Speech introducing the new Government programme following the 2017 election. The White Paper focuses on better planning to provide homes in the right places, building homes faster, and diversifying the housing market. In relation to the private rental market, it proposes:

- Improving conditions by measures including banning letting agent fees charged to tenants;
- Removing the worst landlords or agents from operating through new banning orders, and allowing local councils to issue fines as well as prosecute;
- Promoting longer tenancies on new build rental homes;

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<sup>7</sup>Home Owners Alliance, (2018). Rent to Buy: How to government can help you buy a home: <http://hoa.org.uk/advice/guides-for-homeowners/i-am-buying/rent-to-buy/>

<sup>8</sup> UK Parliament, (2018). *Housing (Tenants’ Rights) Bill 2016-17*: <https://services.parliament.uk/bills/2016-17/housingtenantsrights.html>

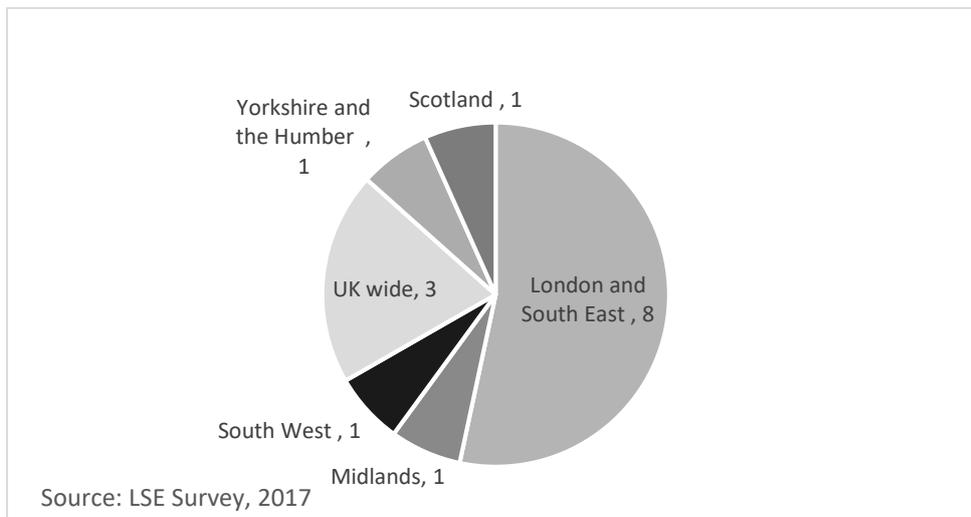
- Encouraging longer-term tenancies provided by housing associations and institutional investors' private rental homes.

It is not yet clear what the final provisions of any such future Bill will be, or the timetable for legislation.

### Characteristics of housing associations in our sample

We contacted 30 housing associations who attended a Housing Plus Academy Think Tank at Trafford Hall on *Private Renting: What Role Can social Landlords Play?* in March 2016. Of these, 15 agreed to be interviewed. We interviewed at least one housing association from all main regions of England. We have also included a Glasgow-based housing association. Eight of the housing associations in our survey are based in London and the South East.

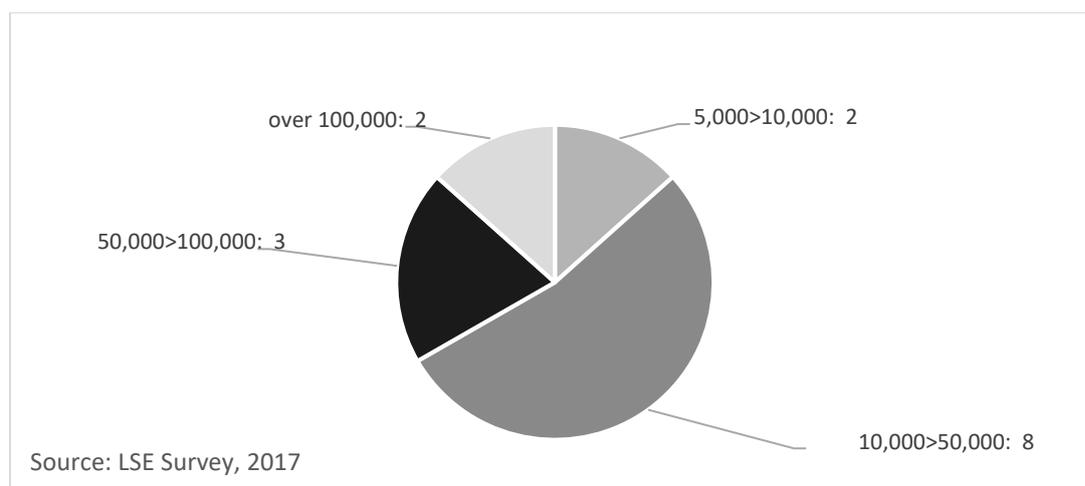
Figure 6: Location of associations interviewed



The majority (8) of housing associations in our sample have a total stock of between 10,000 and 50,000 properties<sup>9</sup>, comprising a mix of social/affordable, shared ownership, private rental, intermediate rental and commercial homes. None of the housing associations in our sample has less than 5,000 properties. Some smaller housing associations do have the capacity to develop their own PRS portfolio<sup>10</sup>. We did not include this group for time reasons. Altogether, the housing associations in our sample have a total stock of 690,000 units, which represents 29% of the overall Housing Association stock in the UK.

<sup>10</sup> See for instance Redditch Friends Housing Association – they have a portfolio of 50 properties and they have recently brought three PRS units leased from private landlords under the management of their specialist Community Interest Company. They are planning to expand their portfolio by adding another 30 units in the next few months.

Figure 7: Size of housing associations interviewed



The housing associations in our sample own and/or manage around 27,000 market rent properties. This is nearly three quarters of the overall number of PRS units owned by housing associations in the UK (40,000)<sup>11</sup>. Two thirds of the housing associations in our survey have a private rented stock of between 1% and 5% of their overall stock. Three have less than 1% of their overall stock. Only two have a PRS stock of more than 10%.

### Why did the associations develop a private renting portfolio?

The development of PRS stock is relatively recent for most housing associations. Only two housing associations started building their PRS portfolio in the late 1990s, in reaction to a reduction in grant funding from the Government. Nine housing associations interviewed developed their PRS portfolio after the financial crash in 2008.

The main reasons for developing PRS are set out below:

- 1. Flexibility in terms of asset management.** Although renting offers a slower return on investment than outright sales, it creates a steady long term income stream as part of the overall association business plan. It balances out some of the swings in the housing market. It offers the opportunity to convert properties built for outright sale or shared ownership if demand is low, or sell them if demand is high. One association converted social housing units into private rented properties as they were too difficult and expensive to retrofit for energy efficiency work. They were otherwise in good condition and it avoided disposing of them. The same housing association is renting out properties in good condition that have been bought back from leaseholders in a regeneration area, while they are awaiting demolition.

<sup>11</sup> Crook, Thomas and Kemp, Peter A. (2014), *Private Rental Housing: Comparative Perspectives*. Northampton: EE Publishers

**Quotes:**

*"It almost happened by accident - because of the credit crunch we had 100 unsold shared ownership properties that were sold to [our PRS subsidiary]"*

*"It was an opportunistic decision - switching properties which weren't selling. It's only now that we are starting building [for the PRS]"*

*"It gives us flexibility - if the private sale market collapses we can convert for sale properties [into private rental units]."*

Case Study 1: Curo

**Curo**

Curo has stock of around 13,000 properties, mainly located in the Bath area. They have a PRS stock of 194 properties, of which 182 are conversions from social housing units. These properties, mainly one and two bedroom flats, are concentrated in the center of Bath and are listed Georgian properties that proved too difficult to retrofit to higher energy efficiency standards given the stringent planning conditions in place. These are expensive for social housing tenants to run. However, Curo did not want to dispose of them, so they decided to convert them into PRS stock and rent them out. Some of these properties have quite high specifications, which allows Curo to charge premium rents.

2. **"Diversifying assets strategy"**. In light of declining grant funding from the government, it allows housing associations to create alternative funding streams to cross-subsidise the development of their social/affordable housing stock. Two housing associations in our sample have been converting social housing units that had been become vacant and are in high rent areas to maximise their income potential.
3. **Regeneration opportunities:** Private renting can offer an additional cross-subsidy to help make the overall viability of a regeneration scheme stack up.

**Quotes:**

*"Working with our development partner in a regeneration scheme, it fitted into our financial modelling"*

*"Most of our stock has evolved as a by-product to make the finances stack up in certain schemes or if there was the opportunity in Section 106 agreements."*

4. **Local market failures:** Where associations are aware of significant unmet need for private renting and they want to address this need, they can provide good quality PRS accommodation.

**Quotes:**

*"For us it is beneficial because we know we are helping people in housing need as single people and couples who would have previously found a social housing property or bought a home but are now in need of PRS"*

*"It seemed to address an emerging need for good-quality PRS in our locality - we are very geographically bespoke so we wanted to see if a reputable landlord could do PRS properly and offer something that was different locally."*

Several additional benefits for the organisations involved were stated during the interviews:

- Involvement in PRS delivery is *profitable, with surpluses being reinvested into further development* and in the provision of social/affordable housing;
- The association exposes its team to *different skills sets*, so they are developing as an organisation. It also brings an element of commercial thinking into the organisation, driving up standards across the board;
- It makes the housing association an *attractive investment partner*, giving it access to different types of financing arrangements as an organisation (such as joint ventures or partnerships with private investors);
- It fulfills a *social need*, by providing good-quality private rented accommodation to people in housing need, and as such it aligns with RSLs' social ethos.

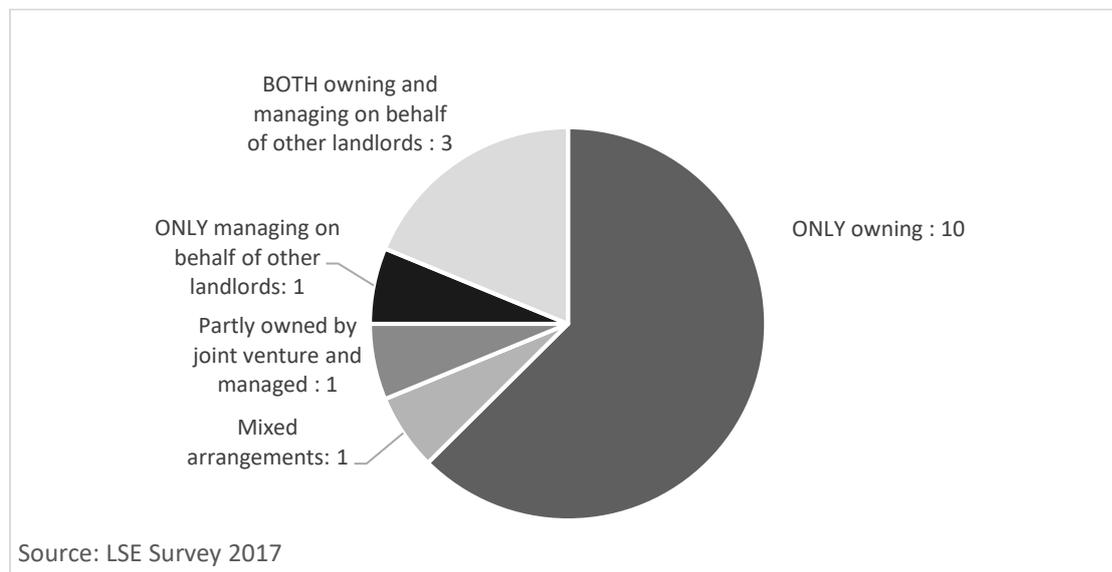
### Ownership or management of private rental properties on behalf of other landlords

Two-thirds of housing associations in our sample own (freehold or long leasehold) PRS stock. This allows the organisation to have maximum control over its stock and gives it flexibility in terms of asset management. The other third manage on behalf of another owner or are in a partnership.

One housing association partly owns its PRS stock via a joint venture with an investment fund. The joint venture is 25% owned by the housing association. Entering a joint venture was seen as a way to de-risk investment, and attract funding to build a large enough portfolio to become a separate business unit and a workable model to attract further investment.

Three housing associations act as managing agents on behalf of Buy-to-Let landlords or institutional investors, in addition to their own PRS stock. These associations enter into management contracts with private landlords which sometimes include a 'guaranteed rent' offer to the landlord.

Figure 8: Incidence of ownership or management only



Three housing associations have the ambition to become managing agents on behalf of other landlords in the future, as housing associations as managing agents, have a good reputation and are considered trustworthy, and can offer management expertise, consistency and a certain scale.

### Quotes

*"Ideally owning is better because you've got more control in the long and short-term about what you do with the stock, you can convert properties from one tenure to another if needed - would give us flexibility to use our asset in the most profitable way."*

*"Owning and managing gives you control over management of the stock. "*

*"Landlords get a good service from us, so we are taking the headache out of that. The landlords know we provide a good service, that we make sure they have good tenants. They know [we're] behind it.... We don't seek to exploit; we charge reasonable fees; we make sure health and safety checks are done regularly - that's what makes ours an ethical letting agency. With landlords we've signed a regular management arrangement: both parts have to give three months' notice if they want to end it."*

*"We have a good track record and we are not as expensive as others, plus there are not many good block managers out there."*

### Case Study 2: South Yorkshire Housing Group

#### South Yorkshire Housing Association

South Yorkshire Housing Association is a housing association operating in the Sheffield City Region, with stock of approximately 5,600 units.

In 2008 SYHA set up a commercial subsidiary, Crucible Sales and Lettings, in response to the credit crunch and the drop in projected shared ownership sales that happened as a result. Crucible resulted from the merger of three existing letting agents, bought by the parent company SYHA. It is an 'ethical lettings agent' and has 25 members of staff. Around 100 unsold shared ownership properties were then sold to Crucible. Crucible is responsible for managing around 700 Buy-to-Let properties that are owned by private landlords in the Sheffield City Region, as well as 16 three-bedroom properties owned by SYHA.

Crucible does not offer a 'guaranteed rent' option to landlords, but there are other benefits for them, such as knowing that Crucible will provide a good service and make sure they 'get the right tenants'. This is why 90% of the landlords have so far renewed their management agreements with Crucible.

One housing association in our sample has created a service to design, build, and manage PRS stock on behalf of private investors. They see this as a way of de-risking investment while retaining a degree of control over the stock through a management agreement which allows them to set rent levels, scheme by scheme, under the terms of their pioneering and innovative Flexi Rent model.

One large housing association, has a complex group structure and a varied PRS stock with:

- Some owned outright;
- Some managed on behalf of other individual landlords;
- Some owned via a joint venture.

### Case Study 3: Places for People

#### Places for People

Places for People (PfP) has a total stock of 183,000 across England and Scotland. Places for People owns and manages the biggest PRS stock in our sample, around 20,000 units, totalling 11% of their overall stock. It includes a mix of property types, including some family homes and

retirement properties. They do not target a specific client group, rather they develop a tailored offer for each local housing market in which they operate.

They have two PRS commercial subsidiaries, Touchstone and Girlings. Their PRS is distributed as follows:

- 3,500 properties owned by Places for People of which 2,000 'mortgage rescue' properties are managed by Touchstone, a management and letting company that was bought by PfP in 2013;
- 700 owned by Places for People and managed by Urban Splash, an independent company from which PfP bought some properties;
- 400 retirement properties managed by Girlings Retirement Rentals, a specialist retirement lettings company that was bought by PfP in 2014;
- Around 15,000 properties managed by Touchstone on behalf of other private landlords and other investors;
- 1,500 retirement properties managed by Girlings on behalf of private landlords.

### Management arrangements

Two thirds of housing associations have set up one of the following to manage their PRS stock: a subsidiary; a joint venture; a separate in-house team; delegated an external agency; or a mix of the above. The decision to manage the PRS stock separately from social housing among these associations is based on the idea that the PRS is a '*different beast*' and that managing the PRS requires a somewhat different approach. There is an assumption that PRS tenants have different 'expectations' from social housing tenants.

Only one housing association has outsourced the management of its PRS to an external management agent. Retaining the management gives housing associations control and it is considered more cost-effective.

#### Quotes

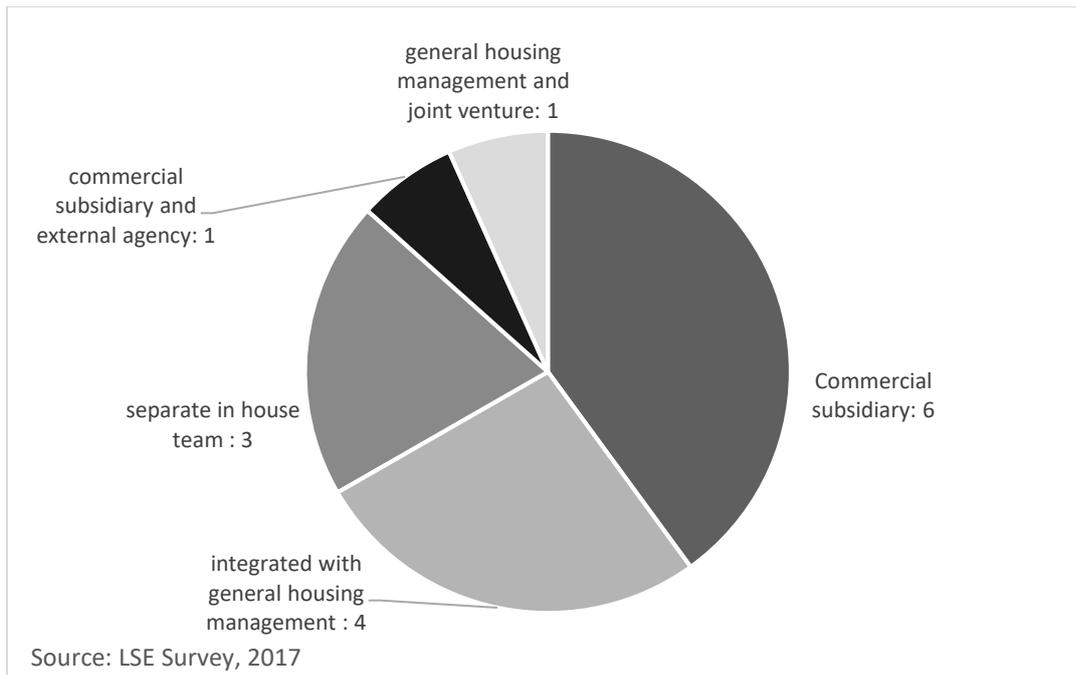
*"You have got to have a separate management offer, you can't manage your PRS stock in the same way as you manage affordable housing. PRS tenants are a lot more discerning and able to pay, they will expect a better service - it's a totally different market!"*

*"The customer offer for the PRS sector and the expectations are so much higher that we can't deliver it within the current structure; but the management is still effectively in house so that's more cost-effective and also we have more control; we'll stick with it if it will keep proving cost-effective."*

Five housing associations have integrated PRS management into their existing housing management structure, with the same housing officers managing all tenures, adopting either a triage system or a patch management approach. However, one of them was re-assessing this approach and looking at setting up a separate in-house team instead, while another one was gradually moving PRS property management from general need housing management to a newly-formed joint venture.

Two housing associations, decided not to adopt a two-tier management system. This was a conscious decision to offer similar standards to all their tenants regardless of tenure, and to make sure that the new skills required from housing officers in dealing with PRS tenancies would raise standards across the board.

Figure 9: Association management arrangements for their PRS stock



## Branding

Two-thirds of housing associations (10) “brand” their PRS offer separately through a subsidiary or by ‘white labelling’ a scheme. The two main reasons are:

- ‘White labelling’ as a condition attached to franchising agreements;
- Keeping their PRS offer separate from their core social housing business for commercial reasons.

Five housing associations, in contrast decided to keep their PRS offer under the same name because they are proud of their brand.

### Quotes

#### Separate branding

*“We may have to re-brand because we want to be seen as a purely commercial enterprise.”*

*“We are competing against other commercial letting agents so we want to make sure it looks commercial not as housing associations, because expectations would be different – we’ve always been very clear about that.”*

#### Integrated branding

*“We did some research on our brand and whether people would rent from us and people were attracted to our history, what we do with our profits, and we decided we didn’t need a different brand, people were definitely drawn to our brand.”*

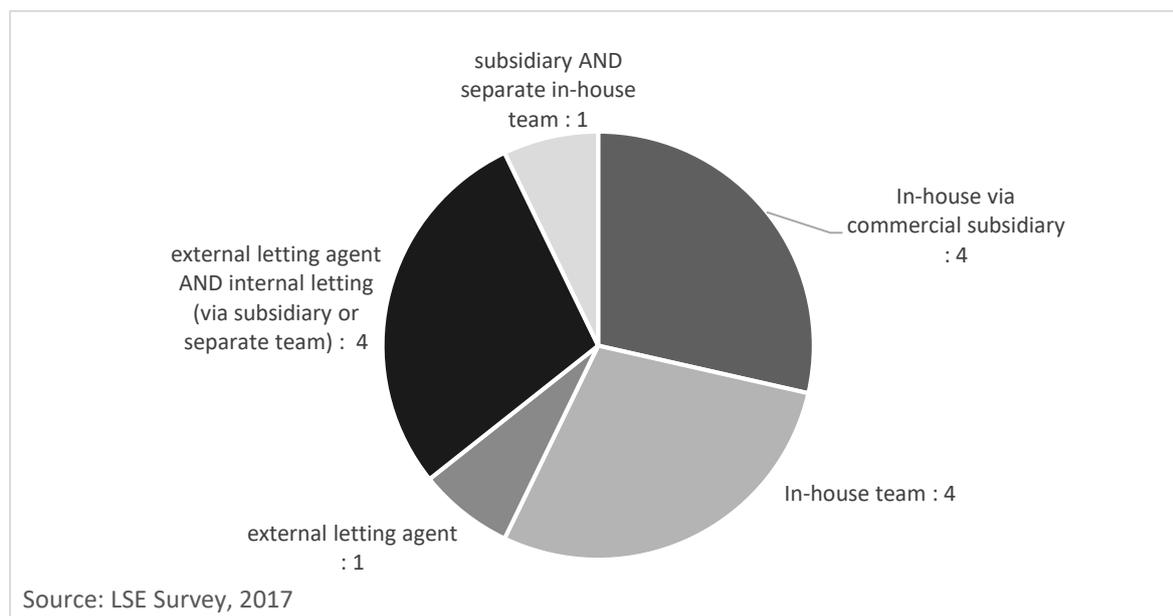
*“We took the conscious decision not to re-brand because we decided that we are a recognised brand with a good reputation and we want to bring quality to the market so why would we want to dissociate ourselves from it?”*

## Marketing and letting

All housing associations rely on online lettings portals such Rightmove and Zoopla to attract tenants. The majority of housing associations also do marketing and letting internally either via an in-house separate team or a subsidiary. This helps retain control over the customer service provided. It also builds a personal relationship with tenants. One third of housing associations use an external letting

agent, especially those housing associations that are geographically spread relying on high-street letting agents who know the local housing market.

Figure 10: Application and lettings management



All housing associations in our sample run their PRS stock with a clear commercial focus, usually charging high rents, asking for a deposit and applying the same strict reference checks as any other private landlord.

### Benefits for tenants

#### Reasonable rent increases

Six associations in our sample calculate rent increases when renewing a tenancy in line with inflation or based on an incremental percentage figure as set out in the contract. It is only when the property becomes vacant that the rent gets reviewed, based on rent increases in the local housing market.

Seven associations increase rents when renewing a tenancy based on local market rent increases. Six of the seven say they negotiate rent rises with existing tenants if the rent increase is unaffordable and could result in the tenants being forced to leave.

#### Quotes

*“When they renew the lease, the rent increase would be where the market is at that moment in time ... If the tenant cannot afford the increase, we would look at other factors like can we let it at that price, make a decision based on void costs – there will be a little negotiation there, and depending on circumstances we might decide to lower the rent increase.”*

*“Rent increases are calculated at the end of the 12 months, based on local area increases - but if they can't afford the increase and they have been good tenants we are keen to negotiate a settlement which is good for both parties.”*

*“We could increase up to 10% year on year but this year we went for RPI - otherwise we would have lost people! We don't want to be exploiting, we understand the value of allowing someone to stay. We felt it was really important to keep hold of as many people as possible. Obviously we can't lose money, but we can take a more benign view of the market.”*

### *Security of tenure*

All housing associations value retention i.e. keeping their tenants as long as possible over high turnover which could potentially allow them to charge higher rents to new tenants. Eight associations offer tenancies of three to five years. Those housing associations that offer 12 month tenancies stated that their aim is to have longer term tenancies and are prepared to renew tenancies at the end of this period.

Associations say that this approach is based on their social ethos and their aim to build well-integrated communities. It is also influenced by the consideration that renewing stable tenancies is more cost effective, not least in reducing costs associated with voids and re-letting.

All housing associations include the provisions of Section 21 of the Housing and Planning Act 1988 covering terminations in their tenancy agreements. These are called 'no fault evictions' because they do not require a reason such as rent arrears, or a breach of tenancy such as anti-social behaviour, to end a tenancy. The housing associations we interviewed report evictions being mainly due to rent arrears. It is rare for housing associations to evict a tenant because they want to sell the property. If blocks of PRS units are sold, they are usually sold to other institutional investors that want to carry on renting the properties to the people living in them.

#### **Quotes**

*"We try and encourage longer tenancies, that's a decision we've taken based on market research – our customer offer is based on making your home your own, not seeing it as a transient property but as a home. We try and encourage people to stay."*

*"Yes, we are very open to renew it, the average length of stay is 2 years - retention is important for us, it reduces our costs."*

*"Yes, we want them to stay as long as they want! We incentivise the longer tenancies because we have certainty and don't have turnaround costs and the residents have certainty; from our point of view you give people the time to get involved, there is actually less of an expectation from PRS but in our experience people still want to feel part of the community, put down roots, maybe not as deep but still; and it provides people the certainty that we will not serve notice on a Monday because we want to get someone who is willing to pay more."*

*"Yes we want them to renew their tenancies, we don't want empty properties, they cost money plus **we value communities, this is what makes us different from just a private sector landlord**"*

### *Good level of service*

Twelve associations offer a higher standard of services to their PRS tenants. Property specification is higher in PRS properties, with white goods, carpets and curtains being provided, as well as furniture packages on occasion. Some associations with purpose-built PRS homes offer 'premium' services such a concierge service, dog walking, car sharing, and parcel collection.

Repairs may be dealt with more quickly and offered in evenings and at weekends. This is sometimes done by adopting a handyperson service, which means repairs can be arranged around tenant availability.

Most housing associations that claim to offer a 'different' standard of service to their PRS tenants have set up a subsidiary to manage their stock. Of the three housing associations who offer the same standard of service to their PRS tenants as their social housing tenants, two manage their PRS stock through their general housing management, while one has a separate in-house team.

The majority of housing associations in our sample undertake satisfaction surveys of their PRS tenants and the feedback is overall very positive.

### **Thames Valley Housing Association**

Thames Valley Housing Association has a portfolio of 274 'old-style' PRS properties, mainly individual flats above shops, which are managed by local area officers as part of their 'patch'. The 274 'old-style' PRS properties offer a cheaper market rent option, but that portfolio will not be expanded. In 2012, Thames Valley decided to take a different approach to PRS, venturing into the Build-to-Rent market. They set up a joint venture with an Abu Dhabi Investment Fund called Fizzy Living. Thames Valley owns 25% of the shares and provides asset management, development and management services to Fizzy Living. The idea behind Fizzy Living is to cater for a client group of people who are priced out of home-ownership but not eligible for social housing, providing them with a good-quality market rent offer rarely found on the Buy-to-Let market.

Fizzy Living currently has 315 market rent properties, and another 770 in the pipeline (either under construction or going through the planning process). Fizzy Living properties are located within walking distance of tube stations and main transport links. Fizzy Living tenants are usually working professionals with an average income of £45,000; 50% of them are sharers. Fizzy Living offers additional services within in the rent such as free broadband, a 24-hour repairs help line and handy-man services, furniture packages, an on-site daytime manager, a pet station, rooftop yoga, free annual spring-cleaning and social events to bring tenants together.

Fizzy Living does not accept people on housing benefit and turns down applicants if they do not meet their criteria.

### *High-energy efficiency standards*

The new build PRS stock is energy efficient in line with building regulations. Housing associations do some basic upgrading in older street properties such as installing new energy efficient boilers. Only one housing association has PRS stock that is band E or below as they were unable to do any upgrading due to their properties being listed and strict planning and conservation conditions prevent any adaptations.

### *Access to 'Housing Plus' Services*

Eight of the housing associations allow their PRS tenants to access their wider community investment services, such as money advice and tenancy sustainability services, and are happy to signpost them to relevant local services if necessary. However, PRS tenants do not take up these support services very often.

Four housing associations regard their PRS tenants as a different customer group with different needs, and do not make extra services available, assuming they do not need access to support services. Three did not comment on this issue.

### **Clarion Housing Group**

Clarion Housing Group (a merger of Affinity Sutton and Circle Housing Group) comprises the largest housing association in the country, with 125,000 homes across more than 170 local authorities. Around 800 of these homes are PRS properties.

Although Clarion has offered homes for the PRS since 2001, the majority of their PRS stock was built in 2007/08, initially with the intention of selling, but converted to PRS as a result of the financial crisis. They also hold stock purposely built or acquired for the private rental market.

Their PRS portfolio spans a wide geography, with 45% of the stock in London, and the remaining 55% held in clusters outside of the capital, including homes in Milton Keynes, Bishops Stortford, High Wycombe, Luton, Brentwood, Ipswich, Norwich and Lincoln.

Over the last two years, Clarion's PRS offer has been managed by a separate in-house team, applying processes that are distinct from the affordable housing activity, but relying on the organizational infrastructure and resources available within the Group. At the time of the interview, Clarion was undertaking a review of its PRS strategy, with plans to enter the emerging Build to Rent subsector at scale and potentially creating a commercial subsidiary.

Clarion's current PRS offer is centered on good value and a complete landlord service. The Group's support and community investment services (Clarion Futures) are available across all tenures, which means that private tenants can also access them if they need to, and be signposted to relevant agencies. They occasionally offer occupational therapy and adaptations to tenants with special needs to help people stay within their existing property. Clarion values retention of tenancies and wants to incentivize longer tenancies where possible.

*"We are proud of the added value we can provide, with our services open to all our tenants – irrespective of tenure. This can include support with work and training, or financial advice if there are issues such as rent arrears. This is one of our strengths as a landlord with a strong social purpose and what sets us apart from other PRS landlords"*

### *Letting Fees*

All housing associations in our sample are charging very low or nil letting fees. There are frequent complaints about lettings fees in mainstream private renting.

### *Protected deposit*

Deposits are registered with the Deposit Protection Scheme, which means that tenants know that there is a regulated procedure in place for them to recover their deposit at the end of the tenancy. This is a statutory provision for the Private Rented sector so it is not unique to housing association landlords. The Housing Act 2004 sections 212-215 and Schedule 10, as amended by the Localism Act 2011 and the Deregulation Act 2015 covers this provision plus a number of Statutory Instruments. However, individual private landlords sometimes fail to comply with this legal requirement, and their tenants either do not know how to make them comply or do not want to bring up the issue for fear of retaliation.

All housing associations in our sample request a one-month to 6-weeks deposit. Only one says it will avoid asking for a deposit once their pioneering Flexi Rent model is up and running.

## Rents and reference checks

Housing associations charge rents in different ways depending on their purpose and also funding. Service charges are invariably included in the rent.

- Nine out of 15 housing associations charge higher end rents to maximise their surplus. Of these, two have a sub-market rent offer;
- Four have a mix of 'premium' PRS properties with high-end specifications for which they charge pure market rents, and PRS properties for which they charge lower than market rents but above LHA rates nonetheless. Market rents are normally higher than LHA rates, but in some Northern areas are lower;
- One housing association charges median market rents regardless of the type of property, i.e. whether they are premium units or not – i.e. it doesn't maximise its rental income;
- One housing association sets all its private rents at 80% or below on the market. They have no 'full' market rent properties.

Four housing associations charging 'full' or median market rents have developed, or are looking into, offering sub-market renting.

- A London-based association has developed a Simplicity model, renting out PRS properties to low-income families at LHA rates;
- A Northern based association, with a Flexi Rent model, is looking at setting a varied 'rental menu' to accommodate different income groups affordably;
- A London-based association wants to develop 'non-encumbered' intermediate rent properties from its own revenues, to meet the growing need in London for good quality, relatively cheap private rented units;
- A London and South East based association would like to include sub-market rent units in its new developments.

### Case Study 6: Southern Housing Group

#### **Southern Housing Group**

London and South East-based Southern began its market rent portfolio 3 years ago. They now have 128 properties. Their PRS stock is managed by Spruce Homes Limited, a subsidiary constituted in April 2017. Southern has taken the conscious decision to charge median rents, as opposed to going for the higher end of the market, to make their properties more affordable.

*"We charge moderated market rents at a reasonable level - we've got to recognise that the trouble with individual landlords is that letting agents will give them a range of what they can earn and they will always go for higher level, but that's not our business model. We want to try to get the right people for the longest period of time so we'll go for the median not the higher end, and we want to look at mid-market properties in new build. There are lots of high units that people can't afford, we look at longevity over maximising income"*

## Reference checks

All housing associations run strict affordability and reference checks, and turn down applicants if they do not meet the main criteria.

Only two housing associations say they accept tenants on Housing Benefit, provided they can afford the rent. The rest do not initially accept Housing Benefit.

This does not mean that there are no Housing Benefit claimants in housing associations' PRS stock, as people's circumstances can change once their application has been accepted. Selecting tenants who can afford the rent without housing benefit at the point of entrance helps to ensure longer tenancies and the sustainability of housing associations' PRS business model. But there is the chance for social landlords to take on the challenge of housing lower income tenants with a steady rent record, in urgent need of a home, who are in low-paid work and therefore eligible for Housing Benefit. Since they have a track record in managing such cases, there is scope for them to combine their social purpose with the need for rented homes.

#### Case Study 7: Poplar Harca

##### Poplar HARCA

Poplar HARCA is a London-based housing association with stock of around 9,000 properties. They have 200 PRS properties, the majority of which are clustered in a new purpose-built block on the Aberfeldy estate in the London Borough of Tower Hamlets. The scheme, branded Be:Here, is part of the ongoing regeneration of the estate, which will be completed in 2020. The new development was built in partnership with M&G as the investor and Wilmott Dixon as a development partner. Poplar HARCA has a 30-years leaseback agreement with M&G, which means they lease and manage the building.

Management and lettings are done in-house. Poplar HARCA took the conscious decision not to set up a separate team or subsidiary to manage its PRS stock because they think 'standards should be the same for everyone regardless of what they pay'. Repair standards are the same as any other Poplar HARCA's property. The only additional service PRS tenants get is an on-site form of a concierge.

*"There is no separate team, I've integrated it into my housing management team - not stand alone, not dedicated, don't agree it requires any different skill to manage private and social housing – with a triage system, cases are dealt with by the first available housing officer as they come in. We are actually proud of the fact that we don't have a two-tier management system, we are quite comfortable that the offer we provide to our tenants is the same."*

#### Housing associations' intermediate rent offer

A majority of housing associations have an 'intermediate rent' offer and we managed to interview seven in some detail about this.

Each organisation uses the term 'intermediate rent' differently:

- Some simply talk about '**intermediate renting**' as a **sub-market rent option** that can be accessed by any household that meets certain eligibility requirements (such as a joint income below a certain level)
- Some associations see it as a **stepping stone to homeownership**, with a contractual obligation to either buy a share in the property or leave after a period of 5-7 years. In practice very few people have been able to buy.
- Three of the 15 housing associations in our sample provide intermediate '**key worker accommodation**', which is housing developed mainly in partnership with NHS Trusts to provide short-term, usually shared, accommodation for NHS staff.

The common denominator is to **offer at least 20% below market rents** to meet a different purpose from established private renting. It is true that this is equivalent to an "affordable" rent, blurring the lines between private and social renting.

### **Network Homes**

London and South-East based Network Homes have a significant stock of intermediate rent units and key worker accommodation, including:

- *2,000 key worker units managed in partnership with NHS Trusts.* This is mainly shared accommodation in purpose-built blocks, with en-suite bathrooms, shared communal spaces, and on-site management. Referrals come via NHS Trusts. Rents are set by the Trust and paid directly from people's salaries. Tenancies are for 6 months to allow health workers coming from abroad to settle in initially and then move on.
- *72 intermediate rent units in one block in Clapham Park.* This is developed with funding from HCA and rented to families who have applied for it via the shared ownership portal.
- Network also provides several shared houses to a youth organisation at Kings Cross, New Horizon, helping homeless young people. It charges single room rents within the houses to allow for housing benefit to cover rents where necessary. The youth organisation provides support to the young people.

### **Network Homes Smart Rent**

Network Homes are building their first PRS purpose-built block of 270 properties called 'The Big Blue', in outer London. It will be completed and fully let by August 2018.

Network Homes' Smart Rent aims to provide 'quality homes for working Londoners'. Rents will be set at 80% of market value. They will provide a handyman service, 24-hour call centre, a dedicated property team on site, serviced apartment cleaning, Wi-Fi and media package upgrades, car parking/valeting, and Car Club. These services will all be included in the rent.

Intermediate rent schemes vary widely depending on local conditions, S106 planning requirements and agreements with local authorities. Three housing associations that we interviewed saw their intermediate rent offer as an important part of the business.

### **Glasgow Housing Association**

Glasgow Council transferred its entire housing stock of over 80,000 homes to the Glasgow Housing Association in 2003. Since then a £1bn investment and regeneration programme has transformed the city. Glasgow Housing Association still owns around 45,000 properties and is part of the Wheatley Group, based in Glasgow. Wheatley has set up a subsidiary, Lowther Homes, to develop private renting. It has 700 homes and a further 500 intermediate rental homes for working people on restricted incomes. The Scottish government subsidises intermediate market rent. Wheatley plans a big expansion of this.

Lowther Homes plans to expand its private rented stock significantly, mainly via new build. Rents are set at market level, low by London standards. Quality is good, security and positive tenant relations are highly valued and management is hands on.

Glasgow Housing Association, the Wheatley Group and Lowther Homes are clear that running private rented sector homes through a social landlord carries major benefits of greater care, better management, lower profit motive, more integrated services and longer term commitment.

Intermediate renting mainly targets young working couples, families, and key workers who cannot access social renting or owner occupation and cannot afford market rents. Margins are tight in this activity, but most housing associations in the survey with their social ethos, their management track record, and their long-term landlord commitment are willing to take it on.

#### Quotes

*"It came about because some of the shared ownership we couldn't sell so in 2009 the HCA allowed us to rent them out as intermediate rent with the intention to switch them back to sales, but now they need to comply with rules the HCA has set, very different from private renting. People are similar but rents and funding arrangements are different."*

*"Intermediate rent came out of the credit crunch, when we had lots of money for Shared Ownership. This didn't sell, and the HCA allowed them to convert this to intermediate rent. We have not actively sought to develop intermediate rent."*

The remaining housing associations in our sample are waiting to expand their intermediate rent until some government funding becomes available. The London Living Rent initiative is prompting housing associations to deliver intermediate renting. At least three housing associations explicitly say they want to get involved in the London Living Rent market.

Some housing associations do not have to accept any local authority nominations for their intermediate rent, while others do at least in part. One London association houses local authority nominations on first lettings but then rents them out to the wider public. Specifications and tenancy conditions are similar to market PRS. Eviction proceedings are the same as for the PRS. Four out of seven housing associations manage their intermediate renting as part of their private renting and not as part of their social/affordable housing.

Some intermediate renting is tied to S106 agreements; some is developed by the housing associations without any obligations attached. For a majority of housing associations in our sample it developed in a fairly ad-hoc way; it was not actively sought, but developed under specific conditions at the time, thanks to the availability of HCA or GLA funding. Below market rental units by social landlords are triggered by Government/HCA grant funding or by GLA grant funding in London. One association told us they are proud of their intermediate rent offer and want to expand it despite the absence of subsidy from the government.

#### Case Study 10: Genesis

##### Genesis

Genesis has two types of intermediate rent:

- 616 intermediate rental properties at 80% of market rents. These are mainly new build units in Genesis' multi-tenure estates.
- 1,394 units of key worker accommodation, primarily rented to employees of NHS Trusts at rents set in agreement with the Trust.

Genesis started developing intermediate rent properties around 8-10 years ago, in agreement with the local authorities they were working with. They have been providing key worker accommodation for the last 16 years.

Key worker accommodation is managed by a separate team, while standard intermediate rentals are managed by general needs housing officers. In some instances the local authority has nomination rights, the tenants are similar to 'pure' PRS, i.e. working families or professionals who can afford to pay rents that, at 80% of market rents, would not necessarily be affordable to people in receipt of housing benefit. However, they are lower than pure market rents.

Genesis plays an important role in providing below market rentals, filling a 'market gap' that only social landlords can fill – surplus or profit margins are tight and only landlords with a social ethos will venture into this market.

Genesis has been successful in obtaining Mayor of London funding to contribute to the cost of 166 new London Living Rent homes. There are also plans to expand their key worker accommodation.

Only three housing associations have developed a below market rent offer independent of government funding, setting them at levels considerably below market rents. One of them exclusively charges below market rents:

- One sets *Smart Rent* at 80% of the market;
- The *Flexi Rent* model will set a varied 'rental menu' capable of accommodating different income groups. The Flexi-Rent model allows for the development of intermediate renting with lower but varying rent levels – potentially less than 80% of market rents.
- The *Simplicity* model offers only below market rents.

Two other housing associations are keen to build some mid-market rental properties in the future.

#### Quotes

*"The priority for us is to get the right people for the longest period of time and key to that is making sure people rent properties they can afford in the medium to long term"*

*"We made the conscious decision to develop more affordable market rent options for Londoners, to meet local housing needs – that's what we call 'non-encumbered' intermediate renting"*

#### Case Study 11: Home Group Flexi Rent

##### Home Group – Flexi Rent

In 2016, Home sold around 500 PRS properties, a portfolio they had started developing 18 years ago which they had branded 'Live Smart at Home'. This stock, mainly located in the North East, was commercially challenging as private and social rents are similar, so Home disposed of this stock as part of ongoing asset management and stock rationalisation programme, ahead of the launch of a brand-new 'Flexi Rent' model.

With help from the New Economics Foundation, Flexi-rent is designed to attract private investment by overcoming volatility in the housing market.

Each rental scheme has a predicted income, based on a mix of market rents and sub-market rents. This model allows for rents to be modified depending on market conditions. By doing this it smooths out volatility and insures the investor against losses. Home Group will set a whole spectrum of rent levels and properties will then be marketed for certain income brackets, with households expected to pay no more than 35%-40% of their take-home joint income on rent.

Home Group is currently testing the model on three pilot sites, with the potential for 200/300 properties on each site. The plan is to manage the properties on behalf of the pension funds owning the sites.

#### *Case Study 12: Notting Hill Housing Group*

##### **Notting Hill Housing Group**

Notting Hill Housing Group is a London-based housing association with an overall stock of around 32,000 properties. They have a PRS stock of 900 properties, which were built as purpose-built blocks or acquired from developers over the last nine years. They decided to expand their PRS offer because; they recognise there is a need for good quality private renting in London; it is profitable; and it offers flexibility if there is a downturn in the sales market.

Rents are at market levels. Tenancies are Assured Shorthold Tenancies, offered for up to three years. A subsidiary - Folio London – employs twelve people and is responsible for the management and letting of Notting Hill's private rented homes. Folio London have their own website but also uses Rightmove and Zoopla and directly appointed local estate agents for first-lets on new schemes. Folio has its own repairs contractor, but does give some access to services available to Notting Hill's social housing tenants – such as money advice and tenancy support services.

PRS tenants are mainly young working professionals in their mid-thirties with an average income below £50,000. Prospective tenants are subject to reference checks. There are no fees other than the rent and an initial deposit. Tenants know they are renting from a reputable long-standing housing provider.

Notting Hill is planning to grow its PRS portfolio by a further 900 homes over the next five years, building new homes or purchasing units from developers. Their overall development plan (for all tenures) is for 8,000 new homes over the next five years. The biggest build-to-rent development by Notting Hill Housing Trust is 'Project Light', a mixed-use development at Canada Water in Southwark comprising 234 flats for private rent in the first phase.

##### **Simplicity:**

In June 2016 Notting Hill introduced a pilot of sub-market renting called Simplicity, made up of 120 three-bedroom terraced houses in four outer-London boroughs. The aim is to offer a low-cost good quality housing for lower income working families with an average income of £25,000.

Simplicity is a stand-alone part of the business in the NHH Group. It does not create any surplus as it subsidises its properties. These properties are not regulated by agreement with local authorities. The Development Team buys properties in need of refurbishment, does them up to PRS standards and lets them furnished on Rightmove.

Simplicity accept tenants on Housing Benefit or Universal Credit. They run an affordability check and do a manual calculation of affordability to factor in Housing Benefit entitlements. Rents are set at the LHA level, or 80% of local market rents – whichever is lower. They offer different tenancy lengths, from one to five years. They ask for a one-month's deposit. The stock is managed by an in-house team of Simplicity's own housing officers, and the Notting Hill Board has approved expansion of the Simplicity scheme by 200 homes next year.

There seem to be two main ways of supporting intermediate or sub-market private renting, one depending on public funding, and the other funded by the association's own reserves. Different housing associations have developed different models and ways to make it work. The priority is meeting the growing demand for relatively cheap, decent quality private rentals but most associations still want to make a surplus on private renting to cross-subsidise their social housing.

#### Plans for future expansion and funding

All but two housing associations are planning to grow their PRS portfolio over the coming years, either using their own reserves, borrowing against their assets, or, increasingly, partnering with pension funds and other investment partners.

There is unanimous agreement that there is great need for good-quality, professionally managed, private rental properties. Most agree on the potential for institutional investment in the market rented sector.

Figure 11: Table showing key characteristics of different types of private renting<sup>12</sup>

“Pure” private renting	Intermediate rent	Sub-market rents
<ul style="list-style-type: none"> <li>- Rents set according to the local housing market</li> <li>- <b>Not government funded</b></li> <li>- No nominations from the local authority</li> <li>- Prospective tenants register an interest in the property via online portals or a letting agency</li> <li>- Subject to affordability, employment and reference checks. There are no other eligibility checks</li> </ul>	<ul style="list-style-type: none"> <li>- Rent levels set at 80% or below local housing market</li> <li>- <b>Government, GLA, HCA or devolved government funded</b></li> <li>- Some housing associations may get local authority allocations</li> <li>- Prospective tenants may need to apply under special rules and conditions</li> <li>- Often accept Housing Benefit recipients</li> <li>- Income ceiling for applicants</li> <li>- Sometimes in partnership with NHS or other key worker providers</li> </ul>	<ul style="list-style-type: none"> <li>- Rents set lower than the local housing market (80% or lower)</li> <li>- <b>Not government funded</b></li> <li>- No allocations from the local authorities</li> <li>- Prospective tenants register an interest via online portals or a letting agency</li> <li>- Subject to affordability, employment and reference checks</li> <li>- Some housing associations have eligibility criteria (e.g. maximum income threshold etc. or key worker status)</li> </ul>

<sup>12</sup> Note: The distinctions between intermediate and sub-market renting are not definitive and there is also some overlap with “affordable” renting.

## How do housing associations compare with other institutional landlords?

We interviewed a big institutional investor, a management company and a social enterprise managing and owning PRS stock in Scotland. We found that social landlords are effectively competing with for-profit PRS institutional landlords, offering pretty much the same to tenants, and applying the same reasoning to their business decisions.

The offer from for-profit institutional landlords is similar to that of housing associations: longer-term tenancies; better quality than normal private rented stock; and no letting fees. When acting as managing agents, social landlords' offer to landlords whose properties they are managing is very similar to those of the private managing agent we interviewed.

### *Case Study 13: Grainger PLC*

#### **Grainger PLC**

Grainger PLC is a leading for-profit institutional residential investment vehicle, delivering long-term, rental property, with sustainable returns to shareholders. They have been in business since 1912. They own and manage around 9,000 properties.

4,000 of their properties are 'old-style' regulated tenancies, which were pre-1990s tenancy agreements characterised by life-long tenancies and rents set by the valuation officer, usually at significantly lower than market levels. These tenancies, however, are being discontinued.

They have built up a new, mainly purpose-built, rental housing portfolio of 4,800 units, which they are growing. They are investing over £850m of new capital into approximately 5,000 new rental homes, and have so far secured £651m of this target. Tenancies in this stock are Assured Short-Hold tenancies and rents are set by the company at market rents. Just under half of these properties are in London. The rest of the portfolio is located in major regional cities throughout England. Grainger are now offering tenancies up to three years, for which they define what the rent increases will be over course of the tenancy.

New Grainger developments include resident lounges, gyms, and roof gardens. Wifi is provided, and concierge services and on-site building management is included in new developments.

Grainger also builds affordable housing within new developments, which they own and manage. They currently own 200 affordable and intermediate housing units.

Grainger originates, invests and operates their rental portfolio in-house. They develop, own and manage all their properties, including overseeing the lettings for their PRS units. They are proud to be known as a responsible, long-term landlord with an established heritage, but also see themselves as having a modern and dynamic approach to the UK housing market.

### *Case Study 14: Pinnacle Places*

#### **Pinnacle Places**

Pinnacle Places is the PRS arm of the Pinnacle Group, a company that provides housing management to over 30,000 homes throughout the UK.

So far, Pinnacle Places are involved in three PRS project. These projects are very different and do not follow the traditional PRS model. In all these projects, Pinnacle Places acts as the managing

agent on behalf of other landlords, mainly local authorities, and the total properties managed so far are 250:

1. The Greenwich Peninsula, which is a white-labelled new development in the London Borough of Greenwich. Planning permission is for around 16,000 – at the moment, Pinnacle is managing around 100 PRS properties on behalf of individual landlords, offering them a guaranteed rent.
2. The QSH Project in Glasgow is a ‘unique and pioneering’ scheme developed in partnership with the local authority to allow low-income households to live in the expensive Newton Burns neighbourhood. It comprises a mix of affordable, rent-to-buy units, 52 in total. It is aimed at people who meet certain income criteria and all the rents are capped at £511 per calendar month. Tenants living in the Rent to Buy properties get the chance to buy at market value after one year getting 50% of their rent back to use as a deposit.
3. Birmingham City Council set up a private PRS vehicle to develop a scheme, white labelled as ‘In Reach Living’, which is a build-to-rent block of 92 properties. Pinnacle Places has been involved for three months providing consultancy in design and fitting out the block, which will be ready for occupation at the end of 2017.

Pinnacle Places do not charge any fees to their residents. They provide a series of ancillary services to make residents’ lives ‘easier’ in order to try and retain tenants long-term. They offer three year tenancies, and build in incremental rent increases in line with the consumer price index.

Prospective tenants go through thorough and robust reference checks, including of their employment history; salaries; if studying, where the rent is coming from; previous rental history; checks on the electoral role; ‘credit checks’; bank accounts; bank statements; land registry checks on previous landlords etc. Tenants’ combined salary must be 2.5 times annual rent.

Several “social enterprise” organisations offer PRS housing. These organisations can in some cases offer better security, quality, affordability and access, and a range of innovative practices.

Social enterprises such as Homes for Good were set up specifically to provide accommodation to vulnerable, low-income households, potentially at risk of homelessness or unable to find accommodation via traditional routes in the open market. They do not house homeless families, and as such they do not offer temporary housing but instead offer what they term an ‘ethical’ market rent offer. They act as a managing agent and provide good quality, secure accommodation to private tenants, pushing up standards in the private rented sector by checking conditions, upgrading property conditions and requesting landlords carry out basic repairs as a prerequisite for joining the scheme.

*Case Study 15: Homes for Good CIC*

### **Homes for Good CIC<sup>13</sup>**

Homes for Good is an ethical property management company and lettings agent based in Glasgow, launched in 2014. It is the first of its kind in Scotland to specialize in letting homes to

<sup>13</sup> Impact Ventures UK, (2018). Homes for Good Investments: Ensuring Sustainable Housing for the Underserved in Scotland: <http://www.impactventuresuk.com/portfolio/homes-for-good/>

people on low incomes or who are disadvantaged due to disability, illness, lone parenthood, migration status etc.

They manage properties on behalf of private landlords and offer tenancy sustainability services to tenants. They accept people in receipt of housing benefit and provide them with tenancy support services, such as budgeting advice, financial planning and employability assistance. They make sure tenants can sustain their tenancies, and this way they aim to encourage landlords to let properties to people on benefits and on low incomes.

Homes for Good has a sister company, Homes for Good Investments, which buys derelict properties, refurbishes them and lets them out through Homes for Good. Homes for Good currently manages around 110 properties and there are another 120 properties in the pipeline in the next few years, which will house around 500 tenants. The aim is to have a portfolio of 1,000 properties by 2020.

Although institutional landlords currently own only 1% of the PRS stock in the UK, institutional investment in PRS is growing. Institutional investors owning and managing a large share of the private rental market is already the case in the US, Germany and the Netherlands<sup>14</sup>.

### Overview

There is undoubtedly a growing appetite for Housing Associations to get involved in the private rented sector. Renting has grown faster than any other tenure in the UK over the last decade, and it is forecast to grow by a further 25% by 2020. In the absence of rent controls in England and with rents still rising in spite of a slight slowdown, it offers a profitable, and useful, investment promising a slow but steady return, and a way to cross-subsidise the delivery of social and affordable homes<sup>15</sup>.

There is a growing group of private tenants who vote with their feet, wanting to rent from stable, known, institutional landlords, including housing associations, knowing that they will get better conditions. Poor quality, unsuitable PRS stock can be replaced with rentals, owned and managed by professional landlords, including housing associations, as the reputation of the institutional sector grows.

From an organizational point of view, there are benefits from getting involved in private renting:

- It gives social landlords flexibility in terms of asset management, allowing them to switch units from one tenure to another depending on financial considerations;
- It is a profitable part of the business, allowing cross-subsidy to develop social and affordable homes;
- It can help the financing of regeneration plans;
- It drives up standards across the board;
- It makes associations attractive investment partners.

Housing associations' PRS offer differs from non-professional small landlords. Housing associations successfully compete with those smaller often "Buy-to-Let" landlords by offering:

- Better quality homes and communal areas;
- A professional management, maintenance and repair service;

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<sup>14</sup> Financial Times (1<sup>st</sup> Feb 2014). Institutional investors at home in the residential rental market: <https://www.ft.com/content/c6004974-8773-11e3-ba87-00144feab7de>

<sup>15</sup> Rent controls will be reintroduced in Scotland.

- Moderated rent increases;
- Greater security of tenure, with tenancies of three to five years;
- Lower or nil letting fees.
- Peace of mind, knowing that ‘no fault’ eviction notices will be served only if there are breaches to the tenancy including serious rent arrears, not because the landlord wants to sell or put up the rent;
- The prospect of long-term tenancy;
- Sometimes access to ‘Housing Plus’ services for PRS tenants;
- Sometimes lower than market rents.

Security of tenure is particularly valuable given that, as the JRF report *Poverty, Evictions and Forced Moves*, shows there has been a sharp increase in ‘no fault’ S21 evictions in the private rented Buy-to-Let sector over the last few years. Insecurity of tenure has a negative knock-on effect on community spirit, as insecure private tenants do not feel able to invest time and effort in the communities where they live if they see them as transient places<sup>16</sup>. They have a lower incentive to take care. Although the PRS is historically a more transient sector, with mobile and changing populations, an increasing number of people are now ‘forced’ into private renting because it is the only tenure realistically available and accessible to them. More security of tenure creates the psychological and practical conditions that encourage people to become active members of their communities, as well as contributing directly to people’s wellbeing.

Direct ownership of the stock is preferred by the majority of social landlords, as it gives them complete control over asset management decisions. However, a few associations are also acting as managing agents on behalf of small Buy-To-Let landlords. By doing this, they contribute to driving up standards across the sector, because they can require the owners to reach a minimum standard before they take on the management of the properties, and then provide a responsive and fair management service.

By getting involved in private renting, social landlords are meeting a growing need for good quality, secure, professionally managed rental homes, while generating a surplus to cross-subsidise the building of social and affordable housing. Their offer meets the needs of working, professional households that have the finances, enough savings to pay a deposit and a good credit history. Housing associations as private landlords have a strong commercial focus, they run strict affordability checks, they rarely accept housing benefit claimants, and most charge full market rents, although intermediate and sub-market renting by housing associations is also expanding fairly rapidly, alongside pure market renting.

The majority of associations provide intermediate, below-market rental, housing and/or key worker accommodation, usually when government or agency funding becomes available. The ‘client group’ in intermediate housing is similar to the PRS but there is usually an income ceiling, or the accommodation is restricted to key workers.

The majority of housing associations in our sample see their PRS activities as financially separate from their ‘core’ social housing business. Most of them have set up subsidiaries and re-brand the management of their PRS portfolio, because they see their PRS offer as a commercial activity that has to be run and managed differently from social housing. Nevertheless most see this as a means to cross-subsidise the development of social and affordable housing; they also see the PRS is one method of meeting this core mission.

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<sup>16</sup> Clarke, A., Hamilton, C., Michael, J., Muir, K. (2017). *Poverty, Evictions and Forced Moves*. Cambridge Centre for Housing and Planning Research; Joseph Rowntree Foundation.

### 3. Local Authorities and the private rented sector

#### Introduction

Local Authorities in England have a wide ranging and multi-dimensional relationship with the PRS which varies across locations and which is changing and evolving. Local authorities are responsible for basic standards in local housing provision as well as planning for local housing need.

Private renting has come to represent an increasingly large share of housing supply across the country. This growth has involved local government in managing and enforcing standards, alongside encouraging investment to meet housing need in their areas:

*The rise of the private rented sector has meant local authorities have to undertake additional work monitoring and enforcing standards...Councils have certain powers and obligations not only to regulate the sector but also, if they so wish, encourage its growth<sup>17</sup>.*

Local authorities fulfil three main functions in relation to private renting in England:

- A regulatory role
- Housing homeless people using the PRS
- Becoming direct providers

Different approaches in the devolved nations of the UK shed useful light on what could be done in England.

There are many difficulties for local government in securing good quality, affordable private renting including:

- Rising rents and affordability;
- Welfare reform and benefit restrictions particularly the LHA cap;
- Barriers to letting to Housing Benefit recipients;
- Insecurity of tenure – short contracts;
- Conditions and quality of accommodation;
- Weakness and instability in the policy framework.

The termination of assured shorthold tenancies in the private rented sector is now widely accepted as being one of the key causes of homelessness. According to the latest government figures in the first quarter of 2017, the termination of assured shorthold tenancies in the PRS was the reason behind 34% of all statutory homeless acceptances in London<sup>18</sup>. There is a strong case for local authorities taking action to improve and encourage the private rented sector.

#### Local Authorities as regulators of the PRS

The 2004 Housing Act enabled local authorities to take on a more active role in monitoring standards within the private rented sector in their areas through licensing and enforcement of basic standards. Since 2004, there have been three types of licensing managed by local authorities:

- Mandatory licensing of HMOs
- Additional HMO licensing
- Selective Licensing

The Housing Act 2004 first introduced selective licensing of private landlords in a local housing authority's area – coming into force in April 2006 in England and Wales. According to government

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<sup>17</sup> The Smith Institute, 2014, p13

<sup>18</sup> Wilson and Barton, 2017

documentation, the introduction of selective licensing was strongly linked to the Government's anti-social behaviour agenda at the time.

*...In order for a scheme to be approved, such a selective licensing scheme must be shown to be co-ordinated with an authority's wider strategies to deal with anti-social behaviour and regeneration<sup>19</sup>.*

The Act also introduced a new licensing structure for Houses in Multiple Occupation (HMOs). Licensing is mandatory for all HMOs which have three or more storeys and are occupied by five or more people forming two or more households. Additional licensing is when a council can impose a licence on other categories of HMOs in its area which are not subject to mandatory licensing. The council can do this if it considers that a significant proportion of HMOs are being managed so poorly that contribute to one or more particular problems, either for the occupants of the HMOs or for members of the public<sup>20</sup>.

In March 2010, the Housing Minister at the time, John Healey, issued a General Consent meaning that local authorities in England did not have to seek approval from central government for a selective licensing scheme, as long as all necessary conditions were met. This was changed in April 2015 and local authorities now have to seek confirmation from the Secretary of State for any selective licensing scheme that will cover more than 20% of their geographical area or will affect more than 20% of the private rental sector stock in their area<sup>21</sup>.

Many local authorities run voluntary accreditation schemes which offer a level of recognition and endorsement for private landlords who wish to participate. Examples include: the London Landlord Accreditation Scheme (see box overleaf), and schemes run by the Residential Landlords Association (RLA) and the National Landlords Association (NLA). While these schemes are useful and provide reassurance for tenants that landlords are up to standard, there are concerns that only conscientious, responsible landlords will sign up to this type of voluntary scheme, leaving bad landlords to carry on.

In areas where selective licensing applies, all private landlords must be licensed. If they do not apply for a license, or fail to meet the standards set, then the local authority may take enforcement action.

Newham first introduced its borough-wide scheme in January 2013 leading the way for a number of other local authorities across the country including Liverpool (2015), Waltham Forest (2015) and Croydon (2015). Other local authorities have selective licensing schemes in some wards / areas including Southwark, Brent, and Tower Hamlets.

Until 2015, Local authorities were able to introduce selective licensing across their entire area, or to smaller areas within their district, as long as the proposed area met one or more of the following conditions:

- The area is experiencing or likely to experience low housing demand;
- The area is experiencing a significant and persistent problem caused by anti-social behaviour and private landlords within the area are not always taking appropriate action to tackle this.

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<sup>19</sup> Wilson, W. 2017, p4

<sup>20</sup> DCLG, (2007). *Licensing of houses in multiple occupation in England: a guide for landlords and managers*

<sup>21</sup> Wilson, 2017

### **London Landlords Accreditation Scheme and its benefits**

The London Landlord Accreditation Scheme (LLAS) accredits reputable landlords who undergo training and comply with a code of conduct. Accredited landlords are able to display the LLAS logo as a badge of good practice and access a range of products and incentives including local authority grants, leasing schemes and discounts on fees for licences and other charges.

It was set up in 2004 as a partnership of landlord organisations, educational organisations and 33 London boroughs. Since out-of-London boroughs have joined the partnership, it is now also known as Accreditation and Training for Landlords and Agents Services (ATLAS).

Accreditation with LLAS is free and lasts for 5 years. To become accredited with LLAS or ATLAS, landlords must:

- Complete a one-day development course;
- Agree to comply with a code of conduct;
- Be a fit and proper person.

The benefits of joining LLAS for landlords:

- LLAS training is delivered by an expert trainer and is competitively priced. It covers all core aspects of private sector tenancy management and is widely regarded as the most comprehensive landlord training course on offer.
- LLAS has no membership fees or annual contracts, so landlords can secure accreditation for five years without any additional costs or charges.
- LLAS helps landlords to stand out from the crowd. The LLAS or ATLAS logos when advertising property gives prospective tenants confidence in you.
- LLAS keeps members up to date with the latest news on grants, statute and regulations from local authorities and government.
- Discounts and preferential treatment for council services, application fees, insurance companies, banks, building societies and suppliers are available.
- LLAS organises a highly regarded bi-annual ATLAS black-tie award ceremony and gala meal attracting landlords and suppliers from across the UK.
- LLAS accreditation can help landlords access local authority and regional government landlord grants to improve property conditions, fund energy efficiency improvements and bring empty homes back into use. It also offers access to local authority leasing schemes.

The LLAS website includes a Tenant Portal providing information about tenants' rights, repairs and maintenance, tenancy agreements and other issues.

<http://www.londonlandlords.org.uk/>

Changes were also made from 2015 to the selective licensing scheme. In addition to the original objectives of dealing with low demand and anti-social behaviour, a number of other issues were included:

- Poor property conditions;
- High levels of migration;
- High level of deprivation;

- High levels of crime<sup>22</sup>.

In making a selective licensing designation, local authorities must identify whether the problems encountered in an area are caused by or are directly attributable to the issues listed above and what it expects a selective licensing scheme to achieve, as well as investigating any other possible courses of action that would achieve the same end result. There is a requirement on local authorities to prove that selective licensing is the only viable solution to dealing with the problems identified and this must be included in the proposal for designation<sup>23</sup>.

Current borough-wide selective licensing schemes are not affected by this change but will need to be authorised when their five years' permission expires. For Newham the previous scheme ran out at the end of 2017 and only recently was the new (amended) scheme approved by the Secretary of State.

The Mayor of London Sadiq Khan is a strong supporter of licensing and has suggested that these powers should be delegated to the GLA in Greater London rather than rest with the Secretary of State.

*At present, property licensing is being applied inconsistently across London; the current system allows significant variation between how different councils approach licensing, which has led to a confusing patchwork of different schemes and conditions. Reflecting the very large size and complexity of the private rented sector in London, the Mayor is calling on Government to devolve responsibility for considering and approving selective licensing schemes to City Hall, where more consistent decisions and more effective scrutiny could take place<sup>24</sup>.*

It is also proposed that the GLA would develop a mandatory framework for licensing schemes ensuring a light touch and inexpensive system for good landlords while providing councils with the powers and tools necessary to tackle criminal behaviour.

A key aspect of a successful landlord licensing scheme is strong enforcement, i.e. schemes need to have 'teeth' to have impact.

Here are details of three of the most prominent borough wide licensing schemes currently in place:

### **Newham**

Newham established its borough-wide licensing scheme of all private rented property in 2013 following consultation and using its experience of a voluntary accreditation scheme. Landlords pay £150 per property for a five year licence. Since the scheme was introduced in 2013 there have been:

- 38,000 properties licensed;
- 2170 notices to improve housing conditions;
- 908 prosecutions;
- 368 simple cautions;
- 368 operations with partners like the Police, HMRC and the UK Border Agency.

Newham wants to make sure that private rented properties in the borough offer residents' safe, decent quality and well managed conditions. The consultation document from late 2016 stated that while the current scheme was having a positive impact, there was more work still to do on reducing

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<sup>22</sup> Department for Communities and Local Government (2015) *Selective licensing in the private rented sector: Guide for local authorities*

<sup>23</sup> DCLG, 2015, p6

<sup>24</sup> Mayor of London, 2017, p 170

anti-social behaviour, reducing crime, raising standards of housing and helping people stay longer in the borough.

*We believe in the current London housing market that a universal licensing approach to the private rented sector will enable us to continue to support and protect Newham residents who rent privately...The Additional and Selective Licensing schemes are long term strategies to fix the private rented sector and will not provide instant solutions but will complement and support our vision to drive up the quality of the private rented sector in the borough<sup>25</sup>.*

In December 2017, Newham received government approval for a renewed 5 year selective licensing scheme, borough-wide with the exception of the Olympic Village area – E20.

## **Liverpool**

Liverpool City Council introduced city-wide licensing of private landlords from 1<sup>st</sup> April 2015 following extensive research and consultation. The scheme is due to run until March 2020. A quarter of Liverpool's homes are privately rented and while there are many professional landlords and managing agents, the City Council had concerns about landlords renting out properties which do not meet a reasonable standard of tenancy of management.

Licensing helps identify bad landlords who impact negatively on the reputation of the private rented sector. It improves the rental market by driving up standards, and landlords will benefit from a more professional tenure and more sustainable tenancies. It also improves conditions where there are concentrations of poor quality private rental homes.

Liverpool City Council charge landlords £400 for the first property, with £350 for each additional property or £200 per property if the landlord has signed up to an approved accreditation/co-regulation scheme such as those run by the Association of Residential Letting Agents, the National Approved Letting Scheme or the Residential Landlords Association. Properties must be accredited throughout the lifetime of the licensing scheme.

Any landlord or managing agent who remains unlicensed is liable for enforcement action and potential prosecution. By February 2017, 10 landlords had been prosecuted and fined a total of £27,000.

Liverpool Council believes that licensing improves the rental market by improving management standards, supporting tenants and creating more stable communities. Tenants will know that landlords with a licences are 'fit and proper' persons who have agreed to abide by the conditions of the lease<sup>26</sup>.

## **Croydon**

According to Croydon Council (which has a borough wide selective licensing scheme, in place since 2015) the motivations for introducing selective licensing schemes include:

- Dealing with anti-social behaviour issues;
- Safeguarding tenants' health, safety and welfare
- Ensuring Landlords are 'fit and proper persons' or employ agents who are;
- Ensuring adequate property and tenancy management arrangements are in place;
- Proving that accommodation is suitable for the number of occupiers;

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<sup>25</sup> Newham Rented Property Licensing, Proposal report for consultation, October 2016

<sup>26</sup> <http://liverpool.gov.uk/business/private-landlords/licences-and-standards/landlord-licensing/>

- Guaranteeing that all landlords and managing agents operate at the same minimum professional standard<sup>27</sup>.

### Objections to Selective Licensing

There are many powerful arguments for licensing schemes covering entire local housing areas, and evidence from Liverpool and Newham suggests that the schemes are improving the standards and quality of the PRS in their respective areas. In her 2016 report, Caroline Pidgeon reported that the available evidence suggests that in those London boroughs where borough-wide selective licensing is in place, much more rigorous enforcement takes place<sup>28</sup>.

However, for others the schemes can be a blunt instrument and unfairly punitive for the majority of good landlords. Organisations such as the Residential Landlords Association and the National Landlords Association advocate a more collaborative process between responsible landlords and local authorities in order to improve standards and drive out the less reputable landlords.

The National Landlords Association (NLA) published a report in 2015 looking into landlord licensing and proposing a number of changes in how schemes were approved and delivered. Their concerns focused on:

- The lack of central government oversight and regulation (since the General Approval of 2010);
- Lack of clarity over objectives of schemes – with some local issues not dealt with through licensing;
- Costs of licensing adding unnecessary burdens on good landlords which were then passed on to tenants at higher prices;
- The need for better enforcement;
- The need for better promotion of good practice and cooperation<sup>29</sup>.

In documentation sent to local authorities following the change in policy from 2015 amending the General Approval, Housing Minister Brandon Lewis outlined some of these concerns:

*Licensing can play an important role when it is strictly focused on discrete areas with specific problems. However, the blanket licensing approach adopted by some local authorities has major drawbacks. This is because it impacts on all landlords and **places additional burdens on reputable landlords** who are already fully compliant with their obligations, thereby creating **additional unnecessary costs for reputable landlords which are generally passed on to tenants through higher rents**. The vast majority of landlords provide a good service and the Government does not believe it is right to impose unnecessary additional costs on them, or their tenants. Such an approach is disproportionate and unfairly penalises good landlords<sup>30</sup>.*

Given the success of selective licensing schemes to date, there are strong arguments for keeping it in place. Licensing (for pubs, cars, and other activities which impact local conditions) is normally continuous and renewed. It is hard to see why this should not apply to private landlords.

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<sup>27</sup> Croydon Council. (2016). *Private Renting Licensing Guide for Rented Properties in Croydon*. <https://www.croydon.gov.uk/sites/default/files/articles/downloads/Licence%20conditions%20in%20full%20-%20March%202016.pdf>

<sup>28</sup> Pidgeon, 2016

<sup>29</sup> NLA, 2015

<sup>30</sup> Wilson, 2017, p10 *Housing Minister letter to local authorities, 11 March 2015*

## Local authorities' homelessness duties and the private rented sector

Since the Housing (Homeless Persons) Act 1977, local authorities have had a statutory duty to house unintentionally homeless people who fall into a 'priority need' category. These duties are now contained in the Housing Act 1996<sup>31</sup>.

The Localism Act 2011 introduced changes to the private rented sector in local authority areas. It enabled local authorities to discharge their responsibilities to unintentionally homeless households in priority need through an offer of private rental accommodation, instead of being restricted to offers in the social housing sector<sup>32</sup>. Many local authorities use payment incentives to encourage private landlords to enter into leasing agreements, particularly for temporary accommodation to house homeless vulnerable households.

Private renting often offers the only really viable source of accommodation for people in urgent need of housing in some areas. The social housing stock is shrinking and in high demand areas there simply is not capacity within social housing. This problem is exacerbated by the Right to Buy and estate regeneration schemes involving large scale demolition.

Local authorities have a responsibility when housing homeless and vulnerable people in the private rented sector, to ensure that the accommodation is of a suitable quality and condition. Nevertheless Crisis and Shelter published research in 2014 which highlighted the lived experience of formerly homeless people in the private rented sector and found that living in privately rented accommodation could have a profound impact on wellbeing. The report found that the private rented sector was not always providing a decent quality stable home for all who needed it and highlighted the following as key areas of action:

- Support and funding for people accessing the PRS must be increased;
- Households must be placed in properties suitable to their needs and as a minimum should not be placed in properties with category 1 hazards;
- Urgent action must be taken at local level to improve poor property conditions;
- There is a need for stronger national frameworks to tackle problem landlords and such landlords must be challenged by local authorities;
- Tenancy lengths must be extended, at least for those who are vulnerable and/or have previously experienced homelessness, to help people achieve housing stability<sup>33</sup>.

Selective licensing and accreditation schemes help to address these issues, as do moves to give more of a role to voluntary housing and homelessness organisations. Crisis and Shelter both have experience of working with the private rented sector to achieve better outcomes for homeless and vulnerable people. Crisis developed the Private Rented Sector Access Development Programme 2010 working with and funded by the DCLG. The programme funded a total of 153 schemes across England. Julie Rugg evaluated the programme and in her final report in 2014 she identified a number of key findings:

1. **The private rented sector can be an effective homelessness measure for people at all stages of housing difficulty:** as a preventive measure, to facilitate move-on and as an option for complex-needs clients. **Pre-tenancy training** has been demonstrated as being an essential element to tenancy creation;
2. **Privately rented accommodation can provide sustainable tenancies** that are highly likely to continue beyond their first six month period – resulting in a long-term solution and helping tenants re-engage with the labour market;

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<sup>31</sup> Wilson and Barton, 2017

<sup>32</sup> Wilson and Barton, 2017, p17

<sup>33</sup> Shelter and Crisis, 2014

### 3. Access schemes do require financial support<sup>34</sup>.

Crisis have continued the programme on a much smaller scale using their own resources to support 10 schemes doing innovative and important work in the private rented sector. A key aspect is the direct support given to tenants.

Another innovative project linking into the private rented sector is Inspiring Change Manchester run by Shelter. This is an innovative approach to supporting those with multiple needs. It has a strong focus on management and on providing intensive additional “wrap-around” support. The eight-year programme, funded through the Big Lottery Fund’s £112m Fulfilling Lives Project, has been designed and developed with service users to meet the diverse requirements of people living in Manchester with a variety of complex needs (including a history of problem drug and alcohol use, mental and emotional health issues, accommodation problems and offending). The project aims to break down barriers that can prevent these people from leading fulfilling lives by delivering the right range of services at the right time in tandem with housing in private rental accommodation.

There are many barriers to accessing housing for Inspiring Change Manchester clients including: exclusion from social housing lists, no statutory duty, unaffordability of some PRS, no guarantor, admin fees, no recognisable tenancy history and ongoing multiple complex needs. However, the programme has successfully housed clients in the private rented sector.

Shelter also funds a PRS access scheme in Manchester for single people and families with lower support needs, involving pre tenancy work and mediation with landlords, help with the cash deposit and 6 months ongoing support.

Inspiring Change Manchester employs a dedicated housing “brokerage” worker who provides an invaluable link between clients and landlords<sup>35</sup>.

#### Local authorities as providers of private rented housing

In addition to their role as regulators and as statutory service providers for people in priority need for housing (homeless households), many local authorities have developed a new role as housing providers beyond the traditional social housing context. The General Power of Competence in the Localism Act 2011 gives local authorities the power to do “*anything that individuals generally may do*” including the ability to establish private companies and therefore greater potential to access alternative sources of funding. A number of local authorities have used this new power to establish housing companies which build homes for all tenure types including market sale and rent. In a survey from December 2016, Inside Housing found that over 125 councils had either established a company to develop housing or intended to do so<sup>36</sup>.

More evidence on the role and function of these housing companies is available from the RTPI and the National Planning Forum report looking into local authority housing companies. Their research was published at the end of 2017<sup>37</sup>.

The motivations for establishing local authority housing companies are varied and include:

- Improving standards of design in new housing;
- Becoming more involved in direct provision;
- Generating local authority income and filling funding gaps;

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<sup>34</sup> Rugg, 2014

<sup>35</sup> <https://inspiringchangemanchester.shelter.org.uk/>

<sup>36</sup> Inside Housing, 2016

<sup>37</sup> Morphet, J. and Clifford, B. (2017). *Local authority direct provision of housing*. National Planning Forum; Royal Town Planners Institute: London. <http://rtpi.org.uk/media/2619006/Local-authority-direct-provision-of-housing.pdf>

- Using new housing to meet the needs of homelessness;
- Providing better quality private rental accommodation;
- Place-making;
- Utilising existing land and buildings owned by the local authority to generate income.

We highlight below some prominent housing companies established in the last few years.

- **Brick by Brick, Croydon**

To achieve Croydon’s goal of 1,000 high quality new homes across the borough by 2019, the council has like several other forward thinking boroughs set up its own development company, Brick by Brick. Brick by Brick is a private, independent company, with the council acting as sole shareholder. It aims to deliver high quality, new, residential-led development on a range of sites across the borough. As well as being able to make sure the borough fully benefits from land value uplift and development returns, Brick by Brick aims to deliver directly and react quickly to new opportunities in the housing market.

The aim of Brick by Brick is to ensure that people in Croydon have access to high quality and affordable housing. It also means that the full value of development growth is kept in the borough – whether in the form of additional affordable housing, physical improvements in the local centres or dividend return to the council to fund council services.

Any development profits are returned to the council as sole shareholder and recycled to fund council activities.

The council and the company’s objective is that 50% of the homes in the smaller sites programme will be affordable homes and 50% private homes for sale. This will vary from site to site. In accordance with the Croydon Local Plan, 60% of the affordable homes will be for rent and 40% for shared ownership, although this will also vary from site to site. The exact make-up of the affordable housing will differ from site to site, depending on the economics of that particular scheme. The intention is to create housing, whether it be for rent, shared ownership or any other tenure, at a cost which addresses specific local needs. Affordable rented units will not exceed 80% of market rent, but may be significantly lower. The ownership and management of the new homes is yet to be determined<sup>3839</sup>.

- **Reside, Barking and Dagenham**

Barking and Dagenham Reside is a company set up by and wholly owned by Barking and Dagenham Council to provide decent quality and affordable housing to local people. It offers brand new homes, built to the highest standards and available for affordable rent.

The majority of homes are only available to people who are in employment. Reside aims to help those who can’t afford to get on the housing ladder, but find it difficult to access social housing.

Barking and Dagenham Reside offers a mixture of flats and houses, all built to modern building standards and levels of energy efficiency. Reside homes are offered at affordable rents, which means they are available at less than the average market rent for the area. The majority of homes can be rented for 80 per cent of market rent, but some are lower.

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<sup>38</sup> <https://www.croydon.gov.uk/planningandregeneration/regeneration/brick-by-brick-small-sites-programme/brick-by-brick>

<sup>39</sup> <http://www.bxbdevelopment.com/contact>

Tier 1 properties charge rent at 50% of market levels. Tier 2 is 65% and Tier 3 is 80%. Anyone offered an affordable tenancy at Tier 2 or Tier 3 must have the ability to pay the rent, with enough money left to cover reasonable living costs. Working applicants will need to show proof of earnings and provide employment references. This is based on the rent representing a maximum of 35% of the gross household income. The maximum earnings levels will be adjusted in line with the income levels set from time to time by the Mayor of London.

Figure 12: Reside table showing rent levels at different tiers below market rent

	Rent	Tenancy	Eligibility	Allocation
<b>Tier 1 Properties</b>	around 50% of market rent	On completion of the probationary 12 month period tenants of these properties will be offered a 10 year Assured Shorthold Tenancy.	Anyone using choice based lettings	Through the Council's More Choice in Lettings Policy to eligible applicants
<b>Tier 2 Properties</b>	around 65% of market rent	On completion of the probationary 12 month period tenants of these properties will be offered a 5 year Assured Shorthold Tenancy.	Applicants for Tier 2 and Tier 3 properties must be able to afford the intermediate rent levels set without further assistance e.g. Housing Benefit. The rent charged will normally be at intermediate rent levels. This is defined as 20-35% below open market rents.	General public - in line with the following cascade of priorities: <ul style="list-style-type: none"> <li>• Employed tenants of the Council and of housing associations living in the borough</li> <li>• Employed housing waiting list applicants living in the Borough</li> <li>• Employed residents of the Borough</li> <li>• People in employment in the Borough but who are not currently resident</li> </ul> People in employment from outside the Borough <sup>40</sup>
<b>Tier 3 Properties</b>	around 80% of market rent	On completion of the probationary 12 month period tenants of these properties will be offered a 5 year Assured Shorthold Tenancy.		

- **Red Door Ventures – Newham**

Red Door Ventures (RDV or Red Door) is a commercial residential developer established in 2014, wholly owned by the London Borough of Newham.

When it was launched, Red Door Ventures was set to build at least 3,000 new homes in Newham over the following 13 years. The council-owned company also aims to acquire a further 500 existing properties. All the homes built and acquired will be available for residents at market rent or below with a third of the homes set at affordable rent subsidised by the council with plans to increase this.

To finance the early stages of the programme of development, the council will provide loans to the company as a commercial investment. Its focus is on developing high quality residential homes in

<sup>40</sup> <http://www.bdreside.co.uk/about-reside/>

the private rented sector to be held long term. RDV strives to be an exemplary landlord. The company has an independent Board which enjoys a high degree of freedom.

Red Door has now completed three schemes in Stratford, East Ham and Plaistow. The healthy pipeline of new developments across Newham will bring much needed new accommodation to help relieve housing pressures in London. The new homes are being developed with a close view to the target market - people with busy lives who are not ready to buy and want stylish places to live in.

RDV's home territory includes an international airport and exceptional rail connectivity. Red Door's homes are high quality, providing a good standard of finish and modern interiors.

Red Door Ventures describe themselves as *"the lifestyle choice"*<sup>41</sup>.

- **Blackpool Housing Company**

A wholly owned company of Blackpool Council, working *"to achieve the highest standards and provide peace of mind that all our customers will be treated with respect and integrity."*

Blackpool Housing Company Ltd is a unique and dynamic regeneration company vehicle established and wholly owned by Blackpool Council. Their purpose and mission is based on clear evidence of decline of the inner resort area of Blackpool.

The core purpose of the Company is to make a critical intervention in the private rental market in the inner areas of the town. Blackpool Housing Company will acquire and upgrade poor quality property to provide high quality homes that set a new standard in the market and offer more and better choices than those available now. The brand identity 'My Blackpool Home' reflects that living in these homes should enable customers to take positive steps in their lives and contribute to the wider community.

The Company is incorporated as a 'Private Limited Company' and its core activities are:

- The business of acquiring and letting property;
- Carrying out any activities which contribute to the regeneration or development of Blackpool, such as securing land or property for effective use, providing or improving housing, contributing to economic development, contributing to transience reduction, creating a supply of quality and desirable homes;
- Securing increased and higher quality private sector investment;
- Enabling delivery of public and private sector development programmes;
- Providing delivery solutions for empty properties;
- Initiating competition in the market to improve quality.

Governance of the Company is achieved through a Board with six board members, three appointed by Council nomination and three independent members<sup>42</sup>.

## Overview

We have looked at the different roles played by local authorities in the private rented sector. It is clear that local authorities do helpfully moderate and provide homes in the private rented sector.

Licensing of the private rented sector in their area is one key contribution that local authorities can make. Whilst currently introducing new (borough-wide) schemes requires approval from the Secretary of State, this could possibly be devolved to a more local level e.g. Greater London,

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<sup>41</sup> <http://www.reddoorventures.co.uk/about-us/>

<sup>42</sup> [www.http://myblackpoolhome.co.uk/](http://www.myblackpoolhome.co.uk/)

combined authorities such as Greater Manchester Combined Authority, Liverpool City Region, West Midlands Combined Authority.

Local authorities have powers to ensure that their licensing and accreditation schemes are enforced and are supported but they need to build effective relationships with good landlords and prevent licensing from being an unnecessary burden upon them.

Ensuring the local private rented market is managed well and of a high standard will enable local authorities to continue utilising privately rented homes to house homeless individuals and families to whom a homelessness duty is owed. Given the shortage of social housing this is likely to be a trend that will continue. However, it is crucial that homes meet necessary standards and that there is a level of statutory oversight through licensing and accreditation over these properties. Landlords, housing charities – organisations such as Crisis and Shelter – and local authorities need to work together to ensure housing needs are met and people are supported to maintain their tenancy.

We have shown how local authorities are becoming increasingly involved in the direct provision and delivery of privately rented homes. More work needs to be done on local housing companies and other forms of provision but there is lots of evidence emerging on these different approaches and we will expect this development to evolve as experience grows.

## 4. Different approaches in the devolved nations

This concluding section considers the approaches to the private rented sector taken by the three devolved administrations in Scotland, Wales, and Northern Ireland, and in particular the question of landlord registration. There has been considerable activity in each of these countries, including obligatory landlord registration schemes which are now in place in all three countries in contrast to England. There are also versions of “affordable rents” in Scotland, and proposals to introduce some forms of private sector regulation in both Northern Ireland and Scotland.

The share of private renting and social renting in the different nations is shown here:

Last available Year	2016	2015	2015	2014
	England	Scotland	Wales	Northern Ireland
<b>Social Rented</b>	17%	23%	16%	16%
<b>Private Rented</b>	20%	15%	15%	17%
Last available Year	2016	2015	2015	2014

Source: DCLG Live tables 101

### Scotland

Scotland has a higher level of social housing (23%) and a smaller private renting stock (15%) than the UK as a whole. In 2009 84% of Scottish private landlords were classed as “individuals” and lettings agents managed 50% of all properties. Of the four nations of the UK, Scotland has the longest history of registration and accreditation of landlords. The *Antisocial Behaviour etc. (Scotland) Act 2004* introduced a Compulsory National Landlord Registration Scheme (but not accreditation at this stage), and the subsequent *Housing (Scotland) Act 2006* introduced:

- A repairing standard which set a basic standard of repair and extended the legal requirement to repair to private landlords;
- Private tenants’ right to adapt property for a disabled occupant(s);
- New provisions for Licensing of Houses in Multiple Occupation (HMOs);
- The Private Rented Housing Panel (PRHP) as the body to deal with disputes arising from the Repairing Standard.

There was some concern about the purpose of the original registration scheme, particularly about whether it was just a list or was intended to help improve standards. Consequently a *Landlord Voluntary Accreditation Scotland* giving powers to local authorities to accredit on a voluntary basis (LAS) was rolled out in 2008

Following a review of the private rented sector published (in 5 volumes) in March 2009, the *Private Rented Housing (Scotland) Act 2011* introduced Improvements to Landlord Registration:

- Amending, expanding and clarifying the ‘fit and proper person’ test for landlords;
- Requiring the *Private Rented Housing Panel (PRHP)* to share information held about private landlords with local government – thus making ‘bad’ landlords more easily identifiable;
- Obliging landlords to display their registration numbers in lettings advertisements, with a non-compliance penalty of possible removal from the register.

Subsequent changes formed part of a new *Private Sector Strategy* which was developed 2011-13. This set out three key strategic objectives:

- **To improve the quality** of property management, condition and service;
- **To deliver for tenants and landlords**, meeting the needs of the people living in the sector;
- **To support consumers** seeking accommodation; and landlords committed to continuous improvement;
- **To enable growth, investment** and an increase housing supply.

In 2014 the Scottish Government appointed a Private Rented Sector “Champion” to stimulate good PR provision. Also that year the *Housing (Scotland) Act 2014* abolished the right to buy for social housing tenants and introduced the registration of letting agents and code of practice with mandatory qualifications – to be implemented by 2018. Further legislation (the *Private Housing (Tenancies) (Scotland) Act 2016*) is to be implemented in late 2017 and will introduce:

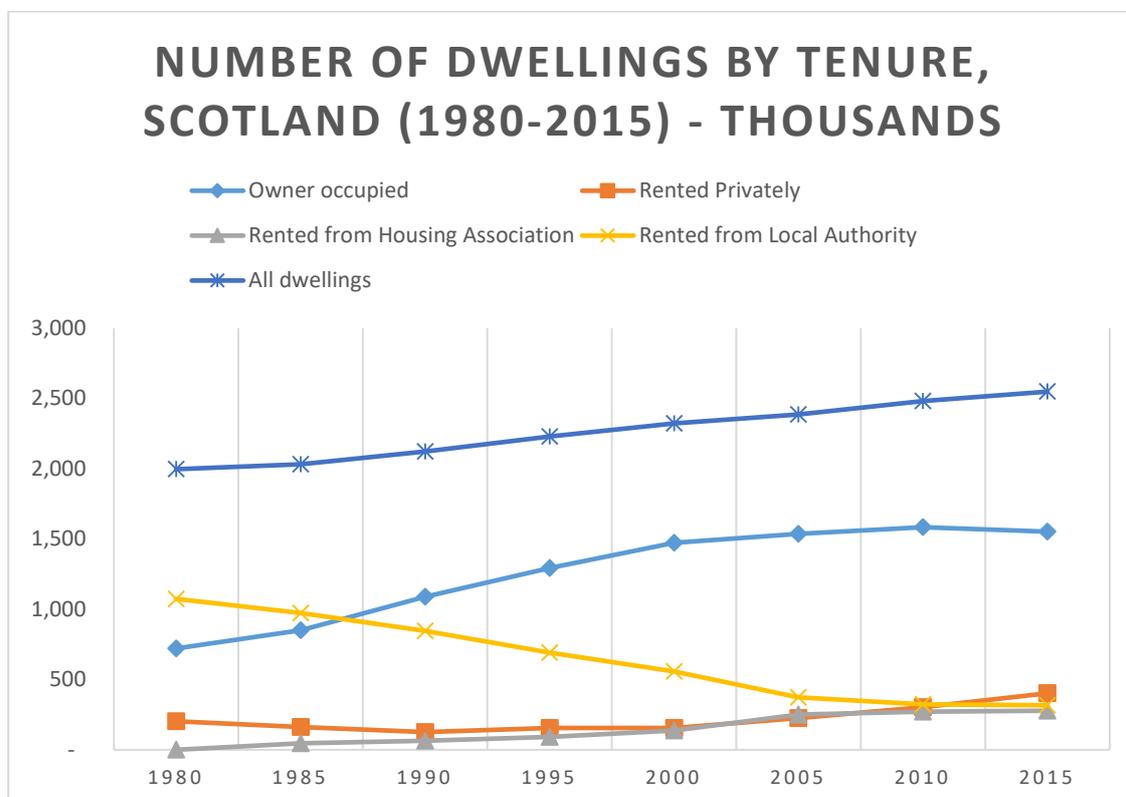
- A new tenancy structure with improved security of tenure and a model tenancy agreement. These new tenancies cannot be ended on “no fault” grounds, and tenants can be awarded up to six months’ rent for wrongful termination of tenancy;
- Annual appealable rent increases;
- “Rent pressure zones” where a local authority can limit rents and rent increases;
- A new court, the Housing and Property Chamber, to deal with private sector rent and repair issues, and repossession – First Tier Tribunal for Scotland.

### Wheatley Group

There is little engagement of Scottish housing associations in providing private rented accommodation. The Glasgow Housing Association is a conspicuous exception. There is action to develop a type of “affordable” rent structure called Mid-Market” or “intermediate” rent, with housing association subsidiaries as the most common provider. These have rents set at or below the Local Housing Allowance rate, but higher than social housing rent levels. They are supported with a mix of private and government finance. They are aimed at families who are unable to afford private rent or owner occupation, but are not eligible for social housing.

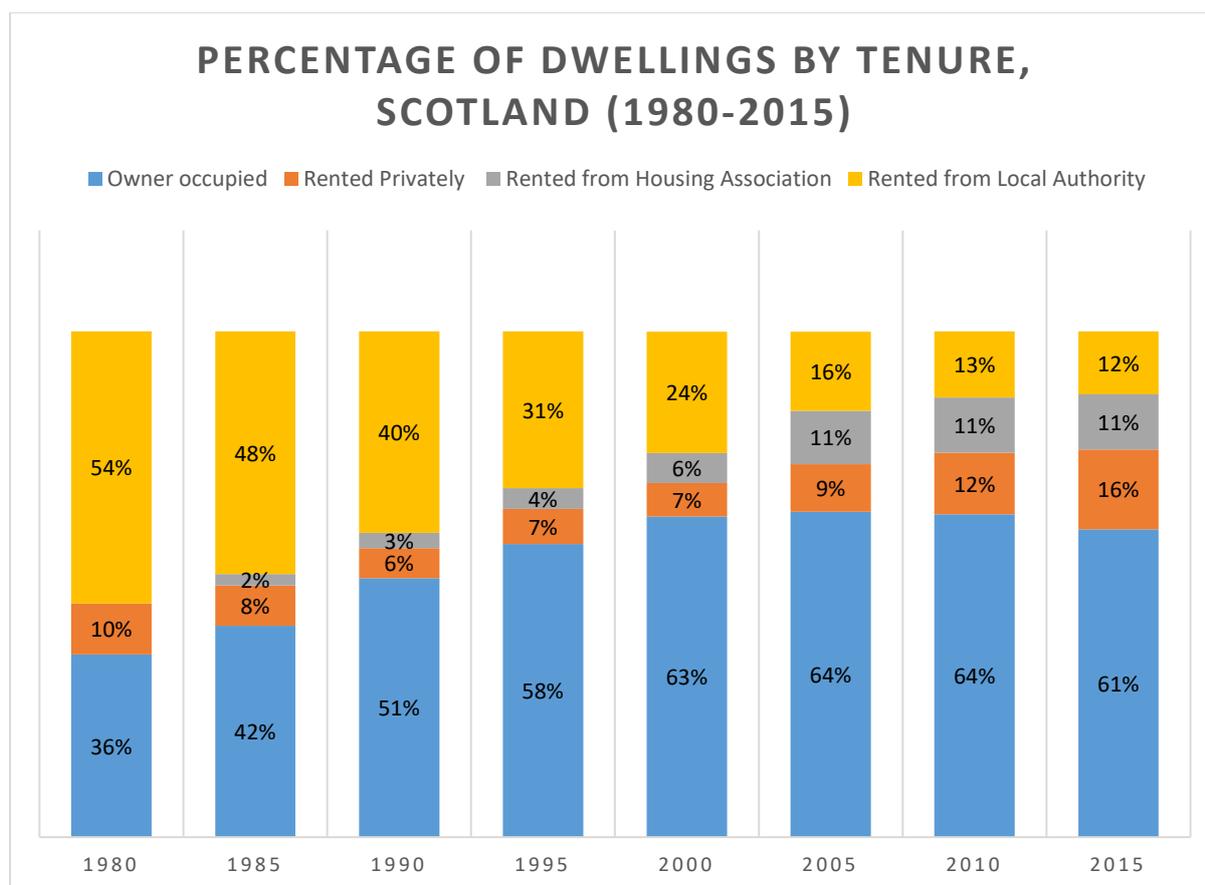
In addition, there are specific steps to encourage the growth of private renting including the stimulation of market renting with a “rental income guarantee scheme” – to support “build to rent” activity for 50,000 new rented homes.

Figure 13: Number of dwellings by tenure, Scotland (1980-2015)



Source: DCLG Live table 107: by tenure, Scotland (historical series)

Figure 14: Percentage of dwellings by tenure, Scotland (1980-2015)



Source: DCLG Live table 107: by tenure, Scotland (historical series)

## Wales

Wales has higher levels of owner occupation (69%), a smaller proportion of private renting (15%) and social renting (16%) than the UK as a whole.

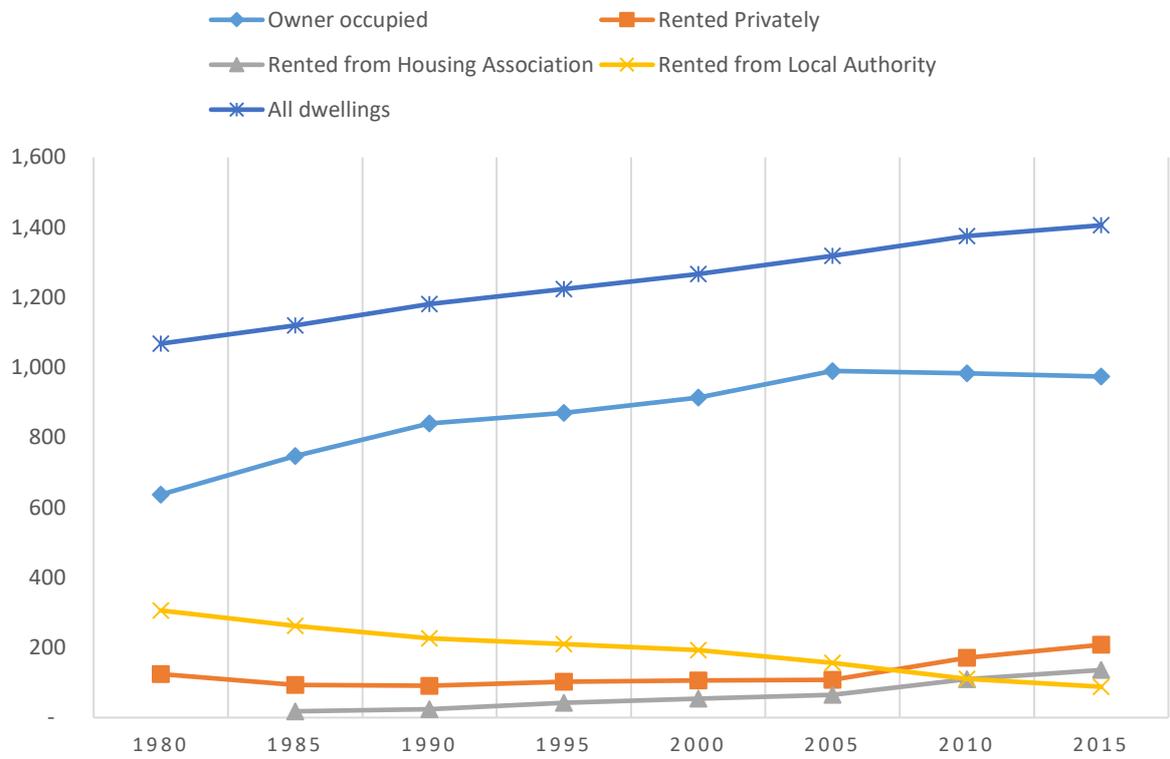
Following the publication in 2009 of the DCLG commissioned “Rugg Review” into private renting the Welsh Assembly’s Communities & Culture Committee held an inquiry in 2010, looking at the standards in the Welsh private rented sector<sup>43</sup>. A subsequent housing White Paper in May 2012 led to the *Housing (Wales) Act 2014* which created a programme named “Rent Smart Wales”. This was landmark legislation which introduced:

- Compulsory registration of landlords and also of managing agents. This registration has to be renewed every five years;
- Private landlords must be “fit and proper persons” and suitably trained;
- They must comply with a code of practice. If a landlord fails to register or apply for a license they cannot issue a valid Section 21 notice to end a tenancy;
- The system is run by Cardiff County Council. Individual local authorities have intervention powers;
- Under the Act, tenants can search for information about landlords and agents, which is also available.

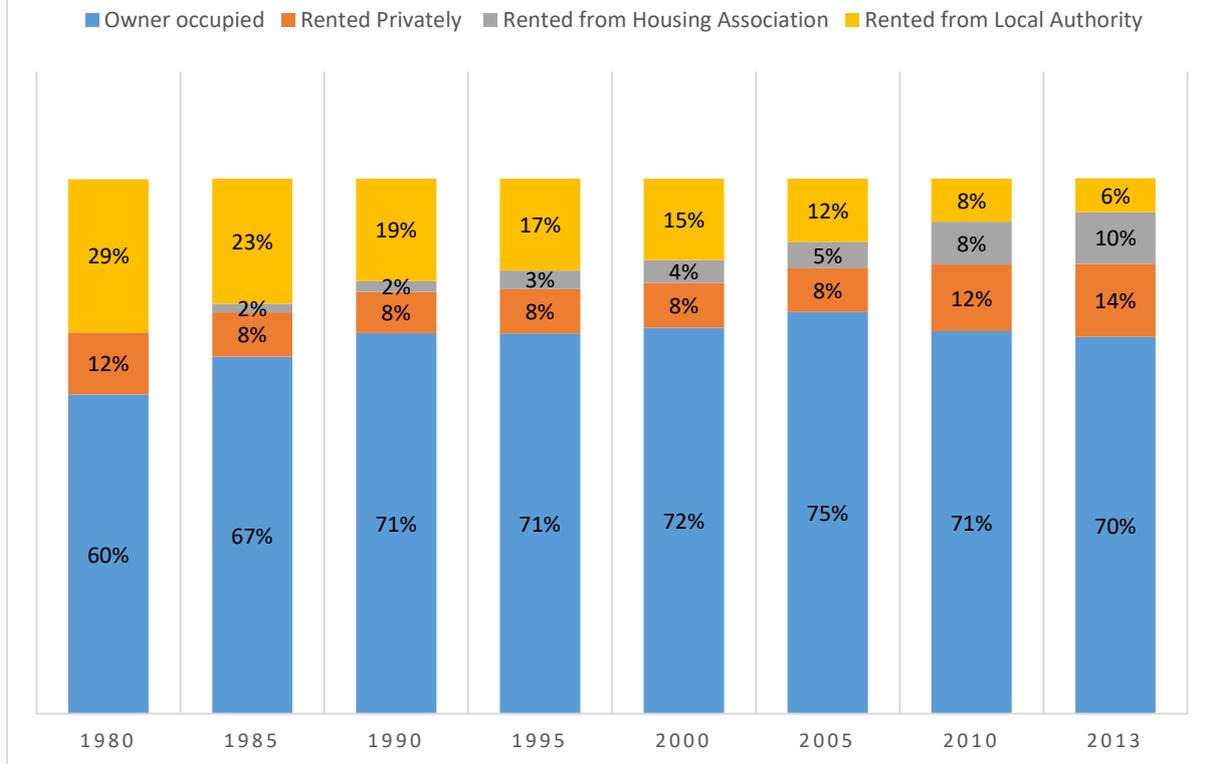
There are very few examples of Welsh Private Renting schemes run by housing associations.

<sup>43</sup> Rugg, J. and Rhodes, D. (2008). *The Private Rented Sector: its contribution and potential*. The University of York: Centre for Housing Policy

## NUMBER OF DWELLINGS BY TENURE, WALES (1980-2013) - THOUSANDS



## PERCENTAGE OF DWELLINGS BY TENURE, WALES (1980-2013)



Source: DCLG Live table 106: by tenure, Wales (historical series)

### Northern Ireland

Like Wales, Northern Ireland has higher owner occupation (67%) and less social (16%) and private (17%) renting than the UK as a whole. The majority of private rented tenancies in Northern Ireland are “non-rent controlled tenancies”, which permit private landlords to charge market rents. These were created by the *Private Tenancies (NI) Order 2006*, which ended the previous forms of tenancy, although with transitional arrangements for existing forms. Previous forms included Protected tenancies and Rent Controlled tenancies, both of which had regulated rents. The 2006 order also:

- Introduced new definitions relating to unfitness and disrepair;
- Gave tenants the right to a statement of tenancy terms and a rent book.

The post 2006 tenancies have similar conditions to ASTs in England. Tenants can be evicted at the end of the period of letting set out in a post 2006 tenancy agreement, or before that if they seriously breach the agreement. Notice periods vary according to the length of tenancy prior to notice to quit – from 28 days for to 8 weeks for tenancies held between five and ten years, or to 12 weeks for tenancies over 10 years

The Northern Ireland Assembly resolved to set up a mandatory landlord registration scheme in 2007, with a voluntary registration scheme for Houses in Multiple Occupation since 2004.

The *Housing (Amendment) Act (NI) 2011* introduced a mandatory tenancy deposit scheme to protect deposits made by tenants at the start of their tenancy – and allowed this to be done through a landlord insurance scheme covering the money. The question of mandatory landlord registration was more contentious, however, with a considerable body of opinion holding that it was unnecessary and would impose additional burdens on good landlords.

Nevertheless a mandatory registration scheme was eventually set up, with initial registration getting underway in 2014. The aims of the scheme are to:

- Improve private renting in Northern Ireland;
- Allow tenants, neighbours and local councils to identify landlords and management agents of private rented property, and;
- Provide information on the scale and distribution of the private rented sector in Northern Ireland.

There was, however, no requirement for landlords to acknowledge their legal obligations nor does it require them to disclose relevant criminal convictions as is required in Scotland.

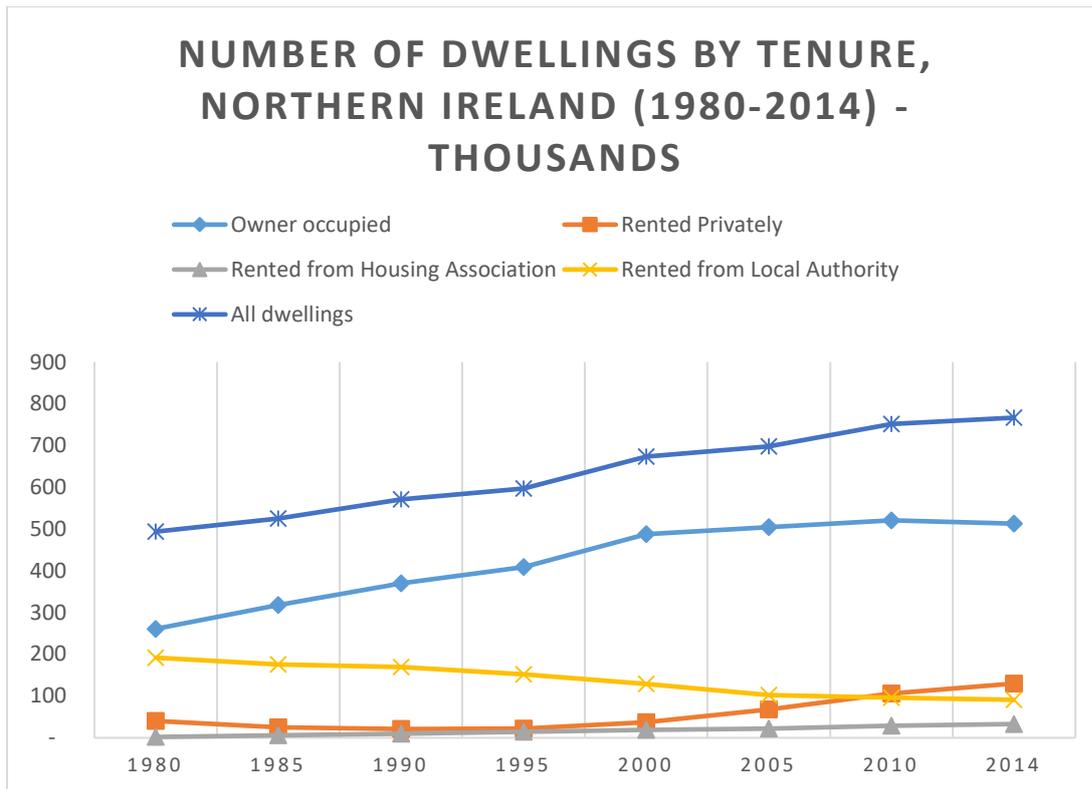
A further review of the role and regulation of the private rented sector was announced in 2015. The aim of the review is to consider the current and potential future role of the sector and assess the effectiveness of current regulation, identifying where improvements can be made to help make the private rented sector become a more attractive housing option. It invited ideas for consideration, though it did not formally propose changes as part of the consultation. Following analysis of the responses to consultation, specific proposals for change were announced in 2017. These included changes so that:

- There must be written agreements between private tenants and their landlord which must contain mandatory terms;
- Restrictions will be imposed on the number of times rent can be increased in a 12 month period;
- There should be further landlord training and tenant information packs provided;
- The minimum notice to quit period should increase from four weeks to two months;
- Letting Agents should be regulated;
- A Dispute Resolution Service should be set up.

These proposals are currently stalled due to the absence of a functioning provincial government in Northern Ireland.

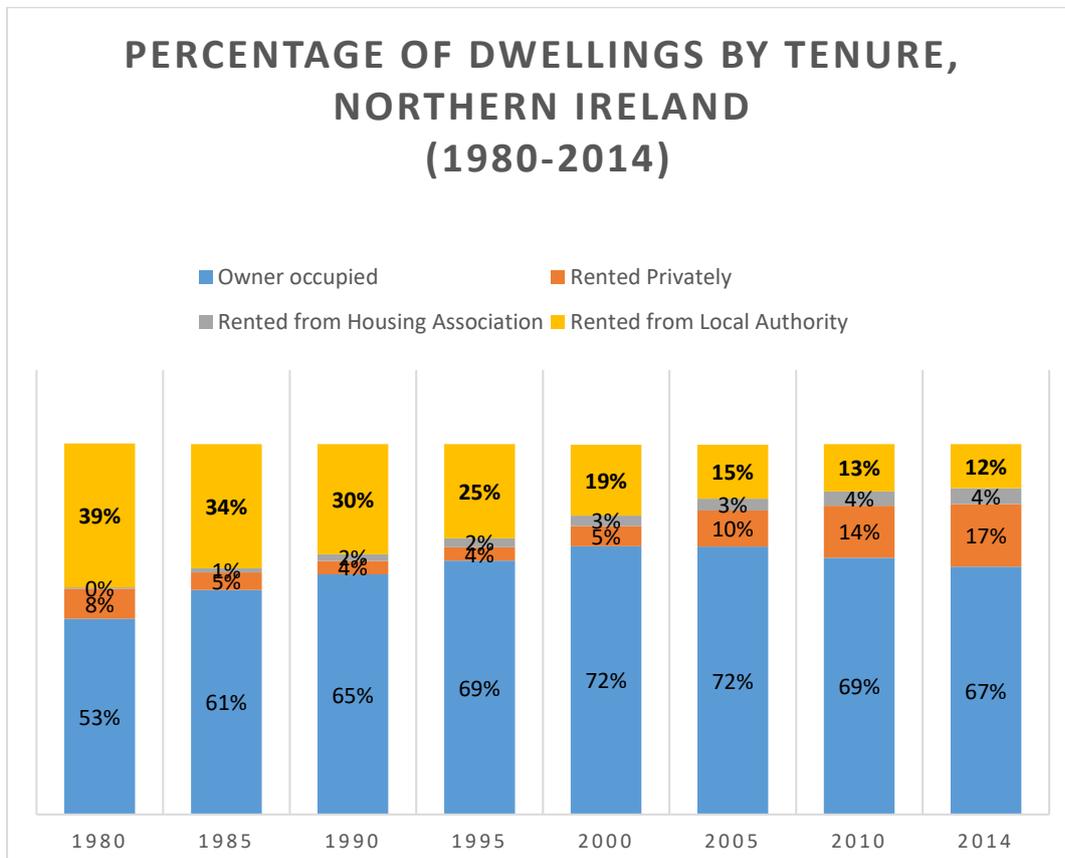
Very few housing associations are involved in new build for rent. Northern Irish Housing Associations are separate from the Northern Ireland Housing Executive which has responsibility for all public housing in Northern Ireland (formerly council housing).

Figure 15: Number of dwellings by tenure, Northern Ireland (1980-2014)



Source: DCLG Live table 108: by tenure, Northern Ireland (historical series)

Figure 16: Percentage of dwellings by tenure, Northern Ireland (1980-2014)



Source: DCLG Live table 108: by tenure, Northern Ireland (historical series)

Local authorities and devolved governments are playing an active role in private renting:

- They are introducing voluntary or mandatory licensing; all HMOs must now be licensed;
- They increasingly rely on private landlords to help house statutorily homeless households;
- Many are setting up Housing Companies to build housing directly, including for private renting;
- The three devolved nations are more proactive in regulating the private rented sector than England. They all have mandatory licensing and accreditation systems;
- Intermediate renting and below market private renting is receiving increasing support, particularly in Scotland;
- Local authorities work with homeless charities, residential landlords' associations and social landlords to raise standards in private renting. In England, they are dependent on central government for approval of mandatory selective licensing renewal.

## 5. Summary and Conclusions

### Summary

This report reviews the current role of housing associations in using private rented housing options to deliver on some of their core social and housing objectives. The report looks at the record of the private rented sector, documents the in depth research with 15 housing associations who offer private renting, highlights existing practice, legislation, organisational frameworks and options for future development.

The overall conclusion is that private renting by social landlords can deliver good housing for households in need of a home but who are not eligible for mainstream social or affordable rented housing and cannot afford to buy. This activity provides decent private rental homes; and surpluses to cross-subsidise social housing.

### *History of private renting since 1910*

In the early 1900s private renting provided up to 90% of all homes, but tight rent controls introduced during the 1914-18 war led to the decline of private renting, which continued until it reached 7% in 1989. During that period private landlords were caught by slum clearance, the rapid expansion of council housing, and in the 1970s by renovation programmes. Tight rent controls prevented repair and led to many landlords selling up. The actions of unscrupulous professional landlords in pressuring tenants to move in order to maximise their profits discredited private renting. “Rachman” scandals led to legislation against racial discrimination and preventing homelessness. Government supported charitable housing associations as a new “third tenure” in the housing market.

The revival of private renting began under Margaret Thatcher in 1989 with the ending of rent control and secure tenancies for private lettings. The introduction of the Right to Buy in 1981 for council housing tenants led to over 2 million sales, of which around 40% are now in the private rented sector following re-sale or re-letting by previous sitting tenants. The increase in private renting runs parallel with the decline in council housing.

Changing economic conditions and changing household composition, including increased labour mobility, favoured the revival of private renting, as did the tax incentives to develop a “buy to let”. Most private landlords let just one or two properties.

Meanwhile, new council building was virtually at a standstill and housing associations received progressively less grant following permission to borrow privately from 1989. The point was reached in 2015 where private renting supported more households (20%) than social housing (17%).

### *How housing associations meet housing need through private rented homes*

Housing association activities include building, owning and renting to private tenants. Some housing association landlords act as managing agents for private rental properties in order to house homeless families. Several associations provide below market (intermediate or sub-market) renting for households on lower incomes who cannot access social housing.

Several government schemes promote PRS schemes for housing associations, including the debt guarantee scheme, and the now closed Rent to Buy fund. The government has made a commitment, in the recent white paper “Fixing our Broken Housing Market” (2017) to legislate to raise standards in the private rented sector. This may encourage more housing associations to get involved.

Housing associations give several reasons for wanting to provide private rented homes: flexibility in lettings; responding to high demand locally; greater diversification of income and assets; supporting regeneration plans; providing homes of good quality to households who need it but cannot access social housing.

The main benefits associations identify are: additional surpluses to reinvest in social and affordable housing projects; skills and expertise in renting; more investment opportunities. Overall, associations believe that the PRS is aligned with and helps deliver the wider social aims of housing associations.

Four associations that we interviewed manage other landlords' stock. Most housing associations offer a "premium" service in return for the higher rent (sometimes including optional extras like dog walking or car sharing). The private rents are usually separately branded, and lettings are invariably done through mainstream letting sites like Rightmove and Zoopla.

Associations are clear they offer benefits to their private tenants compared to renting from small landlords, or from institutional landlords. These benefits include: a more socially committed and less commercial approach to security of tenure and evictions with a general aim to keep tenants for longer periods and renew tenancies; a better standard of service than the average private landlords; higher energy efficiency standards; tenant support; "housing plus" of community services; lower lettings fees; and a more open approach to lettings and affordability checks. At the same time they recognise that institutional (and social enterprise based) landlords often offer generally good standards of management

A number of innovative ideas are being tried; more flexible rent levels; more flexible lettings policies; intermediate rent models which progress towards ownership, similar to shared ownership lettings; and promotion of mobility.

The survey shows up some problems, for example how best to deal with applicants receiving some Housing Benefit who are often excluded from applying; where to set rent levels to help lower income groups but pay their way as private landlords.

#### *The role of local authorities as regulators and providers of PRS housing*

The regulation of houses in multiple occupation (HMOs) has been in place since 2004, whereas more general licencing of the PRS was only allowed in 2011. The ability to require private landlords to register was introduced in the Localism Act 2011; in 2015 licencing was restricted to the areas within a local authority area where private renting was above a certain percentage (20%) of the stock.

Some local authorities have introduced authority-wide licencing schemes including Newham, Liverpool, and Croydon; others have introduced partial schemes. There is also a London-wide landlord accreditation scheme, which is voluntary and therefore misses many poor quality landlords. Newham has prosecuted over 900 private landlords since 2013, and taken 700 lesser warning actions. Liverpool and Croydon have also had some successes. The main objection to these schemes is that they impose costs, on all landlords, good and bad, and this cost is ultimately paid by tenants through rent increases. The counter-argument is that decent landlords like the better reputation that flows from accreditation and let properties more easily.

Local authorities discharge some of their housing and homelessness duties through the use of private renting. Since 2011 authorities can address housing need through referral of an applicant to a PRS vacancy; homelessness advice agencies have experience of housing vulnerable homeless people in privately rented accommodation.

Since 2011 some local authorities have set up wholly owned housing companies to build and let housing in their area, for example Croydon, Barking and Dagenham, Blackpool, and Newham.

#### *Differences in the devolved nations*

Private renting in Scotland, Wales, and Northern Ireland has distinctive features. Scotland introduced a national landlord registration scheme in 2004, which has been strengthened over 13 years. It also subsidises "mid-market" rents in the PRS sector, to cater for families not eligible for social housing. It is planning to introduce "rent pressure zones" where a local authority can limit rents and rent increases. Scotland has also abolished the Right to Buy and subsidised tenants facing

the Bedroom Tax. Wales has likewise introduced the compulsory registration of landlords and managing agents. This is run by Cardiff County Council. Local authorities use private landlords to house homeless people, and they report generally good experience. Northern Ireland introduced a mandatory registration schemes for landlords in 2014, and a wider review of the PRS has been launched. But no recommendations can be implemented pending the resolution of the political vacuum.

### What Next

Social landlords are showing the way in providing a more social model of private renting. Its main features are:

- Quality homes that are more secure because the landlords want longer term tenants;
- A core management and maintenance service that is high quality and specially designed.

For this model, rents are moderated not only by the market, but by wider social considerations, and rent rises are restrained for existing tenants in order to hold onto them. Private renting is being used to complement social renting without subsidy at more affordable rents through intermediate or sub-market rents.

Private renting provided by social landlords is very different from general private renting:

- Firstly, there are very strict access criteria, including detailed financial checks. However, deposits are far lower, there are generally no letting fees;
- If an existing tenant becomes in receipt of Housing Benefit due to a change of circumstance, this is invariably accepted;
- There is a fairly open and negotiated approach to tenancies;
- While social landlords generally charge market rents for their PRS stock, almost all also provide intermediate rentals for key workers and those on more limited incomes.

To reflect the higher rents there is a much stronger focus on management services than in social housing. Partly to make this distinction clear, social landlords brand their private renting separately from their social housing offer. There are a few exceptions to this such as Peabody Trust and PoplarHarca, who believe that their social brand makes them popular.

Social landlords offering private renting are strongly driven by commercial considerations as it mitigates the risk in relying on sales to fund social housing. But the commercial focus is tempered by a social ethos. Several housing association in our survey chose not to maximise rents, or charge below-market rents in high value areas, on the basis that over the long term this will pay back the investment.

Social landlords are de-facto becoming major institutional investors in private renting. Councils are helping raise the quality of private renting through regeneration and licensing schemes. They are also creating local housing companies to expand direct housing provision, often for the private rental market. There is scope for social landlords to do more to help poorer households by being more flexible on eligibility criteria, but this does depend on the Local Housing Allowance being sufficiently generous.

Overall, social landlords are able to make “long-term, slow, patient investments” that allow them to provide secure, decent quality, well managed rented homes that pay their way.

### Conclusion

Our core conclusion is that long term, slow, stable investment in low cost, secure renting allows social landlords to use their management experience, their existing assets and their capacity to borrow to expand private renting. This leads to more socially responsible, more stable and therefore more useful private renting. Social landlords can do much more to house lower income households

in receipt of Housing Benefit, but able to pay rent reliably with this help. This is an urgent task if their role in private renting is to be of greater value. Government can foster this progress through “light-handed” regulation and a supportive approach to private renting itself. The efforts of social landlords and councils to expand and improve private renting demonstrates a commitment to raising the quality, security and stability of private renting, and to enhancing its standing as a socially beneficial tenure.

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