**Housing Plus Academy Think Tank:**

**Private Renting and the Role of Social Landlords**

**Summary report**

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**Key themes:**

1. Despite the negative perception of the private rented sector (PRS) often portrayed in the media, all parties agreed that **the PRS does provide an essential service, which provides significant additional choice and flexibility for consumers**.
2. **The PRS can and does provide a housing option for some of the most vulnerable in society, particular for homeless people**. There is a challenge to ensure that sufficient support is available for vulnerable people in PR accommodation to meet their specific needs, and to ensure they do not find themselves limited only to the poorest quality housing.
3. **Social landlords are already engaging in the PRS in several ways**: offering management and lettings agency services; building and operating PR stock; running PR licensing schemes. Many social landlords are using it to diversify revenue to fund their affordable housing offer and additional services.
4. **Social landlords could bring some advantages to the market**. They can provide “long-term, slow, patient investment” in private renting that offers greater security for tenants. The creation of social lettings agencies and a general professionalisation of the PRS could also be of benefit to tenants.

This report summarises some of the key topics of discussion raised at the Housing Plus Academy Think Tank on private renting and the role of social landlords, that took place 17th-18th March. The findings will comprise three sections:

* First, what, in the delegates’ views, are the current strengths and weaknesses of the PRS;
* Second, what interventions are social landlords/ local authorities currently making in the PRS;
* Finally, what are the risks and benefits of social landlords becoming more involved in the PRS?

### What are the strengths and weaknesses of the PR sector?

**Strengths**

* In many parts of the UK the private rented sector provides a flexible, affordable alternative to home ownership. A local authority representative highlighted that while in some areas rent levels between social and private landlords are relatively similar, actually tenant satisfaction is frequently higher in the PRS. It was strongly stressed that we must be careful not to take a London-centric view of the PRS and apply it to the rest of the country where circumstances vary considerably.
* The PRS can provide choice within the rented market, offering greater flexibility around quality, location and size of property. It also does not carry some of the stigma that some associate with the social rented sector.

**Weaknesses**

* For some, renting has become the tenure of default because they are locked out of home ownership or social renting. The idea of choice between properties is illusory as affordability concerns drive tenants’ decision-making.

While the PRS does house its share of vulnerable people, particularly as local authorities have become particularly reliant on the PRS to house its homeless population, it often fails to provide the ‘wrap-around support’ such vulnerable people require to be survive long-term in their tenancy. Often landlords choose to avoid housing risky tenants all together.

* The mechanisms for eviction do not function properly. Section 8 notices for eviction with cause place too great a burden of evidence on landlords to remove bad tenants, so they increasingly simply use a Section 21 notice, which does not require a landlord to provide a justification for eviction. Tenants have little protection against the use of a Section 21 notice.
* There is little price premium for PR properties with good energy efficiency, and as such the incentives to upgrade stock with energy efficiency measures are low.

### How are social landlords and local authorities currently involved in the PRS?

* A number of larger housing associations, particularly those operating within London and other metropolitan housing markets, explained how they were involved in build-to-let schemes, often as part of wider regeneration schemes.
  + Properties built for rent were generally purposely aimed at the higher end of the market. The purpose of these properties is not an extension of the charitable landlord purpose of providing support for those with a specific housing need, but to diversify income and support the traditional affordable housing offer with associated extra services.
  + In some cases tenants in receipt of housing benefit are actively excluded from associations’ PR properties.
* Some housing associations are engaged in a ‘Rent-to-Rent’ model, where they guarantee a fixed, below market rent to private landlords while taking over the management of the property. Local authorities have also explored a version of this model where they lease a property for between one and five years from a landlord.
  + This model has been used to provide housing for vulnerable people, often taking advantage of cash offers from local authorities, in order to secure temporary housing for homeless people.
* A new PR model designed to de-risk investment in rented accommodation for institutional investors was proposed, called *Flexible Rent*. Originally proposed by the New Economics Foundation, it suggests that the volatile returns that discourage long-term investors from the PRS can be managed by setting a defined income across a number of properties. In a rising rental market more units would be converted to social rents, while in a falling market more units would be converted to market rents, thus regulating the overall value of rents an investor can expect to receive. Social landlords would act as managing agents for the properties on behalf of an investor.
* Licensing schemes have been introduced in several local authorities and nationally in Wales. Many private landlords have been resistant to such schemes as they are seen to punish good as well as bad landlords and push up costs.
  + Debate about the effectiveness of voluntary licensing schemes versus compulsory licensing for all landlords was inconclusive. It was suggested that voluntary licensing provided consumers with clearer idea of who the good landlords are, and provides landlords with stronger incentives to improve.
  + In Wales, owners must be registered but may let a licensed management agency operate the property on their behalf. This has encouraged more landlords to handover properties to professional management, such as housing associations, who do not require a paid for license (thus saving the landlord money).

### What are the challenges to social landlords getting more involved in the PRS? What would the benefit be? What would the risks be?

* **Challenge:** Social landlords must have a clear idea of whom their product is for and what purpose it serves in their overall business model. PR property can be a useful revenue generator, which balances building for market sale. However, it may take 30-35 years to achieve a full return on the original investment. This is ‘not a golden-egg-laying goose’.
* **Risk:** An association’s brand may become diluted by becoming involved in the PRS, or worse still, be damaged if they are unable to meet demanding private renters’ expectations. Some associations run their private renting under a different name. On the other hand, many of the associations are trusted brands and could bring ‘credibility’ to sector and detoxify its media image.
* **Risk:** Not all locations are suitable for expensive rented property. The possibility for cross-

subsidisation is highly contingent on local market conditions.

* **Benefit:** Social landlords with long-term commitments to holding properties may be able to break the cycle of tenant churn encouraged by letting agencies. Setting out guaranteed future rent levels can help tenants plan for the future with greater security, knowing that the landlord is unlikely to choose to sell the property or evict them without good cause.
* **Benefit:** Many people like living in mixed communities, and developments that include social housing and private rented tenants may be able to drive up the standard and variety of services available. PR tenants may be able to use services designed for social tenants and vice-versa.
* **Benefit:** Particularly where social landlords engage in managing properties or operating ‘Rent-to-Rent’ schemes, they can bring their in-depth housing management experience. While the average private landlord typically has up to three properties and runs them on a very part-time, non-professional basis, social landlords have far greater experience and larger stock, and can benefit from economies of scale.

### Conclusions

The PRS is clearly an attractive but complicated prospect for social landlords to become more involved with. Improving the PRS to benefit vulnerable tenants is not the primary attraction for social landlords. They are attracted by the gap in the housing market for those unable to buy, and can offer attractive, moderate cost, reasonably secure, quality private renting. They are keen to generate revenue to cross-subsidise their core social housing offer. As long-term investors with high levels of experience of managing property, they may be able to bring some benefits to the sector. Social lettings agencies and management services may have a role in boosting the functioning of the sector. However, social landlords must not overestimate the impact they can have. Much of the PRS works well. Social landlords could contribute to supporting those most likely to be let-down by the PRS, but who are excluded from buying or from social renting.