

Main findings from Policy Think Tank:
Social landlords and private renting

17th and 18th March 2016, Trafford Hall

Introduction

Private renting has been **growing rapidly over the last 20 years**, and is now the second biggest tenure after owner-occupation. It is estimated that the sector will continue growing. For some it can be a ‘tenure of choice’, offering a high degree of variety and flexibility which may suit mobile workers, students and young professionals. However, in many instances it is the only housing option available to a ‘squeezed middle’ not eligible for social renting, and yet priced out from home-ownership because of rising property prices.

Findings

1. Because of the shrinkage of the social housing sector, the private rented sector is now **housing new categories of people who would have once been housed by the social sector**: families with children, elderly, low-income tenants. Often, the private rented sector is the only housing option for people with multiple and complex needs, who have been excluded from accessing social housing for non-compliance or breaching the terms of their tenancies.
2. The biggest issues for private tenants are **security of tenure and rent levels**. Evictions are on the rise. Frequent moves disrupt family life and are particularly bad for young children. Rents keep soaring, especially in London and the South-East, and the majority of properties on the open market are unaffordable on Local Housing Allowance rates.
3. The private rented sector is **dominated by small landlords**. These are often reasonable landlords, with surveys showing high satisfaction with repairs among private renters. However, there is **not a high degree of professionalism** in managing the sector, as small landlords are not always aware of their responsibilities, and are often lacking experience of the costs involved.
4. **Institutional investment in the private rented sector is growing** following the Government’s Build to Rent scheme. Some landlords, especially housing associations, want to take up the challenge to get involved with institutional investors, such as pensions funds, to build mixed developments including market rent properties. Signing deals with pension funds and other private investors also allows social landlords to build more homes with less capital exposure. Some landlords already have a Private Rented Sector (PRS) portfolio and want to expand it.
5. The Government, despite its drive towards home-ownership, wants to **support long-term institutional investment in the private rented sector**, as a way to increase supply

of new homes. The Government also wants to **improve standards in the sector**, ruling out rogue landlords. However, the planning process does not always give housing associations freedom to **experiment in mixed-development schemes**, and try out new innovative approaches. The possibility of planning applications being rejected, and the high costs involved, can put off investors.

6. Some landlords already have a PRS portfolio and want to expand it, looking into innovating PRS delivery models to attract institutional investment. Other landlords are assessing the case for getting involved in the private rented sector. A crucial factor in strategic decision-making around PRS involvement is whether social housing providers see this as going **against their core social purpose or, on the contrary, as a means to deliver their social aspirations**. However, social landlords' decision to get involved in PRS rests mainly on **viability considerations based on local housing markets**, and whether PRS ventures actually offer the opportunity to cross-subsidise affordable homes. Housing markets differ considerably from one part of the country to the other, with London and the South East experiencing the highest private rent inflations, while in areas of low demand private rents can be even lower than social rents.
7. Some landlords see their involvement in the private rented sector as a 'necessity', a **way of securing a long-term revenue stream** to survive the budget pressures they are under and **cross-subsidise the building of more affordable homes**. Although PRS is more risky and has a slower return on investment compared to outright sales of properties in the open market, it guarantees a stable, secure and reliable revenue stream from an asset base independent from Government's intervention. Diversifying their business is also a way to **manage investment risk**, as private renting is a counter-cyclical product.
8. It is not unusual for social landlords to build **high-end, luxury, purpose-built private rented accommodation**, but also key worker and student accommodation. Charitable housing associations have competitive advantage, as they do not have to pay stamp duty on PRS development schemes. Some social landlords buy street properties or apartment blocks, or **make up long-term empty properties from their social housing stock**, and rent them out. Others have adopted the 'guaranteed rent' or '**rent to rent**' **business model**, to house vulnerable tenants in the PRS sector, renting properties from private landlords at sub-market rents, or leasing them from private landlords for up to 5 years, and then sub-letting and managing them.
9. **Social landlords' private rent offer differs from open market rents**, not so much in terms of prices but rather in terms of longer tenancies, more transparent charges, better quality and security, higher energy efficiency standards, and rent increases capped at the level of inflation (what is called 2nd generation rent controls), and in some cases based on LHA. Social landlords can also offer a **more professional service**, thanks to their considerable experience of managing tenancies, and the chance they have to deliver better services through economies of scale. They can also help their customers make the move to housing options that are best suited to their family needs, as their circumstances change.

10. Some social landlords prefer to sell their private renting product under a different branding, in recognition of the **different profile of the clientele they are working with**. Others find that their **long-established branding as social housing providers** inspires a sense of trust in prospective tenants.
11. The PRS division within housing associations **operates on a private sector model** and adheres to a rigid business approach, which means that tenants get easily evicted through S21 notice ('no fault evictions') if they get into arrears or breach their tenancy. Social landlords do not see this as going against their core values, as a viable and prospering PRS sector is ultimately seen as a way to cross-subsidize the building of more affordable homes. It also houses a band of tenants who can neither access owner-occupation nor social renting.
12. Councils are trying to **drive up standards in the private rented sector** by running **licensing schemes for private landlords**. These schemes can be either voluntary accreditation schemes, or mandatory area-based licensing schemes. In Wales, where the licensing scheme is compulsory, landlords are offered training and support, whilst being required to comply with a strict regulatory framework.
13. Some local authorities are setting up **private sector leasing schemes**. Landlords can be attracted into the scheme by the offer of guaranteed rental income, transparency of charges, and hassle-free property and tenancy management. In exchange, they need to make sure their properties are in good condition. By doing this, councils want to build a **strong base of landlords they can rely on to rehouse homeless families**, and therefore discharge their homeless duty. They also want to drive up standards in the private rented sector, and offer an alternative for private tenants to for-profit letting agents charging high fees.
14. **More and more vulnerable people are forced into the PRS**, including HMOs, without the necessary support package in place. A high level of tailored support is needed to help people with multiple and complex needs sustain their tenancies in the private rented sector. Social landlords would be best placed to offer a **wrap-around support** to 'difficult' tenants, and yet this support is threatened by the combined effect of cuts to the Supporting People budget and welfare reforms.
15. The social housing sector has limited availability, and the majority of private landlords are reluctant to house people on benefits. Things will get even worse with the introduction of Universal Credit. **Private rented access schemes** can help people with multiple and complex needs access properties, especially if they are excluded from social housing. The Government-funded PRS access programme has proved crucial in building trusted relationships with landlords willing to house 'difficult' tenants. It is important to offer landlords the guarantees and the ongoing support they need to be willing to cooperate with local authorities. Many social landlords and other public bodies have set up their own **not-for-profit social letting agencies** to house 'challenging' or vulnerable tenants in the private rented sector.

16. In terms of costs of private renting, councils in high value areas are trying out different approaches to **help people save for a mortgage deposit**, despite high rents. One of these models involves allowing tenants to build an **equity stake** on the property they rent, i.e. have a share in the growth of the asset over time, depending on how long they have lived there.
17. **Community self-build or cooperative housing PRS schemes** are a model which social landlords seem to be still reluctant to test out, but some **Community Land Trusts** are venturing on PRS schemes.

Conclusion

We agreed to follow up by pulling together all the background research, evidence from the Think Tanks and exemplary case studies. We need to attract funding for this (around £12k) and are preparing a separate research proposal.