

Independent report on the private rental sector in England



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About the author

Kate Faulkner Bsc (Econ) MBA CIM DipM was originally a consumer in the residential property market, buying, selling, renovating and renting property for many years. At that time she was a sales and marketing professional working with major KVI brands such as PG Tips in the FMCG industry.

Having enjoyed working in her spare time in residential property, she went on to set up one of the UK's first property portals prior to the advent of Rightmove, then used her experience to help create on- and off-line tools designed to take the stress out of corporate relocations for employees. From here she moved to set up the Self-Build and Renovation Centre in Swindon, and subsequently helped build and professionalise a part-exchange business. Kate was also a Future Homes Commissioner for RIBA.

After gaining so much experience across the property market, Kate embarked on a mission to improve the way people carry out property projects. So whether it is banishing cowboy builders and rogue landlords, or helping the public approach a property project as simple as hanging a door or as complex as letting or building their own home, Kate is always on hand, either via her consumer website at www.propertychecklists.co.uk or at the property clinics she runs around the UK, to help landlords, tenants, first-time buyer, self-builders, renovators and investors carry out their property projects in the right way, using qualified people and industry experts.

Kate's consultancy, Designs on Property Ltd, provides help and support to companies and organisations that want to communicate better to the public, or to introduce new products and services which help people carry out their property projects successfully, first time around.

She is fanatical that property facts and figures such as prices and rents should be reported correctly in the media, by the industry, and by organisations and policy-makers involved in the property market.

Kate regularly appears in the national and local media, and comments on TV, radio and in regional and national newspapers on property news items of the day. In this way she continues to pursue her chief objective, which is to help ensure the public get an independent, honest view of what's happening in the residential property market.

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1 Executive summary

With the private rental sector (PRS) gaining importance in the housing market, new policies and recommendations are being made to help ensure the market delivers a safe and secure tenure to its tenants. Many of the changes being suggested focus on landlords and letting agents, i.e. those on the frontline of lettings, some without consideration of the impact of the measures. Few focus on the wider roles and responsibilities of others involved in the rental process, including mortgage lenders, insurers, enforcers of existing legislation and social housing provision.

This report gives an independent analysis of the market from Kate Faulkner, managing director of Designs on Property. It also has input from the self-regulated PRS, including agents and small-to-large landlords, on how they believe the PRS needs to change to meet the needs of the growing tenant population, without over burdening the sector with so much legislation and control that it results in a lack of stock in the future.

2 Introduction

There is no doubt that the PRS in England is now, once again, a mainstream tenure. Although we often refer to ourselves as a 'nation of homeowners', renting was, prior to 1970, the main way to live. The Office of National Statistics (ONS) English housing survey 2012–13 shows:

'At the end of the First World War in 1918, three quarters of households in England were private renters, a quarter were in owner occupation.'

In the 1950s and 60s we started to buy our own homes and became a 'nation of mortgagees'; although it took until 1971 for the number of homeowners to outstrip renters. 40 years later, trends are changing once again and during the noughties we are seeing two contrasting changes to how people live and own homes.

The first is that with several generations of families owning homes, there are now as many people owning a home outright (7.2 million) as with a mortgage (7.2 million) (source: ONS).

The second affects the PRS directly. There's been a fall in the number of people who own a home and who live in social accommodation, which is boosting the number of people in the market. This move from social housing to the PRS is clearly causing affordability issues, both in welfare costs and for tenants. But it is rarely mentioned that landlords and letting agents who house tenants waiting for social housing or who can't access it due to a lack of supply do not receive any subsidies and that tax is paid on earnings – both of which reduce the burden on the tax payer. With a benefits cap being introduced to reduce the housing benefit further we now have a dilemma in the PRS, as the sheer cost of providing accommodation versus the rent tenants on benefits receive, in some areas, means affordability issues for both the tenant and the landlord. In other words, the PRS simply cannot afford to house those on benefits, especially in areas like London.

However, moving people from the social sector to the PRS is only one reason for the growth in the PRS. Others include more people renting because they can't afford to buy, and a large proportion of the growth in private renting actually from those who need and want temporary accommodation. It is also true that there are some landlords who rent their own property out temporarily, for convenience, and not necessarily purely for profit.

When considering new policies it is important to consider the impact on all the parties involved, including tenants and landlords who want and need to let or rent for the short and long term.

This report looks at the market from everyone's perspective: tenants, small and large landlords, agents and those servicing the sector such as lenders. It uses statistical sources available which show:

- the PRS works well for most people but fails a proportion of tenants and landlords
- most tenants do not live as 'second-class citizens'; many rent homes of a quality they couldn't afford to buy
- legally let rented properties are safer to live in than owned homes
- PRS sector rents are naturally 'capped' by wages and have risen by only a third of social rents since 2008–09
- 21 per cent of landlords make no net rental income from their buy to let
- most tenants leave a rented property because they want to and move to live in better accommodation
- many tenants live in the PRS because they are able to move at short notice
- in 2013, 66 per cent of standard procedure landlord possession claims were from social landlords
- the future for tenants looks positive through affordable rents and the growth of institutional landlords
- more social and affordable homes are needed to support socially vulnerable and low-paid workers.

Establishing that the PRS exhibits much in the way of excellence, the report then considers key areas where the PRS is failing good tenants, landlords and agents and tries to address controversial issues such as a lack of enforcement or existing rules and regulations, property condition and retaliatory eviction. as well as an essential requirement for education.

In summary, the report agrees with the conclusion of the Joseph Rowntree Foundation on the PRS in 2010:

'The private rented sector is relatively good at doing what it does at present, but there are limits to what it can do.'

3 The private rental sector market

There are various sources of data which show how many people are privately renting in England. Part of the problem in measuring the size of the market is that there is not any requirement to register or record a rental property. So knowing the true number is, currently, impossible.

The key source of data typically used is census data which feeds into the ONS data and highlights the number of households:

‘There were an estimated 22.0 million households in England. Overall, 65 per cent or 14.3 million were owner occupied, 18 per cent (4.0 million) were privately rented and 17 per cent (3.7 million) were socially rented.’

The numbers in the sector are increasing, with the PRS growing by:

‘889,000 households since 2008–09. Many of these new households were aged 25–34, with 434,000 additional households in this age band.’

(Source: www.gov.uk/government/collections/english-housing-survey)

3.1 How and who rents in the PRS?

The PRS is often referred to as one sector but, like everything to do with housing, the market is more complex. For policies to be successful, they need to work for all sectors and regions of the rental market, and be realistic and practical – not just for tenants, but for good landlords and agents who provide quality accommodation.

There are a variety of ways tenants can rent property as the chart over the page shows.

Looking at the different ways tenants can rent, the diagram shows there is a real requirement for both landlords and tenants to understand their rights and responsibilities for the PRS to work well. However, this breaks down when you have inexperienced tenants and landlords renting from each other. Those tenants who are vulnerable or low paid can easily end up in the cheaper, poorly serviced sector with agents and landlords who, for whatever reason, don’t understand their responsibilities or tenants’ rights; or worst still, are knowingly treating tenants badly as they are a criminal or rogue landlord/agent.

3.2 What different rental markets are there?

When the PRS is talked about, its growth is often attributed to affordability buying issues. But it is worth remembering this is not the only reason tenants rent; and that not all have affordability issues. Tenants’ affordability ranges from those renting via housing support temporarily in the PRS until council housing is allocated, through to students, temporary overseas workers and those renting homes due to corporate relocation, family homes and even castles which in London hotspots could cost hundreds of thousands of pounds per month.

Data currently available shows the rental market has grown for a variety of reasons. It is not just people struggling to afford to buy. These are:

- an increase in migration
- a change in people’s lifestyles and fewer people desiring to buy
- a fall in availability of social homes and housing people in the PRS
- delays buying due to the recession
- a growth in student population.

Table 1: Ways for landlords and tenants to rent property

	Private landlord direct to tenant	Private landlord who lets via an agent		Large landlords	Housing Association	Local Authority
		Self Regulated	Non-self regulated			
Who funds the property?	Mortgage lender / landlord	Mortgage lender / landlord	Mortgage lender / landlord	Self funded / pension providers/ other investors	Tax payer/private sales/rents	Tax payer
Who educates the landlord on their rights/responsibilities	Landlord Associations, accreditation schemes	Agents require training for membership	Agent may/may not be trained	Landlord	Housing provider	Local Authority
Who checks the property is legally let?	Reliant on tenant and landlord to make checks	Checks are made prior to viewing	Agent may/may not make checks	Landlord	Housing provider	Local Authority
Who provides the tenant agreement?	On-line, adapted, use government agreement	Tenant agreements regularly updated	Agreements may/may not be checked	Set agreement from the Landlord	Set agreement from the housing provider	Set agreement from the Local Authority
		Agreements changed to suit tenant/landlord				
How are rent increases managed?	Through the tenancy agreement, if there is one	Based on market rent and tenancy agreement	Based on market rent and tenancy agreement	Typically set annual increases via a tenancy agreement	RPI Inflation + 0.5%; from April 2015 CPI inflation + 1%	RPI Inflation + 0.5%; from April 2015 CPI inflation + 1%
Who ensures the property is maintained?	Reliant on tenant and landlord to agree	Periodic checks alert agent to maintenance issues and tenants can contact some agents via 24 hour service or on-line repair system	Maintenance may / may not be checked	Landlord	Housing provider	Local Authority

3.2.1 An increase in migration

From a migration perspective, renting often makes more sense than buying, or it is the only way migrants are able to put a roof over their heads. According to the latest ONS English housing survey 'a fifth of all households are neither British nor Irish nationals' and 'of all people in England described as foreign nationals, more than half are living in the private rented sector'.

So part of the growth in renting, especially amongst those in their 20s, appears to be due to migration. Mark Easton, the BBC home editor comments:

'it is notable that the number of people in their 20s has risen from 6.6m to 7.6m – that additional one million people are most likely to be migrant workers.'
(Source: www.bbc.co.uk/news/uk-18838540.)

To make sure these tenants aren't exploited, we need to ensure there is help and education available to rent legally let properties.

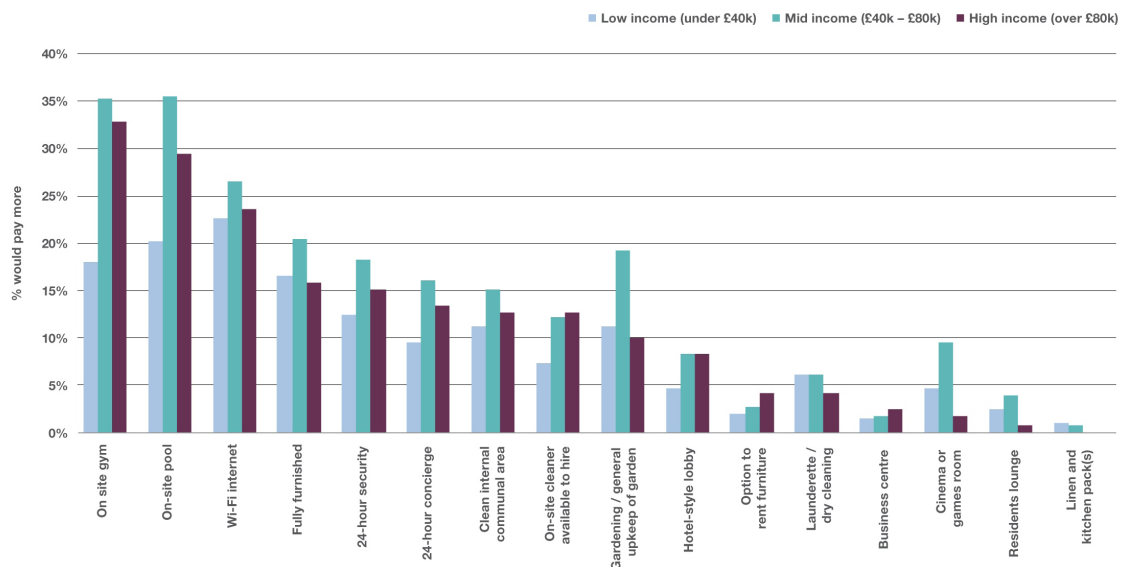
3.2.2 Change in people's lifestyle and a fall in the desire to buy

Those in the industry working in the 'prime rental' market see a very different tenant. A report from Savills and Rightmove on 'Rental Britain' (2012) shows 51 per cent rented due to relocation while 25 per cent just decided not to buy – nothing to do with affordability.

Although confined mostly to London and the south east, the prime market is one where properties are rented which have four or more bedrooms and cost £24,000 per year. In the most expensive areas, rents can be in excess of £130,000 per year, for example in Kensington and Chelsea, while in Hammersmith and Fulham rents exceed £73,000 per year. Outside London, prime rental markets include the likes of Elmbridge where a four-bed property would rent for £60,000. Further afield, other prime rental markets include Poole, Castle Morpeth and Cheshire.

And whether people rent in this bracket or lower, this chart from a recent Savills report which used YouGov tenant research clearly shows that many tenants are turning to renting as a lifestyle choice:

Figure 1: Value drivers (by income)



Source: YouGov/Savills Research

In addition to lifestyle choice, it does appear via several other sources that there are now people who have seen the downsides of owning a home and prefer to rent. According to the annual 'Generation Rent' report from the Halifax by the National Centre for Social Research (NatCen), renting is becoming a lifestyle choice with 'one in five of 23–27 year olds [having] no desire to own a home'.

This view is mirrored in the Savills/YouGov report. The results were that 33 per cent of 18 to 24 year olds rated 'flexibility and the need to move around', 24 per cent of people 'choose to rent because it is less hassle and they like the flexibility' while '8 per cent are renting because they choose to invest their money elsewhere'.

3.2.3 Delaying buying due to the recession

The ONS housing research dates back to 2008–09, so it starts to track people renting during the recession. In this period, buyer numbers of all types fell by 50 per cent, including first-time buyers. It has taken six years for the economy and property market to recover, so someone who was 29 years old and ready to buy in 2007, would have made a sensible decision not to buy until the market recovered in 2013, i.e. when they were 35. It's not that they couldn't afford to buy at 29 necessarily, but it just didn't make financial sense as prices were falling. Renting during this time clearly offered a better form of tenure.

3.2.4 Growth in student population

Another major reason for the rise in people renting is a bigger student population. For example, over the last ten years it is estimated that over a million extra students have entered the market. 44 per cent of these rent in the PRS while 34 per cent rent from bespoke student accommodation (source: NUS 'Homes fit for study' research). An average room rents at more than £500 for purpose-built student accommodation, £467 per month in the PRS and £426 per month for institution-managed developments (source: NUS 'Homes fit for study').

3.2.5 Fall in the availability of social homes, driving people to the PRS

There haven't been enough homes built since the 1980s. And of all the markets that have been undersupplied, social and affordable home building is at an all-time low, despite a recent growth in supply in London. This lack of supply is exacerbated by the sale of social homes, through the likes of Right to Buy which, according to John Perry, policy advisor at the Chartered Institute of Housing, meant in 2012/13 we had a net fall of 35,000.

While supply in this sector has fallen, there has been a dramatic rise in demand, continuing to drive tenants into the PRS who may originally have been housed in the social/affordable sector. Data from .Gov shows 962,000 workers now claim housing benefit, an increase of over 55 per cent since 2010.

This is clearly a very specific sector of the PRS which needs addressing separately for policies to be successful.

3.3 Conclusion

The growth in the PRS comes from many different sectors. Some growth is due to affordability issues, i.e. people renting who would have been able to afford to buy in the past. But growth is also being driven for temporary rental accommodation through lifestyle change, student population and immigration. Policies need to work for both temporary and long-term tenants and separately address the issues of those who want to buy but can't, through schemes such as affordable housing solutions.

Private landlords have kept up with this increased demand in many areas and some landlords and agents have found ways of making sure tenants are well looked after with a good service and quality properties, many of them new. The sector isn't perfect though – more can be done to improve the service and property condition it provides.

However, there is a specific issue to address around the most cost-effective and fair way to house the socially vulnerable and low paid. This cannot be solved purely by housing them in the PRS.

Where have the additional properties come from to house the increased number of renters?

The Residential Landlords Association (RLA) is the leading voice of landlords in England and Wales. Their experience goes back decades, making them the UK's first national landlord association. The organisation is owned by its members and represents more than 17,000 landlords with a combined portfolio of more than a quarter of a million properties. Here they explain how the growth in tenants has been accommodated primarily by private landlords:

'Since 1986, six out of every ten homes added to UK housing stock have been created by private landlords. The total is three million. A significant proportion of these will have come from buying off plan in the last decade. Individual landlords have been responsible for the majority of the extra supply, which estimated from the number of extra rented properties, has amounted to a net investment of some £50bn per annum in recent years (IMLA report May 2014).

However 40 per cent of PRS properties are a hundred years old and are therefore inefficient and demanding of maintenance. Social housing has received some £40bn since 2000 under the decent homes scheme for improvements. Despite this public subsidy, which is running seven years beyond its original 2010 completion date, social housing still has a backlog.

Private landlords have managed to improve the stock with those failing to meet the decent homes standard reducing from 46 per cent in 2006 to 33 per cent in 2013 (DCLG English housing survey 2012/13). This is due, in part, to continued investment in improving older properties, and landlords buying "off plan", bringing new build properties into the PRS.

4 Reluctant tenants: housing people on benefits and would-be buyers in the PRS

There are two types of tenant who are arguably in the PRS who would prefer not to be. Those on benefits would prefer the social sector and those who would prefer, but can't afford to buy. According to the ONS, '26 per cent of privately rented households received help paying their rent in the form of housing benefit'. This has grown from 598,000 in 2008–09 to 988,000 in 2012–13. The average weekly amount received was £109 per week compared with £77 for social renters.

Shifting people from social housing to the PRS was the result of government policy in the late 1980s. Bizarrely, although successive governments have supported this policy shift, lately this has led to reports and rhetoric accusing 'greedy' landlords of profiteering from the tax payer by taking billions via housing benefits. What this accusation ignores is that this was driven by government policy and in return for this money, landlords are saving the taxpayer building social homes, and incurring the costs of funding and running the property.

4.1 What happens to the housing benefit paid to private landlords?

It is estimated that £9 billion is paid out to landlords via tenant benefits. However, this is the gross figure paid to private landlords. Out of this money they have to:

- fund the property from their own savings/income (which may have already been taxed)
- pay for the running costs and upkeep of the property.

Below is an example of the types of costs an individual buy-to-let landlord would incur on an annual basis which would be funded from any housing benefit they receive. Much of it is recirculated back into the economy.

Assuming a landlord rents a property at the average rent of £750 per month:

This means their income for the year would be $£750 \times 12 \text{ months} = £9,000$

However, taking into account voids, this would be reduced by £435 per year = £8,565

Examples of annual costs	
Maintenance	£1,000
Annual gas safety certificate and inspection	£79
Building and contents insurance	£100
Management costs	£750
Accounting and legal fees	£200
Total	£2,129
Other regular costs	
Inventory every two years	£150
Cleaning every two years	£80
Electrical check every five years	£150
Total	£380
Average annual cost	£145
Total property running costs	£2,274

In addition to these costs there are the funding costs of purchasing a property with a mortgage, which at the average 50 per cent loan to value, assuming a 3 per cent mortgage rate and a property cost of £150,000:

£187.50 per month x 12	£2,250
£312.50 per month at the long-term average of 5%	£3,750
Total cost at 3% mortgage rate	£2,274 running costs £2,250 funding = £4,521
Total cost at 5% mortgage rate	£2,274 running costs £3,750 funding = £6,024

Using the long-term average for mortgage costs of 5%, the income/costs for landlords in this example are:

Income	£8,565
Costs	£6,024
Tax deductions at 20%	£1,204.80
Net annual income	£3,745.80

To secure this income, an investor would need to have invested a £75,000 deposit and incurred costs of purchase at 2%: £3,000 = £78,000:

$$£3,745.80 / £78,000 = 4.8\% \text{ net return}$$

(This income figure assumes little goes wrong in the tenancy such as non-payment of rent, tenant damage, the void period is only two-and-a-half weeks a year and no major maintenance costs are incurred such as a new roof, windows, full rewire, etc.)

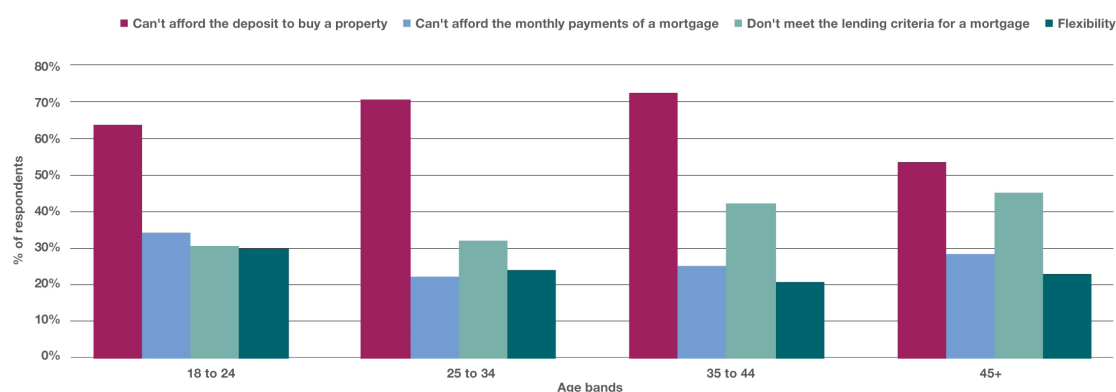
Policy makers need to work out the costs of providing homes to those on benefits via social homes and housing associations. They should use the PRS where required to house people temporarily or in the long term where it makes sense from a cost perspective. Taking into account the example above, out of the £9 billion housing benefit funding that comes from the tax payer, the average buy-to-let landlord is providing 988,000 homes at a cost to an individual landlord of £6,024 per year, requiring them to pay out 67 per cent of this income (approximately £6 billion) in running and funding costs.

4.2 Why are people renting instead of buying?

For those in the rental sector who would like to buy, some are in this situation because they genuinely can't afford to. The ONS suggests renting privately is a 'starter or interim tenure, typically lived in prior to buying a home'. In-depth research by YouGov on behalf of Savills as well as the 'Generation Rent' Halifax research clearly shows that for those who want to buy and can't, the main barrier to buying versus renting is raising the deposit, coupled with a real fear of rejection if they apply for a mortgage.

On the positive side, many tenants rent because they want the flexibility and enjoy the lack of hassle involved.

Figure 2: Reasons for renting



Source: YouGov/Savills Research

Interestingly, the feedback from the 'Generation Rent' report from the Halifax suggests that the deposit barrier to buying has continued to exist in would-be first time buyers' minds. That is even though the government's Help to Buy scheme, which offers a property with just a 5 per cent deposit, has received huge amounts of publicity.

4.3 Conclusion

There are tenants in the PRS who would much prefer to be in another tenure and this does cause discontent, especially when it's due to affordability issues.

After 25 years of trying to house people in the PRS as opposed to building more social and affordable homes, it is now time to evaluate which is most cost effective to the taxpayer. Is it cheaper or better to subsidise those that need help through housing benefit to private landlords or to build?

From a buying perspective we are in a catch 22. If house prices fall in the UK that drives people into negative equity and could damage the finances of the older home-owning population. If prices continue to rise ahead of wages, more people end up not being able to afford to buy, increasing the PRS at the expense of home ownership.

For those renting in the PRS because they cannot afford to buy, policymakers need to decide two things. Firstly, is it preferable and therefore a good use of tax payers' money or government/locally owned land to provide more affordable methods for people to get onto the housing ladder (such as Help to Buy or discounted properties as proposed by the coalition in the Autumn Statement)?

Or is it preferable to find a way to provide more long-term rental opportunities from professional landlords or properties rented by a professional agent? The issue for the majority of buy-to-let landlords who own one property or are even letting out their own home means the security of tenure to tenants, or access to funds to maintain a property can never be guaranteed to the extent it can be by larger landlords.

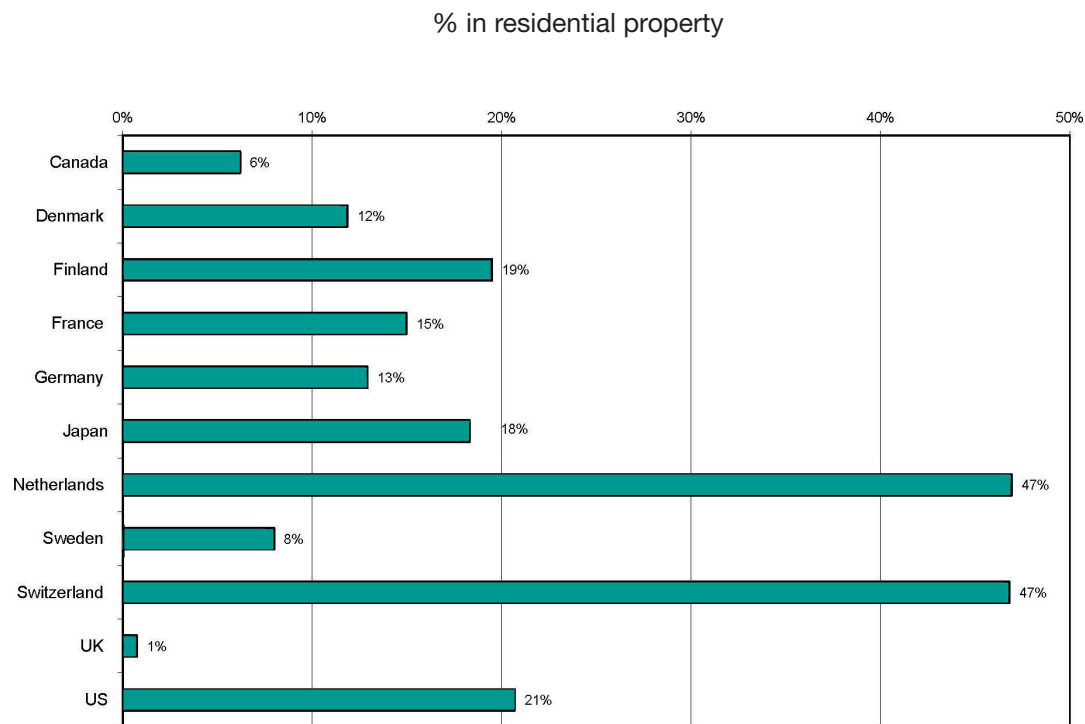
5 What type of landlord lets property to tenants?

Unlike many countries, the UK is fairly unique in the PRS as the majority of landlords tend to be private, individual buy-to-let investors. Abroad, countries such as Germany and the USA have substantial amounts of their property stock built and privately rented or sold by institutional investors.

In the UK, back in the 1960s the scandal of the landlord 'Rachman', caused the **Rent Act 1968** to be introduced with rental controls. The bad image given to landlords, and fears of being able to predict the future market, meant many institutional landlords sold off their property portfolios and pulled out of the market altogether.

The chart below shows how much the UK has failed to attract good quality rental stock versus other countries:

Figure 3: Exposure to residential in institutional property portfolios



Tenants can rent from some large landlords, e.g. Evenbrook, Essential Living and housing associations such as Notting Hill and Fizzy Living. In addition there are company landlords such as retailers who have their own rental stock, often flats above shops.

How realistic is it for large landlords to secure returns from the PRS?

John Coles is one of the UK's top property experts on institutional investment having worked in the market since the 1960s. He jointly owns Evenbrook Capital Partners, which is a leading family owned investor and operator in the Private Rented Sector. They have almost 20 years of experience providing value-for-money quality properties with over 800 PRS properties and a 660 bed student campus.

John is just the kind of landlord that contributes to the 'excellence' within the PRS. In his experience, there are two distinctive markets for large landlords in England. Those that operate with the M25 and those who operate in the regions.

To make an adequate return on property in London/within the M25, it is primarily about vacant possession growth as the income yield is very low. In the regions, the income is high but capital growth less but income is what attracts institutional investors. If local authorities/government could provide land at a discount then there may be a greater incentive for institutions to invest and receive a more positive yield. There are suggestions about a planning condition covenant where the properties will be made available for rent for a set period of years, e.g. 10 years. This would encourage investment and enable the land to be bought at a competitive price.

In the regions however, John believes there are plenty of opportunities for large landlords to earn gross yields of 6% to 10% from rents, delivering 4-8% net returns.

John's main concern moving forward is what happens to rents controls and caps by some legislation. Ideally from his experience, rents and their uplifts need to be led by the market, but he does believe a system of guaranteed increases that the social housing sector enjoys would help to ensure large landlords can successfully 'forecast forward' their cash flow – which is key to success in this sector. Guaranteed increments are helpful but have to reflect the market as well.

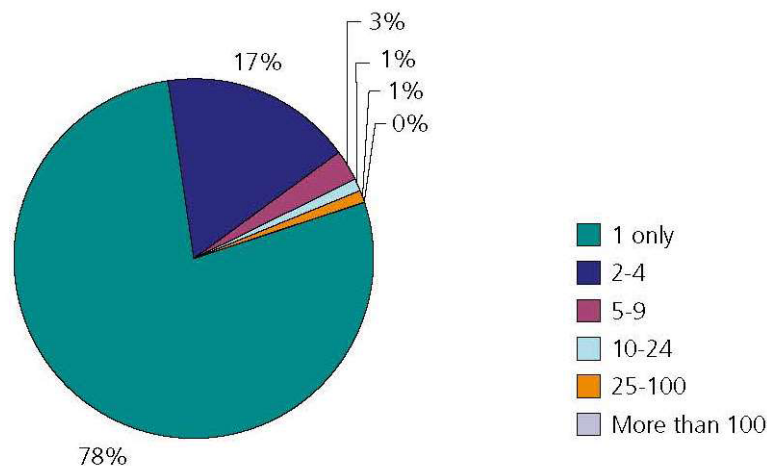
One issue John does raise is that long term tenancies need to be carefully considered. On the one hand it's good to give tenants a secure future, particularly families, this means making sure their children can ideally stay at the same school and although three or four year tenancies (as proposed by the Labour Party) gives some reassurance, it is still not going to mean they can stay in the same catchment area / school. The potential impact on longer term tenancies of stamp duty is a concern and needs to be properly identified if longer tenancies than four years are to be considered.

John is confident that the opportunities for large scale landlords exist and the Institutions are now moving outside the M25 to look at investment opportunities particularly in the build to rent sector. Prospective investors need reassurance that there is a safe environment to invest producing adequate income returns and any infringement legislation will destabilise the investor appetite.

5.1 Rise of the individual buy-to-let landlord

One of the issues in the PRS can be seen in this chart from DCLG. It shows the majority of landlords just own one property, with 17 per cent owning from two to four properties.

Figure 4: Number of properties owned



Source: DCLG Private Landlord's Survey 2010

The DCLG research in England shows that of these landlords, 63 per cent have no property experience, qualifications or building knowledge. So one area where the PRS doesn't always work is where tenants are exposed to renting directly from landlords who don't know they need to:

- respect the tenant's legal rights
- understand their own legal responsibilities
- keep properties maintained via quality tradespeople.

Ideally, if a landlord is inexperienced, they should hand over the responsibility of letting a property to an agent. But there is no requirement as yet for the agent they choose to be trained or even to have any qualifications. They are now by law required to be a member of a redress scheme which ensures tenants get an independent, free complaints system. However the member agents don't need to prove they are trained in lettings law nor do they have to protect the rent collected through a client money protection scheme.

Currently, the agents which give the best protection to tenants (and landlords) are ones that offer some form of self-regulation and especially quality training on lettings legals. These include members of:

- NALS – National Approved Letting Scheme
- ARLA – Association of Residential Letting Agents
- RICS – Royal Institution of Chartered Surveyors.

These agents are given training on existing letting legals, kept up to date with any changes via their membership, receive ongoing CPD training (if required) and offer clients money protection – so if rent is lost for any reason, it is insured.

A new entrant to the market is local authorities and housing associations setting up their own rental agencies. It is important they offer tenants and landlords the same level of protection as the likes of NALS, ARLA or RICS in order to protect the tax payer and the tenant/landlord, for example client money protection and redress scheme membership.

If a landlord wants to be a professional landlord from the start, organisations such as the RLA and the National Landlord Association, as well as a plethora of local authority accreditation schemes or standards such as the new London Rental Standard, all now exist to encourage professionalism. All of these organisations and initiatives exist to help tenants find the good landlords and agents, avoid the rogues and rent a property legally. The problem is that they require the tenant to seek out and research information about renting prior to finding a home, which, in my experience, they rarely do. So despite there being many ways for tenants to find professional landlords, excellent agents and legally let properties, without them carrying out research before finding a home, the good work being done is rarely recognised. And, because of a lack of stock in the market meaning choice in some areas is negligible, it's difficult for tenants to turn down a roof over their head from a landlord or letting agent who doesn't abide by the rules and lets a sub-standard property with a poor tenant service.

In a sector where there are over 100 rules and regulations a property has to pass to be let legally and consumer rights which have to be complied with, this is a real education problem from both the tenants' and landlords' perspective which needs addressing. One way to do this would be through some form of regulation.

5.2 What regulation exists now and what does the industry propose?

For a truly successful PRS which has the tenant at its heart, a plethora of individual rules and regulations hasn't worked, suggesting some form of overriding regulation has to be considered. The three main letting agent trade bodies which have worked hard to raise the standard in the lettings industry have for many years been requesting some form of overall regulation.

They all pretty much agree on what it needs to deliver. NALS in particular gives a good explanation of what constitutes a 'letting agent':

'A lettings and management firm is one that for any consideration takes instructions from a house or flat owner to introduce a tenant/s to occupy the premises and/or provides a property management service for the owner/landlord of their premises during the tenancy or at other times, which may or may not include collecting the rent.'

ARLA comments:

'Failure to regulate will mean that rogue agents continue to blight the sector, failing consumers and undermining trust in the majority of responsible agents.'

Overleaf is a summary of what ARLA, NALS and RICS have recommended.

Table 2: Summary of recommendations

Proposals	Current situation	ARLA	NALS	RICS
One industry regulator	BIS; DCLG; DECC; CMA; Trading Standards	One government department and one regulatory overriding body	Regulation through approved agent organisations	Multiple regulatory bodies regulating to a common industry standard. (for example, RICS self-regulate)
Requirement for licencing/ accredited body/ redress scheme	Legal requirement to belong to a Property Ombudsman	One industry regulator, with DCLG solely responsible	Legal requirement to be licensed through an approved organisation	Legal requirement to be licenced/regulated and belong to a redress scheme
Qualifications required	None	Requirement for qualification within three years	Operate to defined service standards	Minimum NVQ L3.
Checks on directors/firms	None	Monitored by the accreditation body	Monitoring by approved organisations	Monitored by the accrediting body
Client money protection mandatory	None	Required	Required	Required
Professional indemnity insurance	Required for Ombudsman Scheme membership	Required	Required	Monitored by the accrediting body
External auditing of client accounts	None	Industry regulator would audit the accreditation bodies who in turn would audit the members	Required	Regulatory bodies would audit members.
Consumer Satisfaction	None	The new scheme would apply standards which would be clear to consumers, allowing them to spot rogues easily	Monitored by approved organisation	This is beyond the role of the regulatory body.
Code of Practice	PRS Code	Required	Adherence to existing Codes within the sector	There are multiple Codes already in the sector. A single over-arching Code (which RICS considers is desirable) already exists in the PRS CoP but it should be strengthened by SecState adoption.
Landlord regulation/licencing	None	Compulsory registration with an accredited industry body eg RLA or NLA	Mandatory registration for landlords	Light touch but compulsory registration of all landlords
Fines	Up to £5,000 for not belonging to an Ombudsman Scheme	N/A	Required in addition to Banning Orders	For non-compliance

5.3 Should landlords be licensed?

The RLA believe:

‘the inability of local authorities to identify private landlords has been used as an excuse to both promote the introduction of a register of landlords nationally, and justify discretionary licensing schemes locally. Proposals for a national register have been rejected by the Rugg Review (Dr Julie Rugg and David Rhodes, *The private rented sector: its contribution and potential*) and DCLG (*Impact assessment of a national register for landlords*, 2009) as unnecessary, expensive and ineffective.

Criminal landlords operating under the radar would simply ignore any such register and continue to let illegally.’

Instead the RLA propose that local authorities identify privately rented properties by amending council tax forms. Councils should add a new question to council tax registration forms, asking about the tenure of the property. If the property is privately rented, then the landlord’s or agent’s details would also be required. This would identify previously unknown PRS properties and allow councils to effectively focus their limited enforcement resources where they are most needed.

The RLA also proposes a system of co-regulation which would include a redress scheme and central database so landlords who are members of an approved scheme can self-regulate. Those who are not would be subject to local authority enforcement.

Where a local licensing scheme exists, co-regulated landlords would be exempt from the requirements of the scheme. Co-regulation would include a complaints and disciplinary system, allowing tenants and landlords to attempt to resolve disputes through a redress scheme, and non-compliant landlords would ultimately be expelled from the scheme, returning to the local authority enforcement regime.

The RLA believe:

‘the focus should not be on more regulation, but on effective enforcement of existing regulations, forcing the criminal landlords out of the sector’.

5.4 Conclusion

It is estimated that out of all agents, approximately 65 per cent are members of professional organisations. The alternative for both landlords and tenants is to choose agents who have no third-party obligation to be trained in lettings law or abide by latest rules and regulations. They compete on price, offering low commission rates as a result – clearly attractive for the landlord – but at a loss of real industry expertise and protection for tenants.

For those landlords who prefer to rent directly to tenants themselves there needs to be a cost-effective way of finding out where the rental properties are to enable any affordable enforcement.

This complete lack of regulation enforcement of agents and landlords in the market – constantly rejected by all party politicians to date in England – has and continues to allow unscrupulous agents and landlords (as well as naïve ones) to provide substandard properties and charge extortionate fees and rents in areas of short supply. Despite the powers given to local authorities to clamp down on both the rogues and the naïve, policies proposed are still not enough to protect tenants (and landlords) from the ‘bad guys’ and inform local communities of how to rent legally let properties from professionals.

6 Landlord and tenant affordability in the PRS

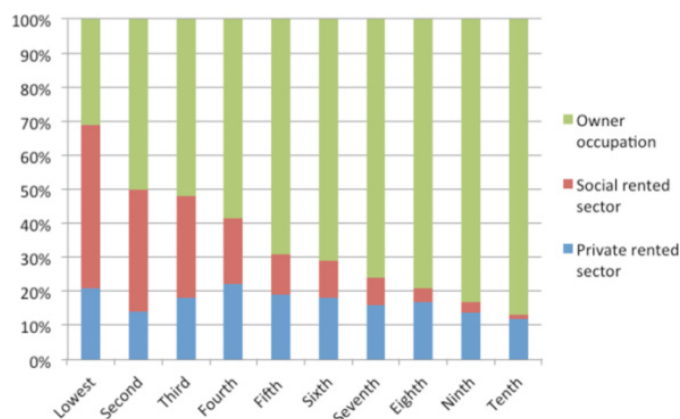
There are three forms of tenure in England. First there is home ownership, second PRS and third renting socially. Home ownership is considered increasingly out of reach for many in the more expensive parts of the country. The number of households waiting for a social/council home is over 1.6 million (source: Shelter Housing Databank), making the only form of tenure left the PRS – so it is essential that this sector remains affordable. If not, social housing is the only other option, requiring huge amounts of new properties to be built.

6.1 What is the level of affordability for tenants?

There are lots of different reports on affordability in the PRS. The problem with much of the reporting is that there is such a diverse range of renters, from those with little budget renting a room through to those with pretty much unlimited funds. Add to this that some tenants and landlords operate in a 'hidden' market with cash, and issues such as the 'beds in sheds' scandal, and it becomes clear that affordability is very diverse and needs to be broken down by tenant type rather than using generic 'averages'.

The diversity of renters is shown by this chart from the UK Housing Review 2014 where 10–20 per cent of people in all income brackets are renting. So for some 'affordable' will be very tough, while for others it will no doubt make perfect financial sense and could be cheaper in the short term than buying.

Figure 5: The tenure policies in each income decile



Source: UK Housing Review 2014

6.2 Affordability versus wages

Much of the data which comes from the 'self-regulated' sector suggests that affordability in the PRS for most is actually quite good, with the usual areas of London and the South West being the toughest to afford. But these areas aren't just difficult from an affordability perspective for tenants; they are tough to secure a positive income from for landlords too, without putting down huge deposits.

The insurance company Homelet shows that, assuming an affordability measure of rents being a third of gross salaries, in most regions rents are below affordability requirements.

Table 3

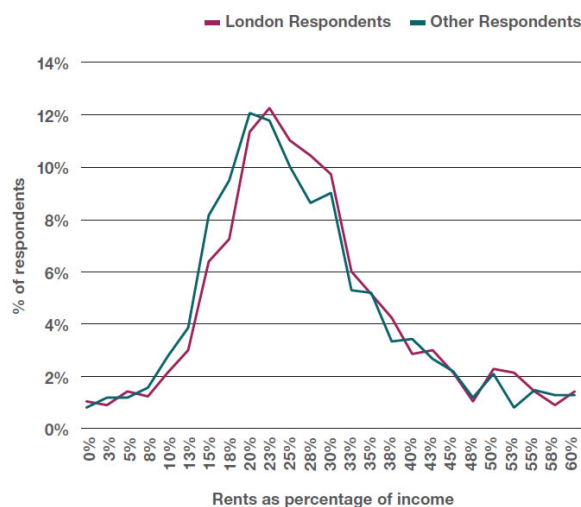
Region	Annual variation in average rental value	Average rental value per year	Average tenant's income	Affordability index rating
Greater London	11.2%	£1,412 (£16,944)	£37,800	2.23
East Anglia	6.4	£781 (£9,372)	£28,900	3.08
South West	4.6	£813 (£9,756)	£24,900	2.55
West Midlands	4.4	£863 (£10,356)	£30,300	2.93
North West	4.3	£625 (£7,980)	£23,400	3.12
Yorkshire and Humber	2.9	£665 (£7,980)	£24,100	3.02
East Midlands	2.2	£600 (£7,200)	£22,700	3.15
North East	0.2	£579 (£6,948)	£23,300	3.35
Overall	-2.3	£507 (£6,084)	£22,700	3.73
	6.7	£888 (£10,656)	£29,300	2.75
	Note: annual growth to June 2014; source: HomeLet	Note: average annual rent in brackets to June 2014; source: HomeLet	Note: based on new tenancies in June 2014; source: HomeLet	Note: annual average gross income/average annual rental in June 2014; source: HomeLet

A different survey from the ONS suggests a slightly higher figure of income is spent on rents, but this includes rents charged outside the self-regulated industry:

'On average, owner occupiers spent 20 per cent of their income on their mortgage. This is lower than the proportion that private renters (40 per cent) and social renters (30 per cent) spent on their rent.'

However, you can't compare rents and mortgage expenditure directly as it ignores additional costs homeowners pay such as maintenance, buildings insurance and if a flat, ground rent.

Figure 6: Income spent on rent



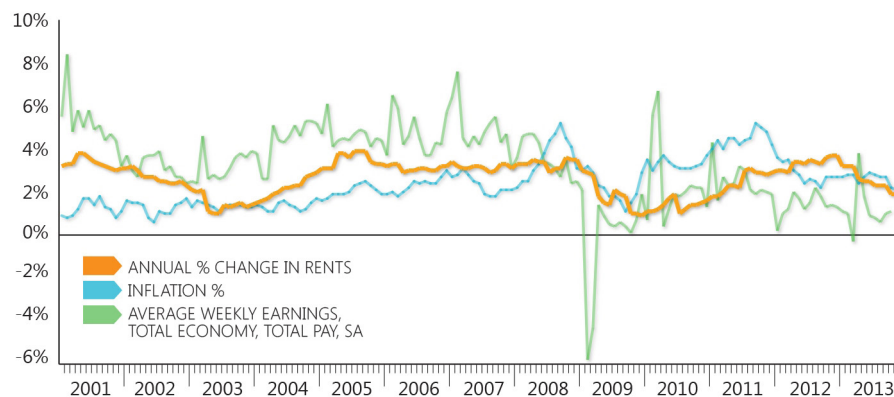
The Savills and YouGov research reaches similar conclusions to the Homelet research, showing that most tenants are spending anything from 20% to 30% on rent.

Source: YouGov/Savills Research

6.3 Rents versus wage changes

With regards to how rents are changing, the chart from Knight Frank below shows how private sector rent changes tend to be more aligned to wage changes than they are to inflation. This means rent changes in the self-regulated sector are capped by wages; in other words, they move up and down in line with affordability, unlike other high cost-of-living charges such as utility bills or council tax. This alignment of rents with wage changes is supported by data provided through the ONS private rental index as well as the Property Services plc (LSL), owners of Your Move and Reeds Rains estate agents and Belvoir rental indices that all show rents are not 'spiralling out of control' as has been suggested by many reports, but are in fact rising at a lower rate than inflation.

Figure 7: Annual UK rental growth, compared to inflation and earnings



Source: Knight Frank Residential Research/Macrobond

6.4 Affordability for socially vulnerable and low-income earners

We have long been hearing about the cost-of-living crisis and there is no doubt that the major causes of it are housing costs, utility bills and the lack of wage growth.

From the PRS' perspective though, it does appear that those who are living in it temporarily, such as professionals who typically rent through the self-regulated sector, do not have any major affordability issues. However, reports that focus on those who are on benefits and low pay do suggest that there are affordability issues. For example, the recent report 'More than a roof' from the Chartered Institute of Housing and Resolution Foundation says '1.3m renters now spend more than 35 per cent of their disposable income on rent'.

What we need to ask is: where there is an affordability issue from a tenant's perspective, can the PRS be a 100 per cent replacement for investing in social/affordable housing as successive governments have tried to make it? This is especially the case where the landlord only has one property and doesn't operate in the specialist home in multiple occupation market where they may earn no income from the property at all.

The reality is that the cost in some cases of providing legally let private rental accommodation is higher than the tenant affordability – and the recent issues reported caused by LHA rent caps suggest this is very much the case.

As an example, according to the ONS English housing survey, 30 per cent of all private renter households had a healthy gross weekly income exceeding £700 while 13 per cent earned less than £200. It is at this lower earnings level where affordability problems exist. For someone on £200 a week, or a monthly income of approximately £867 per month, the rent would need to be less than £300 a month. The problem with this is it is unlikely in many cases for an individual private landlord to be able to afford to rent at this level unless it is for an individual room for £70 per week.

6.5 How do private rents compare with social rents?

Since the late 1980s, social homes through Right to Buy were sold to reduce the burden on the taxpayer of housing socially vulnerable and low-paid workers, and the cost of maintaining the properties. So that previous social tenants can still secure a roof over their head, the decision was made to move tenants into the PRS and support them with the additional costs through housing benefit. And with the rise of the individual private landlord as opposed to institutional investors, this has meant nearly one million properties owned by private landlords (rather than the tax payer) incur the cost of owning and running properties. In return their income is subsidised by housing benefit.

To house additional tenants, instead of seeing a growth in institutional investors as we have seen abroad, it is individual private landlords who have provided the stock. On the one hand this has saved the taxpayer money to build and maintain homes, but on the other it has led to increased amounts of housing benefit payments to individual private landlords, some whom now make a good living from this sector.

And the problem for renters (and for the housing benefit bill) is it is more expensive to rent in the private sector for tenants than being in the social sector. Social landlords can subsidise rent through government investment, tenant subsidies and tax breaks which are not available to private landlords and typically run into billions of pounds a year.

Social sector tenants pay on average £341.38 per month while private renters pay £720, which is a substantial difference. The one piece of good news for tenants in the PRS versus the social sector though is that private rents tend to rise at a lower rate than social rents; that is because the latter are subject to rental controls which increase by inflation plus 1 or 2 per cent.

This meant that during the recession tenant affordability for those in the PRS versus those in the social sector was different. According to the English housing survey report, the average weekly rent for social renters increased from £68 a week in 2008–09 to £83 per week in 2012–13, a rise of 22 per cent or £15 per week. In comparison, private renters, although paying more, had a narrower margin with weekly rents increasing from just £130 to £138, a rise of just 7 per cent or £8.

6.6 How affordable is the PRS for landlords?

When considering how to improve the PRS, it's essential to understand not just the issues of tenant affordability, but also appreciate that the landlord has to make a return too or at least (if renting out their own home) not lose too much money. If landlords find they are not earning anything from their properties (and according to a recent Shelter and Strategic Society Centre report, 21 per cent earn no income at all, source: Understanding Landlords: A study of private landlords in the UK using the Wealth and Assets Survey) they are likely to exit the market.

The table overleaf compares the cost of a property worth £150,000 from the landlord's perspective in terms of money they would invest to purchase, and what it would cost for a tenant to rent the equivalent property or to buy it themselves with a 5 per cent deposit.

Table 3: Costs of a landlord buying and running a property versus a tenant renting or buying a property with a 5% deposit.

Average property value	£150,000						
Landlord's investment costs				Tenant's costs			To Buy
Deposit @50%	£75,000	Deposit @25%	£37,500	Tenant fee	£300		£7,500
Stamp duty @2% for £25,000	£500		£500	Deposit	£969		£500
Buying costs	£1,500		£1,500	First month's rent	£700		£1,500
Refurb costs	£2,000		£2,000				£1,000
Total investment	£79,000		£41,500	Total investment	£1,969		£10,500
Landlord rental income	£8,400		£8,400				
Average 3 week void	£7,915		£7,915				
Letting agent set up fee	£350		£350				
Net Income from rent	£7,565		£7,565				
Mortgage @ 3.5%; interest only	£2,625	Mortgage @5%	£5,625	Rent payable	£7,700	70%	£10,110.72
Letting fee @12%	£950		£950	Council Tax	£1,200	11%	£1,200
Maintenance	£1,000		£1,000	Utility Bills	£1,200	11%	£1,200
Insurance	£300		£300	Phone/TV	£600	5%	£600
Safety Certificates	£250		£250	TV licence/ Insurance	£300	3%	£300
Total running costs	£5,125		£8,125		£11,000		£500 maintenance £13,911
Net income before tax @40%	£2,440.54		-£559.46	30% of tenant costs are Council Tax, utility, telecom and insurance			
Net income after tax @40%	£1,464		0				
Net income after tax @20%	£1,952		0				
Gross yield Rental income - void/£150,000	5.60%		5.60%				
Net yield after tax @40%	1.83%		0%				
Net yield after tax @20%	2.44%		0%				

What this analysis shows is landlords need to invest tens if not hundreds of thousands of pounds into buying property and letting it out so they can make a profit. Although the landlord retains ownership of the property, for a tenant to rent it, based on the figures above, the day-to-day cost is cheaper than buying by about £3,000 (if buying with a 5 per cent deposit the tenant needs only a few thousand pounds rather than nearly £12,000 to buy).

But we are living in days of 'cheap money'. From a landlord-affordability perspective, if mortgage rates move from the current 3.5 per cent average back to their more long-term average of 5 per cent for buy-to-let investors, many letting properties like the one above with yields of 5 per cent or less, will not make money at all and could even start losing income. Therefore we need to be very careful about additional costs to landlords or the introduction of punitive rent caps/controls could very quickly end up pushing landlord rents into negative cash flow, which in turn may result in them selling and reducing stock at a time when demand for rental property is rising.

The in-depth analysis on a landlord's buy to let finances is reflected in Shelter and the Strategic Society Centre's report on landlord's wealth which showed that the average rent a landlord received was £500 per month, with 25 per cent receiving more than £900. It also showed that:

- 60% of landlords receive more income from salaries than rent
- 21% of landlords made no additional income from their property at all.

6.7 Can landlords afford to continue to rent in expensive areas?

While tenants want to buy but don't have the savings to do so, landlords investing in increasingly expensive areas have to have deep pockets to make buy-to-let stack up for them financially at market rent. Hometrack's research in 2012 found that, assuming a 5.5 per cent interest rate for a buy-to-let loan with rents equating to 125 per cent of the interest payments, in London the maximum LTV would be 55.4 per cent, Edinburgh 66.8 per cent and Oxford 67.6 per cent. According to ARLA's Q4 2014 Buy to let index:

'the average loan to value ratio across buy to let property portfolios decreased from 41.4 per cent to 39.2 per cent. Almost a third of respondents (30.3 per cent) estimate the loan to value ratio of their rented residential portfolio to be between 51 per cent and 75 per cent.'

The key issue for individual buy-to-let landlords is that while prices go up, rents are, on average, rising at just 1 per cent a year (source: ONS). This causes two problems for the future which will affect new investors as well as landlords who have bought in areas which have seen little price growth since 2004. First, it makes it difficult to secure a property which is cash flow positive. Second, as rents tend to rise in line with wages, not inflation (typically 3 per cent), for every year a landlord doesn't increase the rent, they are actually losing money.

Richard Donnell of Hometrack confirms 'there is a limit as to how high rents can go as affordability constraints continue to squeeze household budgets'.

6.8 Conclusion

The data shows that affordability in the PRS is not a major issue for those who the self-regulated PRS mainly caters for. But affordability problems equally exist for both the tenant and the landlord in expensive areas when it comes to housing for those on lower incomes or benefits. The question moving forward needs to be: is it practical and financially viable for individual buy-to-let landlords to rent to those on benefits or low pay, especially when you consider 21 per cent of landlords earn no income from their investment at all?

What this analysis shows is that trying to 'squeeze' PRS finances to fit the needs of those who really need access to social and affordable homes, is likely to be detrimental to the both tenants and landlords. The more the sector is squeezed, the more it is likely that landlords and agents will exit the market (or agents consolidate). This, in turn, could end up worsening the already poor supply while demand is on the increase, potentially increasing rents further.

In reality affordability in the PRS is a problem related to the cost of land and housing, and how we can cost effectively house the 1.6 million+ households on council waiting lists. It is a specific issue which requires bespoke solutions. Blanket policies such as rent controls, not charging tenant fees or increasing regulatory burdens which aren't then enforced could cause serious affordability issues for agents and landlords, that in turn mean tenants end up paying more to rent and/or have a lot less choice.

The conclusion is, from an affordability perspective, that it is not necessarily the PRS which is broken but the supply of social and affordable homes which needs fixing to solve the problem.

7 How much are rents rising or falling by?

There are lots of different reports and claims being made about what's happening to rents, many of which vastly differ. So it is essential, especially with rent caps introduced for housing benefit, that there is an agreed measure of rent rises and falls.

Rental indices available are relatively new statistically. The new ONS PRS index tracks changes back the furthest to 2005, but only publishes actual rents by English region bi-annually. The data does appear to be robust as it mirrors other rental indices and secures data from the Valuation Office Agency and is based on actual rents, not advertised ones.

The Belvoir index (www.belvoirlettings.com/belvoir-rental-index) is the longest running agent index, dating back to March 2008 and is based on advertised rents from over 160 offices around the UK. Rents fell from October 2008 by 5–20 per cent in some regions and didn't start to recover until 2009. This trend is reflected in the ONS data. It breaks down figures for England, Scotland and Wales and commentary on Northern Ireland. Rents are based on a three-month rolling average.

The Buy to Let Index from Your Move and Reeds Rains estate agents (www.islps.co.uk) dates back to 2009 when rents were at their lowest. It records rents which are actual and advertised from nearly 20,000 tenancies in England AND Wales. A separate Buy to Let Index for Scotland is also produced by Your Move (www.islps.co.uk)

The HomeLet Rental Index dates back to April 2009 and is based on actual rents achieved on new tenancies in the latest month, and in the three months to date only. As such, although accurate figures, the changes can be volatile. The Index is based on over 350,000 tenant references per year and covers England, Scotland, Northern Ireland and Wales.

The Move with Us index (www.mwultd.co.uk/news-and-information/move-with-us-rental-index/methodology) dates back to July 2011 and is based on 150,000 advertised rents on a monthly basis. It covers Scotland, Wales and England. Their data is weighted.

The Countrywide data (www.countrywide.co.uk/news) analyses over 60,000 rental properties covering England, Scotland and Wales and is a mix of occupier, new lets and renewals. They have been tracking rental data since 2013.

7.1 Quarter 3 summary of the rental indices

Although the rental indices can't be compared due to the differences in data collection, postcodes tracked, etc, they do help to give a 'range of movement' of rents in each area in the UK and in England. The changes in each index can also be contrasted and compared to ensure a more considered view of what's happening to rents.

In the main, these indices, alongside the data from the ONS, do seem to reflect the current market and support one-off research from Hometrack which shows the average two-bed let ranges from under £500 to over £1,000 outside of London, and doubles within London. On average 75 per cent of tenants are in the mid to higher-rate market.

Figure 8



Source: Hometrack: *Specialist insight on residential property value, risk and opportunity*

Table 4:

	LSL average monthly rent Sep-13	LSL average monthly rent Sep-14	LSL % change YoY	Move with Us average monthly rent Q3 13	Move with Us average monthly rent Q4 14	Move with Us % change YoY	HomeLet average monthly rent Sep 13	HomeLet average monthly rent Sep 14	HomeLet % change YoY	Belvoir average monthly rent Sep-13	Belvoir average monthly rent Sep-14	Belvoir % change YoY	Country-wide average monthly rent Q3 13	Country-wide average monthly rent Q3 14	Country-wide % change YoY
Scotland	n/a	n/a	n/a	660	727	10.2	615	614	-0.2	n/a	n/a	n/a	636	672	5.7
Wales	573	567	-1.0	625	658	5.3	614	603	-1.8	623	617	-1.0	659	664	0.8
North East	533	521	-2.3	650	646	-0.6	508	505	-0.6	n/a	n/a	n/a	641	654	2.0
North West	597	609	2.0	618	610	-1.3	649	660	1.7	609	594	-2.5	"	"	"
Yorkshire & The Humber	547	545	-0.4	590	593	0.5	595	607	2.0	616	600	-2.6	"	"	"
East Midlands	565	565	0.0	616	642	4.2	592	585	1.2	569	593	-1.1	669	669	0.00
West Midlands	577	563	-2.4	667	681	3.7	606	656	8.3	660	659	-0.2	"	"	"
South West	641	655	2.2	779	813	4.4	803	868	8.1	749	734	-2.0	776	788	1.5
East Anglia	739	762	3.1	894	947	5.9	742	826	11.3	698	714	-2.3	850	912	7.3
South East	787	802	1.9	1134	1254	10.6	847	908	7.2	874	902	-3.2	1090	1140	4.6
Greater London	1141	1166	2.2	2210	2452	11.0	1338	1466	9.6	1566	1507	-3.8	1116	1225	9.8

7.2 Conclusion

Although it is difficult to provide consistent data on rents due to their huge variety, current rental indices do seem to show that rents don't tend to have ongoing large rises or falls. With this and previous analysis, it appears true that rents tend to move in line with supply and demand, but in the self-regulated sector, are very much 'naturally capped' by wages.

Although there are some indices which show big variations each month, on average rents appear to rise around 1 per cent a year (source: ONS). It is vital moving forward for policy makers, local authorities and organisations to agree on one or a set of private rental indices which everyone uses for analysis of rental movements in order to ensure policies created and implemented are based on sound facts and figures.

8 What is the quality of tenure that landlords provide to tenants in the PRS?

There has been some suggestion that tenants are severely disadvantaged if living in the PRS sector versus other forms of housing tenure.

To consider this in more detail, the English Housing Survey for 2012–13 highlights how private tenants live versus people in the social sector and owner-occupied properties. Here is a summary of the results:

Table 5: English Housing Survey report

	Owner occupied	Social renters/Housing Association	Private Renters
Satisfied with accommodation	95%	81%	84%
Satisfied with local area	91%	82%	87%
Usable floor area	105m ²	63m ²	74m ²
Average bedroom size	12m ²	11m ²	11m ²
Non decent homes	20	14	33
Overcrowding rate	3%	3%	3%
Private/front or back garden	94%	63%	67%
Inadequate street parking/none	8%	26%	24%
Have a garage	54%	5%	21%

The chart above shows that on the whole, private renters live in a better environment than social renters. And although there are some differences with the owner-occupied sectors, they aren't as disadvantaged, in the main, as perhaps is suggested by other reports. Previous analysis has also shown that it is often cheaper for a tenant to live in rented accommodation than buy if they only have a 5 per cent deposit.

8.1 Tenure security

Another issue with renting in the PRS is the fear of losing the property. However, whatever tenure people are living in, there are typically fears of losing it. Social housing in the past was considered safe to be in and owning more stable than the PRS. But the introduction of the 'bedroom tax', caps on benefits and universal credit mean that social tenants have their own worries of affordability and, whether their benefits go up or down, they face an annual increase in their rent every year.

For those that own property outright (nearly one in two homeowners) although their tenure is probably the most secure, they are very fearful of property price falls and of losing their home to care-home fees if they need help in later life. For those with a mortgage, they also fear price falls, but are also nervous of rate rises and currently, according to HML, over 400,000 are suffering in negative equity. In addition, CML statistics from November 2014 show 'at the end of the third quarter, the proportion of mortgages with arrears equivalent to 2.5 per cent or more of the total mortgage value was 125,100' although this is reducing each quarter currently. This is more than double the number of tenants currently in arrears.

In addition, there were nearly 30,000 repossessions in 2013 and a similar number expected in 2014.

For PRS tenants, there is the fear of being fleeced by a bad private landlord or letting agent, being asked to leave with two months' notice and the recent revelation of retaliatory evictions which we cover later in the report.

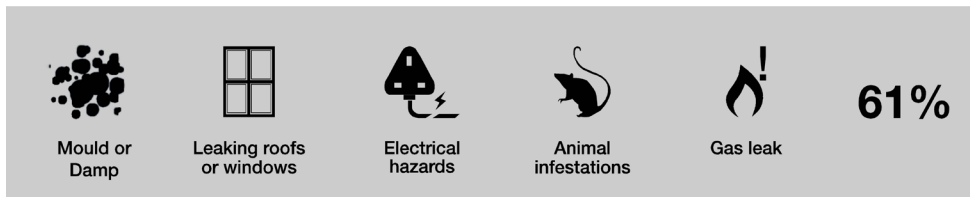
8.2 Conclusion

It doesn't appear that those renting in the PRS are second-class citizens when compared to other tenures. In fact it appears the volatility of private rents versus the social sector and home owner mortgages is potential lower. Rental properties typically offer better accommodation than social homes. When it comes to security of tenure, although fears do exist in the sector, they also exist in other forms of tenure too, with much larger numbers in the owner-occupied market in financial trouble.

9 How do we tackle issues of property condition in the PRS?

The ONS shows 33 per cent of PRS homes are 'non-decent' versus 20 per cent for the owner-occupied sector. Shelter and British Gas's report from more YouGov research suggests that 61 per cent of renters (not homes) have experienced condition problems.

61 per cent of renters have experienced at least one of these in the past 12 months



Source: YouGov 2014 Base 4544 private renting English adults
Jointly commissioned by Shelter and British Gas

In addition, qualitative research from Savills/YouGov suggests that:

'tenants are experiencing damp and mould and in some cases are unhappy with the fixtures and fittings in their rental property. Tenants complained of landlords replacing broken appliances with poor standard equipment and bad agents and landlords were given by 25 per cent of those who had moved as a reason for leaving a property.'

Another report from the National Union of Students also suggests there is a major issue with condition in the PRS showing again how things like damp and condensation cause problems. Their report suggests damp, condensation, and mould are the top problems, followed by drafty windows and doors, leaking roofs and windows and infestations such as slugs are the main things they have to live with.

9.1 Is damp, condensation and mould a tenant or a landlord problem?

These seem to be the main problem areas in the PRS for tenants and interestingly when raised with the industry, for landlords and those experienced with dealing with it too. There are generally two main reasons for this. The first is that when damp and mould appear in a property, rather than call expert surveyors, landlords (and homeowners) tend to call their builder or plumber who aren't experienced in understanding the complex causes of damp, mould and condensation.

Talking to the self-regulated industry experts such as agents and landlord organisations, in theory if a property is being legally let, there shouldn't be any problems at all, especially no damp, etc. The reality is that if a rental property is let legally it should be safer to live in than those owned.

How to professionally diagnose and prevent damp, mould and condensation

Peter Cox is the UK market leader in damp proofing, water proofing, timber preservation, wall stabilisation and other specialist property treatments. It is a national company with regional branches across the country and, unusually for a company of this type, has been trading for over 60 years. It is also a Which? Trusted Trader.

Talking to Peter Cox, what many tenants and landlords (and some agents) don't appreciate is that there are actually four different types of damp. If the cause is not professionally diagnosed from the start, it is very difficult to solve. The four types are:

- 1 Rising damp
- 2 Penetrating damp
- 3 Condensation
- 4 Lateral Penetration from high ground level/varying floor levels.

Peter Cox points out that 'the difficulty often comes not from diagnosing that you have a damp problem of some kind, but rather what type of damp you have'. The company receives calls from both tenants and landlords daily claiming they have rising damp which turns out to be condensation. Condensation is more a lifestyle issue which can be improved in a number of ways by the resident/tenant themselves, whereas rising damp (only seen on the ground from the floor) will typically need to be fixed by installing a new damp-proof course.

What causes damp?

Damp is caused by the entrance of water to a property – either through leaks in roofs, windows and doors (penetrating damp) or rising through floorboards, internal walls and external walls (rising damp).

Tenants, landlords, agents and especially inventory clerks and tradespeople can all work together to help to prevent any damp from happening in a rented property, by following these simple steps:

- check windows and doors have no damage or leaks which could be allowing damp through
- remove obstructions such as leaves and weeds from roofing, guttering and drains
- make sure your home is well ventilated and air bricks are kept clear
- make sure your property is heated during winter to reduce condensation
- check outside walls at ground level for signs of damp
- maintain external ground levels at least 150mm below the damp-proof course.

Any organisation or relevant company such as an agent can access CPD courses from companies like Peter Cox. These can help them better understand how to solve these problems which can quickly eradicate them from rental properties at little cost.

In addition to dealing with damp, mould and condensation issues, most diligent agents and landlords have lengthy checklists which properties have to pass before they can let them. These include:

- gas safety certificates
- health and safety checks
- electrical safety inspections
- checking carpets and flooring are safe
- the lenders' approval to let
- broken glass and FENSA approved
- pat safe appliances
- checking for licences required
- energy performance certificates
- condensation, mould and damp
- land registry checks
- blocked drain and sewage issues.

The second reason as far as the industry is concerned, and this is backed up by discussions with environmental officer reports, is that tenants are (unknowingly) the cause of the damp, mould and condensation and often don't appreciate they may need to adapt their way of living to the home, as an owner would.

Will tax incentives help landlords maintain PRS properties better?

With 21 per cent of landlords not earning any income from letting property, they may need to dip into their savings to fix any problems, which if they do not have any can mean tenants, unfairly, living in poor accommodation. To try to tackle this issue, some are now suggesting that landlords are given further tax incentives to improve the condition of properties at a faster rate.

The Resolution Foundation and Chartered Institute of Housing's 'More than a Roof' report recommends that 'Enhanced tax relief should be available to accredited landlords compared to those who remain unaccredited.'

Suggested examples include a more generous tax allowance for allowable expenses instead of deducting it from capital gains tax at sale. This is given based on the length of time the property has been rented out and the landlord accredited.

The RLA suggest a similar system of tax incentives, especially to those that add new stock rather than buy stock to refurbish or just let:

Capital allowance

Properties devalue as they are lived in and periodic refurbishments are essential if property standards are to be maintained. The tax system currently allows no relief for re-investment and improvement until, and only if, a sale is eventually made. Indeed, the increased rent resulting from improvements is taxed making retention of quality and standards very difficult.

Instead, there should be a capital allowance for enhanced repair and refurbishment.'

VAT relief for new build to rent dwellings

VAT can be reclaimed on goods and services in connection with construction of a new dwelling, where someone is intending to live. This also applies to the conversion of a non-residential building into a dwelling. It is an anomaly that a VAT refund cannot be claimed on building work if the building is being used for residential letting.'

9.2 Making checks on landlord properties which housing benefit or universal credit part funds

Because there is limited enforcement of existing property condition regulations in this market, it is currently easy for unscrupulous landlords and agents to take advantage of desperate tenants. There are even cases of charities housing tenants in properties that are not legally let. And many people who rent in the private sector who are on benefits don't have to prove they are passing their rent to a landlord or letting agent who is legally letting their property or have client money protection should the rent disappear.

The self-regulated PRS sector works hard to ensure properties are rented out in good condition. They know and understand that a poor condition property is detrimental to its value and means voids and ongoing management will be higher.

Outside this area, it appears to be a lottery as to whether tenants have a good landlord or letting agent. If everyone applied the same checks to a property carried out by a NALS, ARLA or RICS agent and a RLA or NLA landlord then many properties in poor condition would never make it to the market. Because these checks are rarely enforced, and many tenants aren't educated to check for them initially, poor condition properties appear to have become acceptable, and continue to be funded by housing benefit payers and tenants.

9.3 Conclusion

The condition of properties and their management versus the legal requirements to let a property appear to be an issue for tenants, landlords and agents who live outside the self-regulated sector. This needs to be better understood. It is this lack of self-imposed regulation which is the area that most urgently needs to be addressed.

Policy makers need to consider ensuring no tenants on benefits can rent a property unless it passes necessary legal checks. They also need to work out if tax incentives will help encourage landlords to upgrade properties sooner and how this would be effectively communicated to over a million individual landlords.

Unfortunately the way of trying to regulate the sector by individual rules and regulations hasn't worked. Over the last 15 years the 'good landlords' are paying out approximately £1,000 a year extra to meet regulations, but a lack of enforcement has meant many have failed to be adopted. As landlords and agents have no requirement to be educated in letting rules and regulations, and others purposefully ignore them, this issue needs to be addressed with specific policies. More individual rules and regulations will just increase the cost the 'good guys' pay to let a property and continue to fail to make any difference to the condition of tenant properties.

How do we deal with retaliatory eviction effectively?

Recent reports have suggested that tenants are vulnerable to being evicted by landlords and should be given more security in the PRS, especially families who may have children at school.

Generation Rent say that:

'The private rented sector is characterised by insecure, short-term tenancies that mean lives can be disrupted with very little notice, forcing people to become transient.'

Their manifesto says:

'Renters can be evicted with only two months' notice, meaning millions of peoples' lives can change on the whim of their landlord ... If a tenant cannot afford a rent rise they may need to move, and they may face sudden eviction if they complain about mistreatment or poor conditions.'

Shelter's figures quote that:

'one in eight renters have not asked for repairs ... or challenged a rent increase in the last year because they fear eviction' and 'one in 33 renters have been evicted, served notice or threatened with eviction by their landlord about a problem.'

This is the 'equivalent of 324,172 renters every year'. Although 1:33 can be justified, this is actually 100,000 households, so out of 4 million is 2.5 per cent of homes.

Of course, no tenant should be evicted unfairly, but both of these reports suggest lots of tenants are under threat of eviction and often leave because of rent rises rather than because they want to.

These reports have given rise to LibDem MP Sarah Teather introducing the *Tenancies (Reform) Bill* which had its second reading on 28 November 2014. It may make it back onto the political voting agenda in 2015 having been talked out. Those keen to introduce the bill, which does have cross-party support, believe that in excess of 200,000 people or more suffer from being evicted, threatened with eviction or are fearful of being evicted if they ask for repairs or maintenance to be carried out.

Every good landlord and agent wants to ensure no retaliatory eviction takes place, but there is a doubt in the industry that the figures are as high as Shelter suggest. This, together with a fear that bad tenants will use this rule as a way to manipulate staying in a property for longer, are potentially stopping rent payments.

Bearing in mind most landlords have just one property, if this unintended consequence happens, it could cause serious financial difficulties. These could in turn result in repossession, in which case the new landlord, i.e. the mortgage lender, doesn't have to adhere to the new rules, so can evict the tenant anyway.

There is also doubt that the local authority, most of whom have a poor record of enforcement in the PRS, will cope with the potential volumes of complaints – especially if they are as high as some of the figures suggest.

Paul Shampolina is the founder of Landlord Action which evicts tenants. Although he is happy for new rules to be introduced, he fears that they may end up favouring bad tenants over good landlords. Landlord Action conducted their own telephone survey of 100 of their landlords who had issued a section 21 notice and found that of those issuing a section 21:

- 2 per cent did so due to request repairs
- 28 per cent because the tenant was in rent arrears
- 15 per cent needed the property back to sell
- 13 per cent wanted to move back in
- 11 per cent wanted to rent for more money
- 8 per cent said the tenant wanted to be evicted to be rehoused by the council.

The 2 per cent figure found by Paul's survey matches the figure estimated by Shelter, but 2 per cent of 4.8 million homes is 96,000, not 213,000 tenants as quoted. Unfortunately there is no way of knowing which figure is correct. Paul also points out that issuing a section 21 notice means the tenant leaves at the request of the landlord under 'non-fault' so there is no real way of a tenant knowing why they have been asked to leave.

A major issue raised was not just the lack of resources to enforce this bill and the potential for the other 98 per cent to use the rule against the landlord, but the issue of access. What if the tenant makes a complaint to the council, then refuses to let them inspect the property or allow the landlord to send someone in to make repairs? And, if the tenant then stops paying rent, where does this leave the landlord?

Already we are seeing this happening. Tom Entwistle from LandlordZONE is getting calls from landlords whose tenants are putting in complaints to the council about repairs they require, then not paying their rent and refusing the landlord or tradespeople access.

Paul, who works with evictions every day, says that the solution is to introduce a different system to get rid of retaliatory eviction by getting rid of the real cause – the bad landlord.

'Landlords should be prosecuted by the Councils for non-compliance and a "three strikes and you're out" rule should also be implemented, meaning that the landlord would have a banning order preventing them from renting out properties in the future.'

Paul concludes:

'Before introducing this legislation we need to be clear about the accuracy of the data and ensure any legislation is balanced to support the good tenant versus the bad landlord and the bad tenant versus the good landlord.'

In addition, even if the new rules are brought in, if the tenant doesn't know anything about them, or doesn't have the ability to complain to a third party, they will have little impact on the market. So an education process will need to be heavily funded for this legislation to have any effect.

10 What happens at the end of a tenancy?

Rather than tenants leaving their tenure for bad reasons such as unfair evictions, the ONS and research carried out by YouGov shows that most tenants leave because they want to. In comparison to home owners, there are more owner occupiers evicted through repossession in the courts by mortgage lenders than there are tenants in the courts by landlords.

10.1 Why do people leave rental properties?

The level of mobility in the PRS is more than three times that of other tenures. The ONS English housing survey shows that:

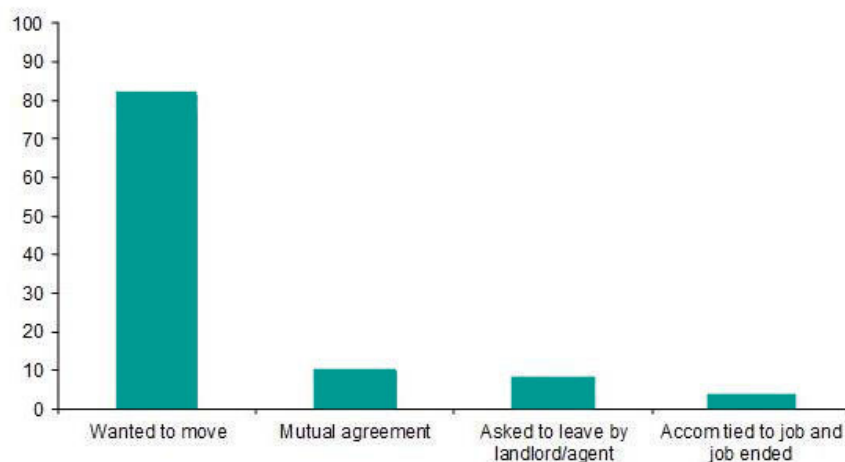
‘during 2012–13, a total of 2.3 million households (10 per cent of all households) had moved home in the previous 12 months. In the private rental sector the percentage was 34 per cent.’

Research suggests reasons for tenants leaving a property aren't necessarily problem related. Many leave for good, not bad reasons. Of those that have been asked to leave the main reasons are due to the landlord needing their property back or the tenant isn't paying their rent.

According to the ONS in 2012–13:

‘81 per cent of private renters who had moved in the last three years said their tenancy had ended because they had wanted to move.’

Figure 10: Reasons why previous tenancy ended 2012-13



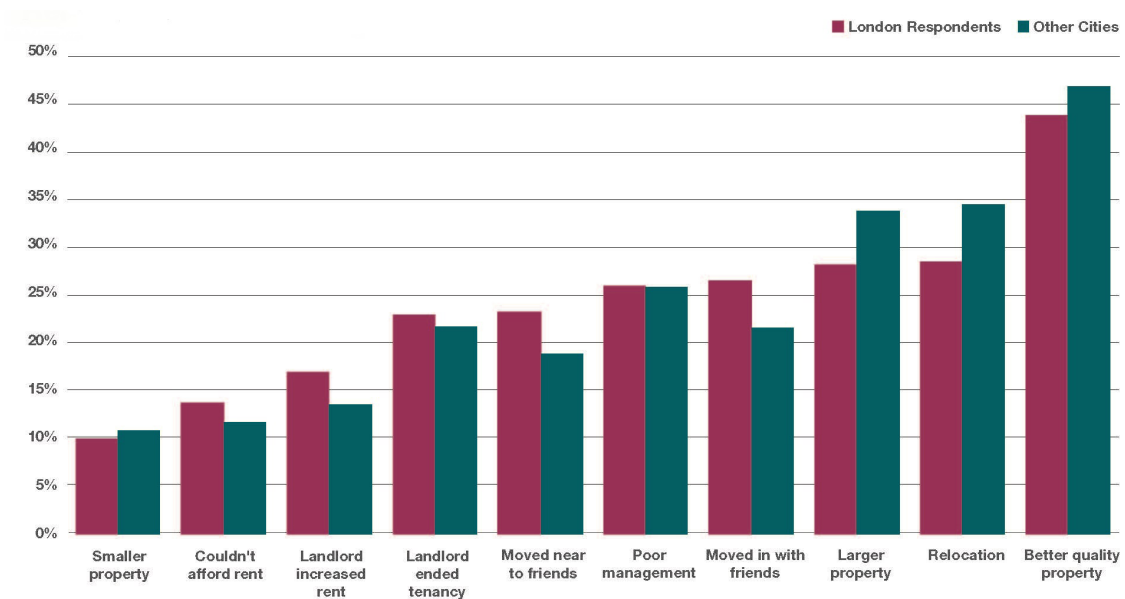
Base: Private renters who had moved to current accommodation in the past 3 years

Source: English Housing Survey, full household sample.

The ONS reports continues that of the 7 per cent (179,000 households) who were asked to leave by their landlord or agent, 57 per cent said it was because the landlord wanted to sell or use the property and 10 per cent hadn't paid their rent. That leaves 60,000 households out of four million having to leave when they didn't want to, which is 1.5 per cent of households in the PRS.

The Savills/YouGov survey shows most want a better or larger property, are looking to relocate or to move near friends. This is backed up by the EHS research which shows tenants leave often because they want a bigger house or flat (14 per cent), for family or personal reasons (20 per cent) or job-related reasons (16 per cent).

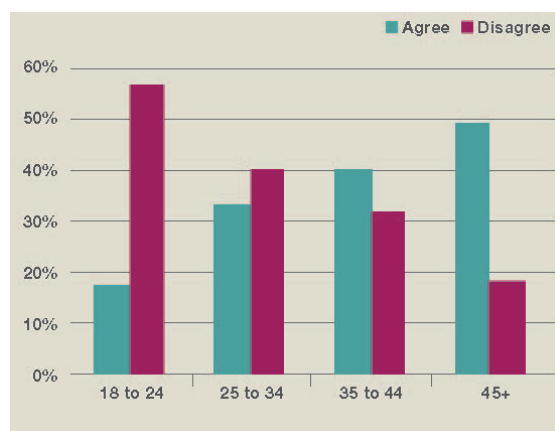
Figure 11: Reasons for moving



Source: YouGov/Savills Research

Most tenants, when asked, actually value their existing flexibility:

Figure 12:



Source: Savills Research: Spotlight investing in rental Britain

And evidence from private landlords, agents and surveys shows if people want to live in a property for longer, they can. What most reports and commentary seem to miss is most landlords and agents want long-term tenancies too. Few want the hassle and expense of kicking out a good tenant who looks after the property and pays rent on time for someone that might not.

The ONS stats show 34 per cent of private renters have lived in a home for under a year, 20 per cent from one to two years and one in ten for ten or more years. ARLA's report tracks tenants living in a property for just over 19 months.

10.2 Conclusion

At the end of a six-month tenancy, a tenant can choose to move to a periodic one, giving them the flexibility of two months' notice. Or, if they prefer and the landlord agrees, they can sign another six-month tenancy agreement (or a longer one), such as the government provided three-year tenancy agreement. So tenants can secure at least a six-month guarantee of staying in their rented home.

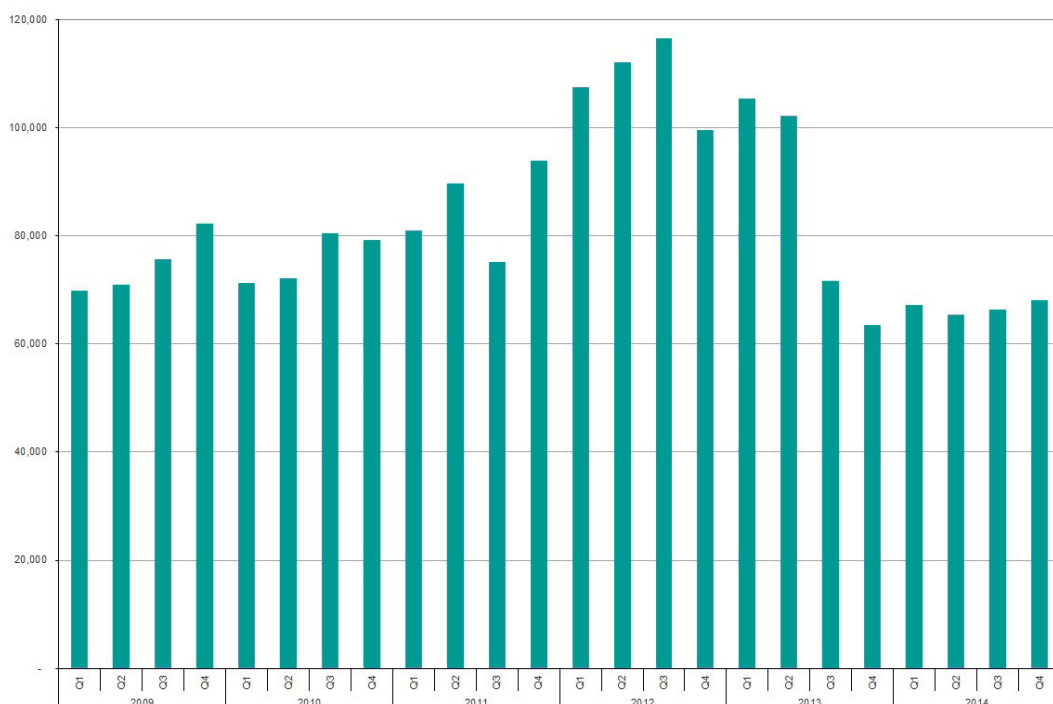
If most tenants want longer-term tenancies and it is in the interest of agents and landlords, it should be questioned whether the market needs manipulating or indeed encouraged to provide longer-term tenancies. For tenancy extensions, the main barriers are lender restrictions and although some, e.g. Nationwide, have changed their rules, many have kept tenant agreement lengths to a six-month restriction.

11 Financial problems for tenants and landlords in arrears

One way of looking at who the PRS works for and who it does not is to consider the number of tenant and landlord arrears. And it is important to bear in mind that both tenants and landlords suffer arrear issues with rents and mortgage payments, which in some cases lead to repossession.

The ONS says ‘most private renters reported that they were up to date with their rent payments (96 per cent). This compares with 88 per cent of social renters’. According to the Tenant Arrears Tracker by LSL Property Services plc (LSL), owners of Your Move and Reeds Rains estate agents ‘48,500 fewer tenants face severe rent arrears compared to the worst of the 2012 record peak’. And their figures seem to match those of the ONS although this gives a slightly better picture: ‘improvements mean 98.6 per cent of private sector tenants now avoid significant rental arrears.’

Figure 13: Tenants in severe arrears



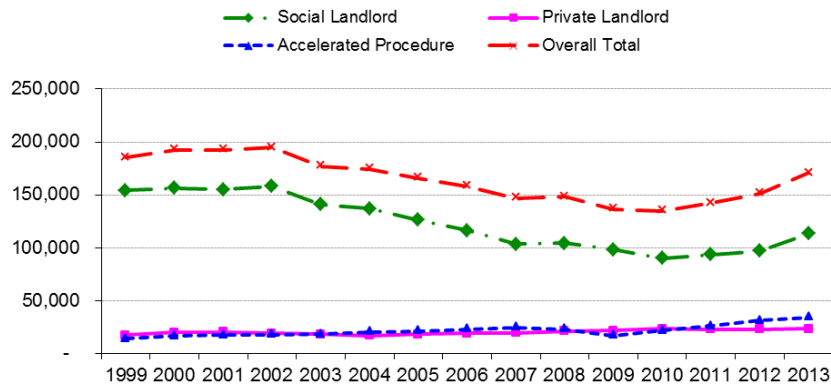
Source: Q4 2014: LSL/Templeton LPA

The chart above shows that 68,100 tenants are currently behind with their rent by two months or more. This is a huge fall from the height when tenant arrears hit over 100,000. And it is good news that evictions are now declining ‘on an annual basis eviction rates [are] 6.0% lower than in Q3 2013 – which is the first annual fall in eviction orders on record (since 2010)’. This means that under 30,000 tenants are facing potential eviction via court order.

11.1 Court proceedings against tenants

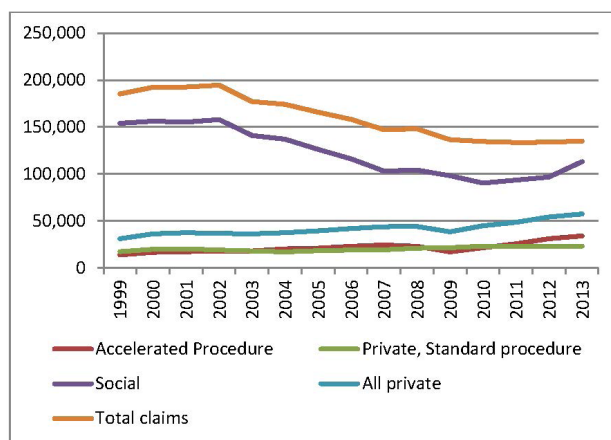
Although figures vary, Landlord Action show from the Ministry of Justice figures that in 2013 there were 170,451 possession claims in the county courts of England and Wales. 113,175 (66%) were from Social Landlords; 23,196 13.6% were from private landlords, under Standard Procedure.

Figure 14: Landlord possession claims in the county courts of England and Wales by type of procedure and landlord



Source: National Housing Federation

Figure 15:



Source: National Housing Federation

11.2 Landlords are in arrears too

Under the 'accelerated procedures', I understand from conversations with the industry most are likely to be 'accidental landlords' looking to sell up as the economy recovers or they could be on behalf of mortgage lenders who have repossessed properties from landlords. However, there needs to be more research on this as it is crucial to understanding why tenants are being asked to leave.

Of course, many private tenants leave when requested, without the need for court action ever arising, so will not show up in these figures. When issuing a Section 21, no reason has to be given for the landlord wanting possession back, so although these figures are useful to see, they can give a false picture when it comes to reasons for evictions, especially as court procedures don't always lead to eviction, so it is vital we monitor and record the reasons why tenants are being asked to leave, prior to introducing new rules and regulations.

(Source: HM Courts and Tribunals Service CaseMan & Possession Claim OnLine (PCOL).

Few are sympathetic to landlords being in arrears. But every time a landlord fails in financing a property, it shouldn't be forgotten that this failure can lead to a tenant losing their home.

According to the Council of Mortgage Lenders:

'the number of buy-to-let mortgages in arrears of three months or more (including cases in which a receiver of rent had been appointed) stood at 13,400 at the end of June, down from 14,700 three months earlier and 17,900 a year ago. In the second quarter, 1,300 buy-to-let properties were taken into possession, compared to 1,400 in the previous quarter and a year ago.'

So although the number of landlords in financial difficulty is lower than the number of tenants, it still shows that for tens of thousands of landlords, the PRS is failing to deliver enough income to fund their tenanted property.

11.3 Conclusion

More research needs to be done to better understand those that are struggling to afford the PRS from a tenant and landlord perspective. Currently we tend to look only at affordability and evictions from a tenant perspective, but we also need to look at this from a landlord's perspective too. If they are in financial trouble, that also increases the risk of the tenant being evicted or ending up living in a property in a poor condition. We also need to look at what happens to tenants evicted from the social sector – where do they move to? Are individual private landlords expected to house them or are they left to the rogue agent and criminal landlord sector as they have no other choice to put a roof over their head?

12 What is the future of the PRS?

The PRS is the only tenure expected to grow in England. Estimates are that by 2016 there will be five million homes (source: Knight Frank/DCLG), rising to 5.7 million, i.e. 1:5 households by 2018 (source: Savills).

The question is, where will the additional stock come from? It's estimated that 245,000 new households will be formed each year up to 2031, of which 78,500 a year will be in the social sector and 164,500 in the private sector (source: T&CP Tomorrow Series Paper 16: New estimates of Housing Demand and Need in England, 2011 to 2031). In contrast we are building 100,000 to 150,000 homes a year and planning to build just under 170,000 by 2018 (source: Savills). That means we aren't even planning to build enough homes for those that can afford to rent or buy, let alone enough for the socially vulnerable and low paid who we have highlighted are the ones really short of legally let properties to rent.

London – a capital problem

In London the estimates for new homes being built are 42,000 new properties per year. This clearly isn't enough with the huge backlog of properties required and an estimated growth of 40,000 to 50,000 new households being formed each year. Of these:

'under the new GLA [Greater London Authority] housing strategy, 15,000 of the new homes delivered annually will have to be affordable, and a further 5,000 will have to be made available for private sector renters'.

It is great that so many new affordable homes are planned for London and that a proportion is for the PRS. But it's still not enough to cater for future need. Until we plan to put enough roofs over people's heads at a budget they can afford, cracks will continue to appear in the housing market.

12.1 The future for excellence in the PRS is actually quite bright

The key issue that affects the PRS is the same as every other sector. Moving forward we are already forecasting to fail to deliver enough homes versus the number of people that need them now and in the future.

Focusing on the PRS however, the information in this report, the efforts to attract new investment into the sector through institutional investment combined with the substantial number of 'good guys' in the industry who already let property legally, means there is a lot for tenants to enjoy now and look forward to. Before 2000, it would have been virtually impossible for a tenant to live in brand-new accommodation. However vast numbers of inner city new builds built during the noughties were sold to private investors. And more new builds are targeted at investors by developers to help fund projects which in themselves build more affordable accommodation. Many of these properties are rented at a lower cost to tenants than they could afford to buy.

For the future though, tens of thousands of tenants will be able to live in brand-new accommodation which is specifically built for them by institutional investors and large landlords who want to rent long term. The benefit of this is that, unlike accidental landlords, tenants will be renting from professional, long-term landlords.

With the government's Build to Rent scheme already in play and mainstream developers moving into the build-to-rent market, the government expect to deliver a further 10,000 brand new properties for long-term rent which will hopefully encourage more investors to enter the market.

Grainger, the UK's largest landlord listed on the London Stock Exchange, believes the future for tenants in the PRS could be very attractive.

Nick Jopling is the executive property director at Grainger which has built up a large portfolio of residential properties in the last 100 years of the company's existence. They have over 20,000 properties which they manage in the UK and in Germany, of which c 4,000 properties are subject to regulated tenancies which are bought at a discount and make their money on the sale when the property becomes vacant and a further c.2,000 are subject to the more well known Assured Shorthold Tenancies (AST's).

For Mr Jopling, the future of the much-needed institutional investment in the UK's PRS is very bright. From 2015, he says 'its prospects for further growth look good'. The reasons for this are there is huge growth in the proportion of people renting rather than owning and as more institutional investors that enter into the market, the more choice tenants will get, thereby driving a better service. From Grainger's perspective, this helps to create partnership opportunities for their business to grow. And for Grainger, what all those who work in the PRS need to do is:

- ensure the tenant 'customer' is king
- learn from the hospitality sector
- think like a retailer
- have a long-term investment horizon
- ensure there is a greater integration between development, engineering, asset management and property management

Looking further, Mr Jopling believes that the 'PRS will, I believe, become an established property asset class by 2020'. The reason for needing another six years is that:

'investors are 'commissioning, forward funding, forward committing and even building purpose-built apartments or estates of houses that can be owned and managed as one block.'

All of which is great news for tenants – and the economy.

What holds the process back is planning, tenders and the physical construction of these new purpose-built rental homes. From Grainger's perspective, the view is that to help drive more new desperately needed stock, local authorities need to:

'designate land for a set period for the delivery of new, purpose-built PRS units. Unlike the PRS "use class", which some have called for, the covenant concept is simple, effective, flexible and does not require any change in legislation.'

And, according to Mr Jopling, this may well become more established over time with both the Greater London Authority and Manchester City Council already making use of it to build rental homes on their own land.

Mr Jopling's final hope for a bright PRS future is that 2015 and beyond will see:

'significant release of public land next year. Local authorities sit on vast swathes of (often brownfield) land and the Lyons Housing Review rightly recommended that government should set a target for "the release of sites for 200,000 homes over the next parliament.'

With PRS rents proving throughout the recession to rise and fall not just based on supply and demand, but having their own cap on prices, i.e. wages, tenants' fears of huge rent rises isn't as prevalent as sometimes suggested.

The future for most private rental tenants, who can afford the market, is bright. This is especially so with initiatives such as the 'How to rent guide' (www.gov.uk/government/publications/how-to-rent) and TDS investing in education initiatives (www.tdsfoundation.org.uk/general/tds-charitable-foundation-announces-funding-prs-projects-2) for the likes of the National Union of Students, for tenants that:

- educate themselves on what a legally let property looks like
- carry out research on how to rent and their rights and responsibilities
- look to see what rental properties are coming onto the market now and in the future.

12.2 Enforcement and education are needed to mature the market

The main issue though is how to house those on housing benefit in the PRS. And whether it is viable for them to be successfully and safely housed in an unregulated sector, especially with accidental or inexperienced individual buy-to-let landlords. Outside the self-regulating landlords and letting agents, there are no guarantees that tenants will be well treated or properties legally let.

Unfortunately, due to lack of enforcement, the government, local authorities and some organisations which help house the socially vulnerable and low paid are not making enough checks or enforcing existing rules and regulations to ensure the properties the taxpayer partly funds are fit for purpose. But the PRS itself is failing some tenants too, and that's mainly those who are socially vulnerable and low paid. And from the analysis carried out on landlord's finances, we need to be aware that many landlords just can't afford to house tenants with the budgets they have, especially in more expensive areas.

Secondly, the PRS is failing to provide enough decent homes. Much of this problem seems to be around a lack of enforcement of existing rules and regulations, and poor tenant and landlord understanding of mould, damp and condensation issues.

These key issues don't mean the PRS is broken; what it means is that we have an affordability problem related to land and housing. The PRS cannot necessarily afford to address this without help and support for initiatives such as building to rent either through institutional investors or through housing associations.

We also have an enforcement and education issue with regard to property condition in the PRS which needs to be resolved as quickly as possible. Councils such as Newham, and organisations such as the extremely active Midland Landlord Accreditation Scheme which work closely with the local councils in Birmingham, have shown how much can be done at a local level to solve these issues without further legislation.

Finally, we need to agree how to measure rent changes. We also need to provide better data through robust research so we know where rental properties are, how to contact the landlords and how to cost effectively monitor, alongside agents, the condition of rented properties. This data, together with a more professionalised sector through some form of overriding regulation, means everyone involved in the PRS can work together to ensure properties are let legally, and in good condition at a fair rent that both tenants and landlords can afford.

12.3 Ten key changes recommended by the self-regulated PRS which would help improve the future of PRS

To focus on solving key issues, there are some relatively small changes suggested by the self-regulated PRS which can be implemented to vastly improve things for all those involved, including tenants and the good landlords, agents and those that maintain tenanted properties. Some require legislation and tax changes, but many of these are already being progressed or have already been proposed.

Excellence

- Fifteen clear, easy to understand checks, that a rental property is legally let, especially regarding electrical checks.
- Compulsory client money protection for all letting and managing agents.
- A taxation system where rented properties are treated as businesses, encouraging landlords to invest.
- A rental market free from controls.

Enforcement

- A tick box on council tax forms to say a property is rented.
- All landlords and letting agents must adhere to the same standard within the self-regulated sector, e.g. place the PRS code on the statute books and ensure all letting agents sign up to the Landlord Rental Standard.
- Existing and new regulations to be enforced with a realistic budget, e.g. penalty notices for tenant/ landlord offences, proceeds to be kept by the local authority and re-invested in further enforcement and education.

Education

- Cross government, industry and organisations agree to educate tenants and landlords from one source.
- Ensure the 'how to rent' guide is included in the national and higher education curriculum under Pfeg and NUS.
- Mandatory CPD training for all involved in the PRS (e.g. lenders, insurers, landlords, letting agents, charities, housing associations) on property conditions and maintenance, e.g. working with organisations such as Peter Cox and CFOA.