



The private rented sector in South East London and Lambeth

A study for South East London Housing Partnership and LB Lambeth

Executive summary

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South East London
housing partnership

The logo for Lambeth, featuring a stylized graphic of a flag or banner above the word 'Lambeth' in a bold, sans-serif font.

Lambeth

Background

In March 2014, South East London Housing Partnership (SELHP) and LB Lambeth commissioned Cobweb Consulting and Nigel Sprigings of the University of Glasgow, in association with Perspective Research Services Ltd to undertake a study of the private rented sector (PRS) in the area.

The aim of the research was threefold:

- To complement the South East London Strategic Housing Market Assessment (SHMA) that had been undertaken recently, by providing evidence and analysis of the PRS that would not be available or achievable through the 'desk top' SHMA.
- To provide some of the evidence base that boroughs will need to draw on if considering introduction of licensing in the PRS.
- To enable boroughs to better target interventions in the PRS, in terms of both enforcement and procurement (e.g. for use as temporary accommodation or for the prevention of homelessness).

The underlying fundamental question to be addressed through the research was:

“What is the capacity of the private rented sector in South East London and Lambeth to meet the housing requirements of households who would otherwise be accommodated in the social housing sector?”

Study approach

A three stage approach was adopted:

- Review and analysis of policy issues, evidence and of contextual data illustrating the nature of the PRS in the study area, both from central sources such as the Census 2011 and English Housing Survey, and administrative data provided by the local authorities
- A survey of residents, based on 1165 face-to-face interviews with tenants in properties where rents were below the relevant lower quartile figure for the borough and number of bedrooms (except for residents in Houses in Multiple Occupation, where no limit was set).
- Engagement with providers, comprising 43 interviews with landlords and lettings agents, attendance at local landlord forums, a web-survey and mystery shopping trips to local lettings agents

Review of policy issues

After a long period of decline, over the last fifteen years the private rented sector has revived as a significant tenure for many households. In 2011-12 the proportion of private tenants in London rose above the proportion of social rented tenants for the first time since the mid-1960s. The sector is complex, and a seminal study by Rugg and Rhodes (2008) identified a range of sub-sectors operating within the tenure. Access to Buy-to-Let mortgages, the recycling of Right to Buy properties into the sector, the expansion of the 'cottage' industry of small landlords, the impact of the credit crunch, the recession, and the rise of both the reluctant landlord and reluctant tenant as a response to a dysfunctional owner-occupier market have characterised the sector in London in recent years.

The role the PRS plays in delivering new housing supply has been an issue for successive governments, especially how to secure institutional investment in the sector. This is related to the policy aim of 'professionalising' the sector, which in turn links in to improving conditions and management standards through regulation. Scotland has introduced compulsory registration of all landlords, and in England a number of authorities have extended licencing arrangements. While property condition has been improving for some time, it is still worse than in other sectors.

There is also a debate around security of tenure and, currently, around 'retaliatory eviction', where landlords are alleged to have taken measures to evict tenants who complain about conditions (though there has been little systematic research into this area). Some commentators and politicians have argued that fixed, longer terms tenancies should be introduced to improve security; others are equally convinced that such intervention in the market would reduce supply).

The role the sector has played in relation to homelessness has been ambiguous. Although it has proved to be a valuable source of temporary accommodation through leasing and management arrangements since the 1980's, as an alternative to Bed and Breakfast, costs have risen substantially, and local authorities are finding it increasingly difficult to access stock – especially in London. Government policy has encouraged the sector to be a source of permanent rehousing for priority homeless households as well. However, the withdrawal by landlords from renting at the lower end of the market, as a response to both welfare reform and increasing demand from higher income groups, is leading to the PRS becoming a cause of homelessness as well as a solution to it.

Nonetheless, the size of the sector is likely to continue to expand, and will need to continue to play an important role in meeting demand from all its sub-sectors, including those on lower incomes, and those who otherwise would need to be supported by local authorities, from static or declining resources.

Summary of resident survey findings

Residence and tenancy

- Although most tenants stay in one property for more than one year, more than 80% have agreements which last for a year at the most so will need to renew them frequently.

Household size and structure

- 28% households were single adults and another 18% were couples without children. Lone parents made up 10%, and couples with children made up 30% of households. At least 40% households contained children.
- 15% of households were of 'other' family or alternative composition – this would include multi-adult households, with or without children.
- The incidence of residents aged 65 or over was very low at 3% of households.

Houses in multiple occupation

- One in four of the properties surveyed were HMOs with higher proportions in Lambeth and Southwark. Most properties had two or three households but there could be as many as ten. While half households in HMOs were single people, at least 13% contained children
- One third of those living in HMOs use all of their habitable rooms as bedrooms and 4% share bedrooms with other households.
- There are indications that the HMO market is expanding faster than the self-contained market.

- 13% of HMO residents are concerned about overcrowding; this should be considered in the context of the expanding HMO market
- There is a 'top-end' of better quality HMOs that command higher rents, contrasting with a concentration of poorer conditions at the cheaper end.

Opinions of the property and surrounding area

- Around 70% rated both quality and conditions as 'good' or 'very good' while 5% expressed dissatisfaction. Those living in HMOs have similar opinions to those living in self-contained accommodation, especially those paying higher rents. HMO residents paying lower rents were more dissatisfied.
- Where there are problems with quality and condition they are most likely to be due to damp and cold or a generally poor condition and state of repair.
- Two out of three seem satisfied with the quality of their local environment and it is only a small percentage (7%) who regard it critically. Rubbish and litter are the main subjects of criticism.
- The most likely potential Category 1 hazards were damp and excess cold, followed by poor security and overcrowding. Some 13% of HMOs felt the last was a severe problem. This should be considered in the context of findings from the landlord interviews that letting out of rooms is an area of rapid growth.

Anti-social behaviour

- It was found that 14% of tenants had personal experience of anti-social behaviour in the immediate area around their home in the previous year. The most likely problems were noise nuisance, drunken behaviour and vandalism or graffiti.

Property management

- Some 72% of tenants deal directly with their landlord rather than through an agent (27%). The figure is higher – 77% - for those in HMOs.
- Around 70% of tenants are satisfied with the way their properties are managed and maintained, the weakest aspect being the response to requests for repairs. However, opinions of landlords are better than those of agents who are not seen to be as helpful or responsive, and have a poorer management performance. For example 72% of those whose homes were managed by landlords were satisfied with repairs responsiveness, compared to 62% whose homes were managed by agents.
- Only a small proportion, fewer than 10%, had contacted their Council about landlord problems, overcrowding or re-housing
- In terms of costs incurred in securing a property, it seems that two thirds of tenants were required to pay a deposit and 44% rent in advance. Around one in four also said that they paid agents fees. The latter ranged from £50 to £1,300. On average, agents' fees were £285; deposits were £974; and rent in advance was £971

Rent, income and benefits

- Average monthly rents for self-contained properties ranged from £792 (1 bed), £953 (2 bed), £1,115 (3 bed) to £1,293 (4 bed). HMO rents are generally 20% to 30% lower.
- A total of 24% were receiving Housing Benefit, usually to cover part of their rent rather than all of it. This reflects the relatively high level of employment among respondents and possibly the difficulty of those on full HB have in accessing the sector.

Property intentions and history

- The largest single group – 41% - expected their next tenancy to be in the PRS. 28% expected to own their own homes; and 19% expected to access social renting.

- In terms of where they had lived previously, one in four had moved into London from elsewhere. Within London there is substantial movement between boroughs.
- Previous tenure was usually (78%) another private rented property but 11% had moved out of a family home into independent accommodation.
- Some 22% are likely to move in the next year including 14% who are 'very likely' to do so. The main reasons for moving are to obtain a larger home or reduce housing costs.

Profile data

- Profile data shows that those in private rented accommodation tend to be younger with a very small number over retirement age. Almost 60% were from White ethnic groups and over 70% were in employment. Those with health problems or disability were only 8% of the sample.
- Almost half of the sample (44%) have a gross income below £20,800 per annum or £400 per week. 29% earn between £20,800 and £31,200 per annum. 27% earn over £31,200 per annum
- In total, 74% were working full (58%) or part (16%) time. An additional 3% were seeking work, 6% were students, and 15% were outside the labour market for other reasons (2% retired, 10% at home looking after the family, 3% with disability or ill-health).

Sub-sector categories: the Rugg and Rhodes (2008) classification

- We suggest that on the evidence of the survey a new category of 'working poor' should be added to the existing classification system, to account for low income, working households who primarily are not benefit dependent

Engagement with providers

In common with the national pattern the majority of landlords and agents interviewed or surveyed operated at the smaller-scale end of the spectrum, though interviews with larger-scale operators were included. The principal finding related to the research questions was that although many landlords are now reluctant to let to tenants on benefits, a substantial proportion were still willing to do so; and that stability of income stream was, in some instances, as important as a high level of rental return.

Key points emerging were:

- Confidence about the continued expansion of the PRS in the study area; but concern that as acquisition costs increased, it was 'getting harder to make money in London'.
- Two parallel sets of rent policy: higher rents to young professionals, with relatively short lets, where rents were increased as tenancies ended to match market prices; and lower rent, longer term lettings, that may be at or close to LHA rates.
- In the context of welfare reform, the unlikelihood of reducing rents for tenants who lost benefits (and therefore, inevitably, the end of many such tenancies); some concern about direct payments, but more concern about monthly payments under Universal Credit.
- The dominance of the rooms market (in HMOs) as opposed to the market for self-contained flats, especially at LHA levels.
- Some willingness to work with local authorities to meet local housing needs. The key factor was financial, in terms of grants, leasing arrangements, rent guarantees and the like. But there were other factors on which greater engagement was conditional:

- Increased 'professionalism' among local authorities in the way they worked with the sector
- Greater recognition of the business needs of landlords, and a response to them
- A 'light touch' approach to regulation, and a distaste for extending licencing
- Better communication mechanisms, including enhanced roles for forums

We outlined three potential scenarios on how the sector could change over time, and explored the factors that could bring about the following:

- Scenario 1: Revival of interest in the low income household market
- Scenario 2: Acceleration of landlord withdrawal from the low income market
- Scenario 3: Gradual withering away of the low income market

Our conclusion was that the third scenario was the most likely, all other things being equal – but nonetheless there was a strong case for study area authorities to work together strategically to slow down or prevent this outcome.

Conclusions

Our principal conclusion is that, in response to the key research question

"What is the capacity of the private rented sector in South East London and Lambeth to meet the housing requirements of households who would otherwise be accommodated in the social housing sector?"

... we would suggest that while capacity is difficult to quantify, and recognising that the sector is facing long-term attrition, it is clear that some role does still exist and will continue to exist; and that there are measures that can be taken to help retain this sector of the PRS.

The following are the central findings that relate to this and associated questions:

The growth of the working poor

Perhaps the strongest indicator of how the sector has changed is the identification of the sub-sector we have termed the 'working poor', who make up approaching a third of those for whom we have income data. This group is not really recognised in the Rugg and Rhodes (2008) classification of sub-markets, nor have they been substantially considered in policy terms. Only a quarter of these claim housing benefit (and the vast majority of those only claim partial housing benefit), and the principal risk to their housing futures in the PRS are their low incomes. A significant proportion of this group in the study area are from BAME backgrounds.

The impact of changes to the benefit regime

In terms of welfare reform's effect on landlord behaviour, as discussed it has had a detrimental impact – but perhaps not to the scale and speed that some commentators forecast. Nonetheless, we suggest that continuing attrition of the LHA-level sub-sector will occur as landlords relet properties as LHA tenants leave. The role of local authorities will be to work with those landlords that are willing to continue to engage in the lower quartile rent sub-sector of the market to reduce the rate of attrition and support those who remain in the sub-sector.

The prevalence of children

At least 40% of households surveyed in the study area had one or more children under sixteen.

This group is particularly marginal in terms of income and employment, and vulnerable to welfare reform and landlord disengagement, with a potentially dramatic impact on local authority homelessness, rehousing and social services if landlords decide to terminate their tenancies, and relet to different, higher-earning groups.

There is a mixed pattern around conditions and management

Around 70% survey respondents rated condition and quality as 'good' or 'very good', below the national average of 84% (though it should be remembered that the national figure covers the full range of stock, not just that with lower quartile rents). Around 5% of survey respondents rated condition and quality as 'poor' or very 'poor'. There was some evidence of potential Category 1 HHSRS hazards, primarily around dampness and the need for modernisation, rather than security or dangerous electrical / gas issues. However, there is evidence of a concentration of poorer standards among those receiving Housing Benefit, and those whose homes are managed by agents rather than directly by landlords. There are also indications that the cheaper end of the HMO market also experiences worse conditions than the more expensive end. Evidence from local authority enforcement teams also indicates there are a number of properties with substantial problems, and enforcement activity appears to have increased over recent years. Thus, if authorities are looking to focus their intervention and enforcement activities, concentrating on the HB, managing agent and lower-rent HMOs sub-sectors would be indicated.

The scarcity of self-contained accommodation on the market

One of the more surprising findings from work on the landlord / lettings agent side of the study, was the scarcity of self-contained flats on the market. There are indications that lettings agents are leaving details of self-contained properties on web-sites and in their offices after they have been let, to attract a waiting list of potential tenants. But it seems apparent that the HMO sub-sector is growing faster than the self-contained market

The rise of the HMO and room lettings

Perhaps counter-intuitively, overall HMO residents were slightly more favourably inclined to the condition, quality and local environments of their homes than those in self-contained accommodation. We suggest that more 'young professionals' are prepared to live in HMOs, and their higher rental ability can command better conditions. So, a revised image of the HMO is of an expanding sub-sector catering to better-off, younger singles, and providing a reasonable standard of accommodation – rather than the more-popularly accepted image of a sub-sector bordering on the slum definition. However, there are poorer conditions in some HMOs – these are likely to be concentrated at the cheaper end of the market. An additional issue is overcrowding – some 13% of HMO respondents are concerned about this.

Issues around enforcement and licensing

The majority of landlord views were firmly against extending licencing arrangements. In terms of the evidence for poor conditions, anti-social behaviour, and health and safety hazards in HMOs and elsewhere, there appears to be little systemic mismanagement or performance failure. The exception here is perhaps the performance of managing agents, and (as noted above) in lettings to those on HB. Local authority enforcement teams have identified numbers of poorer condition properties and management standards. We therefore suggest a two level approach by authorities:

- Light touch for majority of reasonable players
- Continuation of existing enforcement measures, against worst offenders, perhaps focussing on the HB market and properties managed by agents, and known trouble hotspots

We do not believe that there are strong pointers towards the extension of wide-scale regulatory licencing arrangements, on the evidence of this study.

Two diverging markets: high income/high turnover v. steady stream

We have already touched on the future of the LHA market in this section, but we also need to understand it in the context of other markets. The evidence from both the landlord interviews and web survey is that there are two prime business models or rent policies in operation:

- ***High income / high turnover.*** There are landlords and lettings agents who are focussing on earners, and whose policies are generally to increase rents when a tenant turns over. This is likely to be above LHA levels, and therefore be focusing on those in employment, some of who may be the 'working poor' (who will be paying up to 70% of their incomes in rent); and others who will be in the 'young professionals' or other higher-earning subsectors.
- ***Steady stream.*** Then there is another sub-sector, focussed on longer-term, 'reliable' tenants, who may be paying rents at or close to LHA levels with whom landlords will have built up relations over a longer term. These may or may not be claiming HB, but the disincentive for their landlords to end the tenancies is more to do with the trouble and expense (and risk) of finding new tenants, than the level of the income stream.

Engaging landlords

In summary, there needs to be a combination of strategic engagement and practical support. While some authorities are operating or planning social lettings agencies (packages of services provided to landlords to encourage good practice and access for local authority nominees) there may be further opportunities to offer focussed and professional maintenance and property management services to support landlords to remain in the lower-income sub-sector.

The starting point for this is better and more consistent use of the existing landlord forums (or their creation if absent), and an open approach to listening to landlords' own suggestions. A cross-study area forum was suggested, given that landlords operate across borough boundaries, and mechanisms to enable landlords currently working with low income tenants share their (positive) experience of this market with others.

As noted, in the views of landlords 'it is getting harder to make money' in the London PRS market; and therefore all local authority engagement needs to be underpinned by the question 'what will work to support the landlord's business?'. If options to provide financial incentives, in the shape of grants, loans, rental and void guarantee schemes, Discretionary Housing Payments and the like are available, all well and good. But if these financial tools are not available, focussing on improving the business operational environment within which landlords work is necessary.

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