

**RENTING IN THE DOWNTURN: ASSESSING THE IMPACT OF
THE ECONOMIC DOWNTURN ON RENTERS AND THE
RENTED SECTORS**

This paper was commissioned by the Communities and Local Government
Housing Analysis and Surveys Expert Panel

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I INTRODUCTION

This paper is one of three commissioned by the CLG Expert Panel on Housing and Surveys Analysis to assess the impact of the economic downturn on renters and on the rented sectors. This paper addresses first the impact on individuals and communities; second the impact on providers and third considers policy responses. Parallel papers by Rebecca Tunstall and Michael Ball focus on impacts at the neighbourhood level and the private rented sector respectively.

2 IMPACTS ON INDIVIDUALS AND COMMUNITIES

Impact on renters

The impact on renters depends mainly on four elements:

- what happens to the number of renters as a result of the recession (Annex page 2);
- the impact on tenants unemployment and participation rates– which is about the attributes of the households in the sectors, the sectors in which they work and their local employment market (Annex pages 3, 4 and 5);
- the impact on household income arising from changes in wages, numbers of hours and numbers of working members which depends on similar drivers; and
- differentials in the support available to tenants – mainly in the form of housing benefit but also through area based policies etc (Annex pages 5 and 6).

These are now discussed in turn.

Numbers of tenants

According to the Survey of English Housing the proportion of owner occupiers has been falling over the last two years – offset mainly by the growth of private tenants. The number of social tenants has also been rising but very slowly (Annex page 2)

The decline in owner-occupation has mainly been the result of affordability and financial constraints. It will also be the outcome of the growing number of repossessions and other outcomes of repayment problems which in turn mean larger numbers of people moving in with family and friends and contributing to increasing homelessness applications. To that extent they put pressure on the social housing applications process and on administration costs more generally.

Homelessness is far lower than it was during the last recession because of structural declines over the last decade. Official figures for the last quarter of 2008 (the most recent available) show numbers continuing to fall (Annex page 2). However, there is a risk that this may change and numbers may start to rise again. Housing waiting lists are already rising. The mortgage rescue package is intended to address the housing conditions of many low income mortgagors who would otherwise be homeless – but there are other categories that are of concern – notably private sale and lease back where the ex owners will be in the private rented sector but often subject to very poor conditions.

One source of growth in the private rented sector has been from those unable or unwilling to afford homeownership. These numbers have been swollen by the lack of credit for first time buyers as well as higher deposit requirements. These households will normally be employed and able to pay rent. They will be subject to general pressures from increasing unemployment. The other major group that has been identified is that of migrant workers who may be under greater pressure than average both from loss of work and because they will not always be eligible for or claim housing benefit.

Employment and incomes

Among existing tenants in the social sector the very high proportions who are either unemployed or non-participants mean that their position is relatively stable in the recession (Annex page 3).

However large numbers of those who have some work are likely to be in high risk jobs both in terms of unemployment and perhaps as importantly in terms of the numbers of hours worked. Anecdotal evidence suggests that the speed in which hours have been cut, even for those on full time long term contracts, as compared to earlier recessions appears to be faster. This will impact on earnings very rapidly, making higher numbers of social tenant households eligible for tax credits and housing benefit – or if already eligible for higher levels of support.

A significant proportion of private tenants are students who will not be directly affected by the recession except to the extent that they depend on paid employment to cover their costs of living. Numbers of students are expected to increase in the face of potential unemployment. However they are also likely to face growing housing problems as they complete their studies as their chance of getting a job at their expected skill and wage level will be very different from when they started their course.

Lower income/lower skilled employed tenants in the private rented sector (PRS) will be negatively affected as unemployment rises, hours are shortened and there are other associated problems exactly as for those in the social sector. A large proportion of the growth in the PRS has come from young higher skilled workers whose main differential problem will be that they have not been in the labour force for long. These households are likely to be ineligible for local housing allowances (LHA) unless they become unemployed (Annex page 4). Even then it will depend on access to savings.

There are likely to be instances where the tenant and landlord (and perhaps also with local authority involvement) can negotiate to enable the tenant to remain (this happened to a limited extent in the

last recession), but there will be other instances where tenants with rent arrears will lose their home. Some tenants in the PRS who face unemployment and rent arrears may be eligible for housing benefit and this may enable them to remain in their property.

Support available to tenants

Social tenants are relatively well placed to weather the recession, with security of tenure, the safety net of welfare benefits and assistance in claiming benefits appropriately.

The position in the short term will be best for those on social security, as benefits are expected to rise in line with last year's inflation, while rents at least in the local authority sector are to rise by only 50% of the expected rise. As a result this group will have relatively higher incomes over the next year. On the other hand the inflation rate for pensioners appears to be significantly higher than average, with negative impacts on many social tenants. The main benefit for this group would come from lower heating bills and smaller rises in council taxation.

Those social tenants in the most difficult position will be those whose incomes are just above housing benefit levels or on partial benefits where the clawback impacts negatively on residual income. In the social sector as in the private sector these households will be particularly concentrated in London (Annex page 4).

The position with respect to private tenants varies much more. As in most recessions a significant majority of people will be slightly better off (although not necessarily feeling so because of higher risks) because of falling prices and possibly lower rents. However those who suffer unemployment or other significant loss of income (such as shorter hours) will be in a relatively more difficult position than social tenants, even if they are eligible for benefits.

The most important differences relate to three main factors:

- the introduction of the local housing allowance which means that private tenants will not be eligible for assistance to cover their actual rents. This is a new factor as compared to earlier recessions and means that those higher waged households who lose their jobs will have a much less complete safety net;
- the difficulties and high costs that private tenants often face in adjusting their housing position to reduce their rents;
- the fact that payments are reduced if people have more than £6,000 savings – which means for instance that those who are saving to buy must run down their savings and will not be in a position to buy once the economy improves.

Thus overall the majority of social tenants will be relatively better off except to the extent that the opportunity to obtain or maintain a job will be reduced. Those who will suffer – as in all tenures – are those whose employment circumstances change for the worse either through unemployment or reduced hours/lower pay per hour; and particularly those who are just above benefit levels.

The position with respect to the private rented sector is likely to be far more problematic. First, there is the group of migrants (particularly irregular migrants) who are ineligible for assistance except for those who are destitute and intending to go home. Second, there are those whose incomes fall for one reason or another but who are in accommodation with rents above the local housing allowance level. This group will still have large scale rental commitments, may be unable to pay, and may therefore present as homeless. Third, there is the group who were earning higher incomes. When they lose their jobs they will not generally be eligible for assistance with their housing costs. This group will include aspirant home owners whose capacity to buy in the future will be much diminished.

The increasing numbers of private tenants claiming benefit will modify landlord behaviour especially among those who normally did not expect to accommodate those on benefits. This was an issue in the last recession with negative consequences in terms of the preparedness of such landlords to continue to rent. The shift to LHA may well increase negative attitudes as has been evidenced in Scotland (Crook and Kemp 2009).

Vulnerable groups such as those receiving housing-related support through Supported People funding and the PSA16 client groups (care leavers, adult offenders under probation supervision, adults in contact with secondary mental health services and adults with moderate to severe learning difficulties) will be affected differently depending on their current housing situation.

Supported People funding can be assumed to continue – so long as individuals already have satisfactory housing, they are not likely to be directly adversely affected by the recession – at least in terms of housing.

Care leavers and adults on probation after leaving prison are always vulnerable and many do not get satisfactorily housed in the first place. The recession may not make this any worse, and if rents fall in the private sector it may even prove beneficial. The same is true for adults in contact with secondary mental health services.

Adults with learning difficulties are unlikely to be affected differently from those without such problems. If they are currently well housed in the social sector any effect will be limited, but if they are in unsatisfactory housing then they may need additional assistance.

Regional and local impacts

In regional terms the two main factors generating differential impacts will relate to the importance of the rental sectors in the region and the unemployment levels in different regions (Annex page 3 and also page 13).

This in turn depends on the sectoral employment base in the regions. At the present time the biggest reductions in activity and employment have been concentrated in manufacturing and it is the older industrial urban areas that are bearing the brunt. Of particular importance here is the vehicle industry where demand globally has declined massively and all parts of the sector are on

short hours or partial closure. This impacts not only on industries that supply the vehicle industry but also on services in these areas.

The second major sector that is leading the recession is the development industry – across industrial, commercial and residential sectors. Because of the emphasis on brownfield development this will also directly impact on urban areas but more so in the south and London. Demand into the longer term however is likely to remain lower in the North and Midlands where regeneration was often based on specific employment opportunities which may have disappeared or be displaced. At the present time almost all new development is underwritten by government (increasingly through the Housing and Communities Agency). This will impact on the location of the upturn –especially as the emphasis is inherently on finding near-viable schemes.

The third area of immediate concern is financial services and to a lesser extent business services. Financial services have been moving out of London for some years and it is the secondary urban concentrations that are likely to be particularly heavily hit. Business services are also likely to be badly hit over the next few years – and these are heavily concentrated in London.

Traditionally, London, as the most flexible market, suffers deeper recession than the rest of the country (although it recovers faster). However in housing terms in the last recession there were also concentrations of problems in neighbouring regions – notably the South East and the East. This spatial pattern could potentially be reinforced in this downturn because of the expansion of development into the greater south east.

The greatest negative impact on tenants, particularly private tenants, will be located mainly where rising unemployment is concentrated. This varies at a local and regional scale. Year on year to February 2009 the North East, the North West and the West Midlands regions have seen the largest increases in unemployment. In the last quarter the West Midlands has seen the greatest rise in unemployment (ONS, 2009). On the other hand, the latest evidence shows that the largest imbalance between job seekers and employment opportunities are in London and the South Coast.

Rising unemployment will lead to increasing rent arrears and possessions, an increase in homeless applications and a rise in local authority housing waiting lists. The recession has already seen an increase in reports of domestic violence to the police and increased calls to helplines for assistance with relationship breakdown.

The biggest direct impacts depend on the size of the sectors. Social housing is more heavily concentrated in the North and to a much lesser extent in the Midlands. The private rented sector on the other hand is heavily concentrated in London. The absolute effects will therefore be affected by the relative scale of the sectors in different areas.

The economic activity of a region and its capacity to recover are functions of skills, flexibility and investment. On all these grounds there are likely to be worse effects in areas that were already deprived, as they experience further job losses and, as seems likely, regeneration programmes are halted.

The housing safety net

The most obvious observations are:

- that housing benefit has continued to rise throughout the twenty first century and is likely to continue to do so more rapidly over the downturn period;
- homelessness has been falling fairly continuously for the last decade but is likely to start rising again both as a result of homeowners losing their homes and tenants unable to pay their rent. Indeed, anecdotal evidence suggests that homelessness applications have already started to increase in some areas.

There are four main stresses:

- a reduction in relets as people are less able to move on from social housing and the numbers of additional social units decline because of the downturn. This may be partially offset by the transfer of low cost home ownership (LCHO) properties to intermediate and social rental. But waiting lists have anyway been rising and any capacity from tenure transfers will be very limited as compared to the increasing demand.
- the shift from housing benefit to local housing allowance is likely to leave many households inadequately covered because they cannot adjust their housing and other expenditures rapidly;
- increasing administrative costs of managing homelessness, changes in benefit and private sector leasing. These are likely to rise rapidly, putting extreme stress on local authorities and tenants alike; and
- the costs of assisting tenants where the landlord has been unable to pay their mortgage and the tenant is evicted or the lease is not renewed.

All of these will, in turn, put additional strain on both national and local public finances.

The most immediate gaps are likely to be in

- the extent to which job seeker and housing benefits fall short of meeting the outgoings of the unemployed – resulting in rent arrears and evictions – and increased homelessness applications;
- the impact on higher income households arising from an increase in white collar, middle class unemployment. These households are far less likely to be eligible for social housing or benefits because of savings, but may not have the cash flow to cope effectively;
- the effect of two income households that lose one income but are still ineligible for benefits while having large outgoings that they cannot meet; and

- those just above housing benefit limits (or who have to pay additionally for services etc not covered by housing benefit) who will not have enough income to cover their other basic requirements.

Many of the problems may not arise from changes in housing circumstances but are the outcome of other commitments. However they will show up as housing problems, particularly in the form of rent arrears, evictions and insecurity.

Lessons from earlier recessions

The most important post war downturns include:

- the stagflation of the early / mid 1970s
- the structural readjustment of the early 1980s; and
- the financial crisis of the late 1980s and early 1990s.

Other smaller downturns include the late 1970s and the early twenty first century. In all of these periods real house prices and output levels fell significantly although nominal house price falls were restricted to the early 1990s and the current recession. If anything, social sector housing has traditionally been more pro-cyclical than private – except to the extent that specific initiatives, such as the Housing Market Package and the current purchases of private output by social landlords, have offset these underlying declines.

With respect to funding, the early/mid 1970s saw the government support bank lending, in part to offset other administrative constraints. In the early 1990s the emphasis was on persuading the banks to reschedule and otherwise support borrowers who could be expected to be able to pay in the longer term. This time the process has been more formalised within the self regulatory regime but includes both elements.

Rents

Some of the main impacts on the social rented sector have been in the context of rent controls. In the 1970s rents were controlled as part of the anti-inflationary policy. The major effect was to reduce local authorities' cash flow so that rents covered little more than operating costs (and in some cases not even these). Repairs and improvements were left undone and both the financial position of local authorities and the quality of public housing suffered. In the 1980s deemed rent increases continued to be restricted, incentivising the LSVT programme. In the early 1990s rents in the RSL sector in particular rose in real terms and were not controlled until the later part of the decade. In this downturn the first moves to reduce rent increases in the local authority sector have already been made. However the lost revenue will (at least in part) be offset by subsidy. The most likely medium term effect is that there will be further moves to sell off the stock to independent landlords as the finance market re-opens.

In the private rented sector rents until 1988 were controlled in relation to comparators. Thereafter rents on new lettings have been market determined. Rent increases were probably moderated in the early 1990s but the structural change in financing private renting that took place from the later 1990s is unprecedented. So far evidence suggests that rents rises have been suppressed by the expansion in supply since the turn of the century. In this downturn increases in demand from those unable or unwilling to move into owner-occupation are likely to be more than offset by lower demand as incomes become less secure and net migration declines. There is anecdotal evidence of increasing vacancies and market softening but in the main rates of return are being maintained.

Income related assistance

The main factor which has remained the same over the downturns since the 1970s is the safety net of housing benefit/local housing allowance. The generosity of the scheme has varied and there must be concerns about the impact of the local housing allowance structure in this downturn. But housing benefit undoubtedly provided a level of security for lower income tenants and landlords alike throughout earlier recessions and will continue to do so now.

Investment

The biggest differences between this and earlier recessions in both rented sectors lie in the levels of investment. The greatest difference lies in the tight interlinkages between market and social sector development. S106 was in its infancy during the last downturn and it had little impact on the social sector output. The Housing Market Package bought in new supply although there have been continuing concerns about the quality and suitability of much of the purchased stock. This time by the turn of the market perhaps 80 per cent of social sector output was linked to private output through S106 and the mixed communities agenda. Equally over 40 per cent of social output was in the form of low cost home ownership. The reduction in cross subsidy and the lack of capacity to attract individual household equity and borrowing power means that the majority of funding for new development must come at least initially from government. Grant rates are rising and the leverage associated with the very large scale funding available to the HCA has been much reduced. While housing associations can still borrow, terms and conditions are much tighter and renegotiations associated with new borrowing may increase overall borrowing costs. The short term 'bang for public buck' is therefore much reduced. This compares with earlier recessions when, starting from higher grants rates, reduction in prices led to reduced expenditure per unit.

In the short term the emphasis has shifted to increasing social rented output and to developing the intermediate rental market (at rents below market levels). Both entail higher subsidies. In addition there are moves to develop partnership working between the HCA, local authorities, HAs and private developers perhaps to introduce new sources of bond and long term finance into a registered private sector. Such moves have been part of earlier recessions but have not often been reversed once the economy recovered again.

In the private rented sector the major concerns relate to the stability of the Buy-to-Let market. This is an entirely new phenomenon as compared to earlier downturns. It is a currently held belief that

Buy-to-Let investment distorted the development market, reinforcing the move to smaller flats in urban areas and increasing the industry's dependence on up-front funding for cash hungry development. In the immediate future developers are looking either for up-front assistance with cash flow from the HCA or for more traditional build one/sell one techniques. The market for new Buy-to-Let properties is assumed to be much smaller at least in the short term until the overhang has been fully absorbed. Thus the near removal of private rented investment demand that was occurring in the upturn is seen as increasing the severity of the downturn.

The position with respect to existing Buy-to-Let investors is still unclear. The vast majority have reasonable asset and income cover for their borrowing but the scale of the high risk, over borrowed, group is unknown. The main problems as with earlier recessions is the rapid decline in transactions which makes it extremely difficult to sell assets to cover the outstanding debt. Any medium term significant increases in vacancy levels would increase the potential for large scale problems in the market. But so far the immediate difficulties seem reasonably containable – except in some areas of mixed development where there are calls for local authorities and HAs to play a role in stabilising the immediate locality.

Overall there is relatively little to be learned from earlier recessions except for the fundamentals of increasing demand for social housing; reduced capacity to pay in the private rented sector; and the value of housing benefit as an 'automatic stabiliser'. On the supply side the downturns always hit output but the importance of the S106 and mixed communities agenda make the system even more pro-cyclical. Finally, the government priority tends to be on maintaining the development industry rather than on broader housing goals.

The big differences in this downturn as compared to earlier ones, and they *are* big, are;

- the extent to which S106 and the mixed communities agenda means that investment in the social sector moves with the market. As a result the downturn is exacerbated and intervention has to be larger and more costly per unit to support the market;
- the transfer of stock into social and intermediate renting increases grant requirements and may mean that some stock is inappropriate. In the medium term there will be moves towards selling this stock back into the private sector;
- the rapid growth of Buy-to-Let investment during the last few years has distorted both what has been built and how it has been financed. In particular it has reinforced the S106 incentives towards smaller flatted units. This will make it harder for the development industry to readjust to a more suitable product mix;
- the growth of Buy-to-Let also makes the outlook for private renting less predictable. Some proportion was simply refinancing existing investment, but the majority involved new investment and new investors. As long as rental income does not fall precipitously and vacancy rates are low the market should remain buoyant. But the sector is more heavily dependent upon debt finance than in the past and is therefore more vulnerable to problems

in financial markets (and to lack of confidence). So some part of the market will be subject to distraint sales. This does not inherently put tenants under strain but there will undoubtedly be some additional problems and in the medium term some decline in investment;

- there are new rental 'products' which generate problems notably in the small but poorly regulated sale and leaseback element of the private rented sector. Here a proportion of ex-owner-occupiers are likely to be made homeless as a result of eviction;
- housing benefit acts as an effective safety net for those at the bottom of the income scale but is not built to support those higher up the scale who lose their jobs or incomes;
- the introduction of the local housing allowance is likely to mean that the safety net within the private rented sector will be less secure than in the past with negative implications for homelessness applications and for longer term investment in private renting;
- the biggest difference from earlier recessions so far, has been the near certainty of declining prices as well as declining incomes. This could put downward pressure on rates of return affecting financial viability and rent ratios; but
- this is good news from the point of view of tenants on benefits and those whose incomes are unaffected. As a result the majority of tenants should be relatively better off; and
- finally, the speed of decline has been unprecedented – which, of itself, increases uncertainty for everyone.

Learning from international experience

The main lessons from international experience relate to the benefits of effective safety nets; growing concern for the need for adequate social housing to address the housing requirements of vulnerable groups; increasing problems among excluded groups who have inadequate access to support; the importance of partnership relationships in development and regeneration; and concern about social cohesion. In this context European countries provide the most relevant examples¹. The experience in English-speaking countries such as Australia, Canada is more relevant to owner-occupation.

One area of particular relevance must be the German expansion of private finance in social housing. Here new sources of funding were made available during the recent upturn of the 2000s. These sources are likely to dry-up in the current environment raising major issues of how to ensure adequate investment in the existing stock. These problems are likely to be exacerbated by increasing vacancy rates in major industrial areas.

¹ *Social Housing in Europe I and II* edited by K. Scanlon and C Whitehead, published by LSE London and in part sponsored by DCLG provide fairly up to date information on European systems but do not directly address the recession.

A number of European governments are seeking to support the development of rented housing and to expand the role of social housing in response to the recession. France has the largest and in some ways best financed scheme – but other calls on the specialist funding available in France are also increasing. In the Netherlands the financially strong housing associations are being expected to play a greater role in funding regeneration and other investment. However, even though they have significant guarantees in place, they are finding it more difficult to fund these activities and are becoming more risk averse in their behaviour.

Only France among major nations has the stated objective of increasing the size of the social rented sector. In most other countries the emphasis has been on increasing the role of the private rented sector.

Most European countries are not as dependent as the UK on up-front cross subsidies from land and the private sector for regeneration programmes. However there is general concern that the economic viability of many of these schemes has been undermined.

The most general concerns probably relate to the problems faced by migrants and minority workers; their vulnerability; and the potential issues for social cohesion.

The UK's housing benefit scheme is in many ways more generous and more comprehensive than those in other European countries – as a result the UK scores highly in terms of addressing of housing specific poverty. However more general social security is less generous in the UK than in most of other Western European countries. As a result there are more households (and particularly more children) in poverty. Private tenants therefore remain highly vulnerable to the effects of the downturn.

3 IMPACTS ON PROVIDERS

In the main the impacts on providers have already been touched on in section II. This section simply summarises the 'story' in relation to each relevant stakeholder.

Local Authorities

The most immediate impacts will be on increased demand for social housing through larger numbers of homelessness applications and numbers on the waiting list. As important may be the further decline in exits from the social sector.

Administrative costs are likely to rise significantly not only directly as an outcome of increasing homelessness but also because of numbers of housing benefit claims and more variation in personal circumstances.

Additional resources will be required to address any homelessness demand that cannot be met from existing stock. The need for private leasing is likely to increase, putting further pressure on administration and resources.

Especially in London there is also likely to be an increase in migrants presenting as destitute which will further increase administrative costs.

There will also be higher demands placed on other local authority services including those associated with domestic violence, anti-social behaviour and potentially social cohesion. This will also impact on other local authority services.

On the supply side local authorities are being given certain powers directly to invest in housing. However these involve skills and additional resources which are unlikely to be readily available. The most likely outcome is therefore partnership programmes with developers, HAs and others that will take some time to come to fruition.

In terms of current investment programmes the underlying trend will be downwards – with lower investment in new housing; many regeneration programmes halted or slowed. This will generate some redundancies in relevant departments. However there will be pressure on planning departments to renegotiate S106 agreements and to support partners in restructuring development (and grant) to improve financial viability.

There are likely to be greater calls on the local authority's overview and enforcement powers with respect to the private rented sector as both landlords and tenants come under greater pressure.

Finally many of the government's initiatives, notably with respect to debt counselling, mortgage guarantees and adjusting housing circumstances involve local authorities in their implementation (and possibly funding). Local authority finances will suffer not only because of increased costs of running services but because of loss of revenue from fees (notably with respect to planning

permission) and reductions in capital receipts which are already having major impacts on the expected availability of funds.

Private Landlords

Private landlords are seeing their expected rates of return fall with capital values declining although rental returns are rising as prices fall more rapidly than rents. In some cases their business model has been undermined. However for those who are financially stable there is no reason to leave the market at this point.

There is likely to be both an increase in supply from those unable to sell property into owner-occupation and an increase in demand from those unable to buy. However some of this demand may not emerge as young people (and others) return to the family home and put off forming separate households. Equally, net migration may fall, reducing demand, especially in the capital. Corporate demand in particular is likely to fall.

There will be opportunities for cash rich investors to buy into the market, or to purchase properties for later sale into owner-occupation. These types of transactions (like land transactions) have little direct benefit to the economy as they do not involve the use of real resources.

There will be increases in possessions for Buy-to-Let investors who are unable to pay their mortgage as a result more of increased vacancies than falling rents. Rents would have to fall by at least 20 per cent before mortgage payments (even on fixed interest rates) could not be paid and some at least will benefit from lower interest rates.

Rent arrears will increase as unemployment increases and working hours decline. Many tenants will not be eligible for local housing allowance so evictions and their associated costs will also increase. Rent income will become more dependent on LHA and, as in earlier recessions, there will be landlords (and tenants) with little knowledge of the system who will need assistance to manage arrears and claims. This in turn may discourage landlords in the future.

To a significant extent the medium term impact depends not only on how rapidly the housing market recovers (so that there is the possibility of sale) but also on expectations with respect to future house prices and returns on alternative investments. None of these can be readily predicted. The chances are, based on earlier experience, that the size of the market will decline and that the conditions for longer term institutional investment at any scale (except perhaps with respect to new building) will not develop. On the other hand there is an overhang of property in some urban areas which is primarily small flats for private renting. This may continue to depress apartment prices for longer.

Housing associations

Housing associations face major pressure on demand as well as the increasing needs of existing tenants. Their administration costs are likely to increase as are the calls on their support services.

Rent arrears will increase among tenants who become unemployed and not all of them will be eligible for housing benefit. Administrative costs associated with benefit claims will increase.

Many of the impacts of the recession affect HA balance sheets. Capital receipts from LCHO have fallen and expected inflows will fall further. These have provided cross subsidy for other investment which now requires higher grant or other sources of funds. Boards are concerned about the risks associated with the future development of LCHO products – and in some cases with undertaking any new investment of this type.

New developments are not all being completed and planned investment levels have fallen precipitously. HAs are generally looking to the HCA to support any new initiatives at grant levels inevitably higher than in recent years.

On the other hand developers and the HCA are looking to HAs to take a larger share in new developments both through increased proportions of social renting and intermediate renting (including the possibility of mono-tenure developments). At the present time there is relatively little appetite for low-cost home ownership except through HomeBuy direct, even though there is evidence of demand in many areas. There is thus considerable pressure on HAs to play a role in leading recovery.

A proportion of HAs are cash rich and able to purchase land and appropriate dwellings. This is being supported by the government programme to reduce the development overhang. However there are concerns both about building standards and the suitability of much of the stock on offer for social renting. In part as a result of the experience of the early 1990s HAs are being (perhaps over) careful. Although many HAs have long term funding and available credit lines there are costs to new borrowing because of the potential for renegotiating terms and conditions. This is discouraging HAs from undertaking new investment.

Overall HAs are seeing a very different financial future and many are taking an extremely risk averse position. As a result the recession is likely to see many HAs withdraw from new initiatives back to their core activities as well as take a more conservative view on investment opportunities.

4 POLICY RESPONSES

In this section we discuss whether there any actions Government, local authorities and landlords should consider taking in the light of these impacts in the short and medium long-term.

There have been such a large number of initiatives over the past few months that probably the most useful approach is:

- monitoring to assess what is working (reaching target groups; generating take up levels, whilst not imposing excessive monitoring and implementation costs etc); and what expected/unexpected responses are occurring;

- simplification; and
- enabling local stakeholders and agents to adjust initiatives to local conditions.

Local authorities

The local authorities have a wide range of powers but not always the skills, knowledge and financial resources to employ them effectively. Moreover they need guidance on how best to use these powers in the current environment. Much of what is required however is to provide basic services as rapidly and in as customer-friendly way as possible. The first and most obvious response should be to increase administrative capacity to handle growing demands from homeless households; those claiming benefits; and those requiring financial and other information as quickly as possible. The objective must be to support individual decisions, make people fully aware of their options; and to deal quickly with changing circumstances.

One area with potential is to boost the Housing Options service which aims to offer a range of solutions that reduce the need for social housing and the chances of homelessness. This approach was developed in the context of a tight housing market and needs to be carefully updated in the light of the changing environment. The approach has not been fully monitored or evaluated so little is known about what works best. Good practice needs to be disseminated as quickly as possible.

A second important area is debt counselling and financial advice. Here central government has emphasised the role of the CAB and other advice agencies as well as social landlords. LAs need to support these initiatives financially and by helping to publicise availability. One possibility in this connection is to ask financial institutions to second specialist advisers (possibly for free). A particular concern must be to advise, and where possible, assist tenants who are unfamiliar with the benefits system and who may be eligible for direct assistance.

A third major area where local authorities have a core role to play is in reviewing S106 agreements. The evidence so far is that, even where there is funding and general agreement on the way forward, local authorities are either not prepared to agree any changes or are slow to respond. Most S106 agreements are likely to need some readjustment if development is to pick up reasonably rapidly. Government advice is necessary here but local authorities have the most immediate role to play. In the same context they also have a role in supporting HAs in grant applications.

A rather different role for local authorities, where past experience is relevant, is in identifying and licensing private landlords to provide suitable accommodation for those who are homeless but cannot be accommodated in social housing – including single people and intentionally homeless households who are in need.

Other potential approaches relate to the local authority's role with respect to the private rented sector. This includes providing rent deposit schemes to help people to adjust rapidly and assisting both tenants and landlords to manage rent arrears. In some areas there are particular issues for example with sale and leaseback with the local authority.

One core area where local authorities have increasing powers to expand their role in the medium term is in housing provision. The government is looking to local authorities to be more involved in new provision, notably through the allocation of land but also potentially as providers. There is anecdotal evidence that authorities are unprepared to release land where this could harm future capital receipts. Most are also not in a position to provide directly and will probably choose to act in partnership with HAs and developers. This is another area where additional government guidance may be required.

Local authorities also have considerable, but generally unused, guarantee powers. No-one wants to see them becoming banks but these powers could be employed to support shared equity and rental guarantee schemes and other ways of reducing the demand for social housing. Issues arise especially with respect to the need for independent financial advisers, so guidance is required.

Another area which is seen to have potential for both short and longer term benefits, where local authorities have powers, although often little allocated funding, is in the context of private sector improvement including energy efficient investment. Such programmes can be introduced quickly, use the local labour force and generate benefits to tenants and the community.

Finally, local authorities usually play the core role in regeneration programmes. Here the lack of cross subsidy, declining demand for retail and commercial property, and lower employment expectations are likely to undermine financial viability and to slow the regeneration process. This often means that the local population are suffering many of the costs but with the benefits disappearing into the future. It is generally the local authorities' responsibility to readjust the programme and to manage change in such a way as to limit these costs but maintain potential. This will almost certainly mean readjusting expenditures to concentrate on those aspects which are more likely to generate benefits in the short term (including in particular employment and local multiplier benefits).

Private Landlords

In the main private landlords will work to improve their own circumstances and will respond to rather than help initiate policy. From the government's point of view it is important that landlords support initiatives to maintain tenants in their tenancies wherever possible, which may for instance involve rescheduling payments, as well as ensuring housing benefit is paid to eligible households without delay. Landlords have an incentive to take part in such schemes if they can see it improves their rental stream.

Secondly landlords may wish to respond to the need for short term licensing for homeless or vulnerable households. This will usually involve contractual arrangements with the local authority and can provide a flexible supply of housing for short-term requirements. There is anecdotal evidence of private landlords coming forward to local authorities to offer such accommodation (even though more generally there is increasing concern about the extent of the safety net provided by local housing allowance).

The most fundamental change where policy initiative is possible is in the context of bringing in new finance through institutional investors, perhaps based on bond issues, as well as working in partnership with developers. Plans have now been put forward by the HCA and the London Development Agency for one particular scheme but any significant involvement is thought to require tax breaks to the investors and probably a registered landlord programme.

Housing associations

Housing Associations are generally extending their role as social landlords to provide information and support to their tenants and to implement effective management schemes for rent arrears and housing benefit. They can also be expected to expand their role in developing Housing Options and supporting training and employment schemes. Potentially, they can also play a major role in maintaining and expanding residential development. They can only do this in partnership with LAs, the HCA, the Tenant Services Authority, the financial institutions and developers. It is the role of government and its agencies to provide the framework to enable this development to be delivered.

One area where government could play a more effective role which would help HAs and take some pressure off social rented demand would be to simplify the range of shared equity schemes, ensure transparency and funding for those where there is excess demand. The emphasis should be on basic shared equity mortgage products as these have proved (a) more popular with prospective buyers, (b) more affordable than traditional shared ownership (unless the rental element were to be subsidised equivalently to social rents) and (c) they are acceptable to financial institutions in the current environment.

A major issue here relates to the potential role of traditional shared ownership products in the form of New Build HomeBuy and HomeBuy Direct. These are far more complex products and do not offer the same level of security to financial institutions. However, New Build HomeBuy is of very considerable importance to HA balance sheets. Moving forward effectively requires a joint approach from HCA, TSA, FSA and government.

Overall the need is not so much for new policy initiatives but to implement what is already available. The major gap in assistance is undoubtedly tenants whose incomes fall but who are not eligible for housing benefit. The major requirement is to maintain tenancies where possible.

Macroeconomic and possible negative impacts of these actions

The macro-economic impacts discussed here relate to:

- the loss of savings, particularly among private tenants
- the higher public expenditure costs of both social rental developments and housing benefit (as well as related services)

- the potential loss of flexibility arising from the uncertain future of the private rented sector and in the use of the social sector stock.

These are now considered in turn.

- Loss of savings: Those private tenants who lose income will have to run down their savings to pay rent (and other necessities) until they are eligible for benefits. This will make it more difficult to enter owner-occupation when their circumstances improve, impacting negatively on housing market recovery;
- Public spending costs: Higher grant rates mean that public expenditure will purchase fewer units; lower capital receipts will also have a negative impact in terms of reduced value for money and higher public expenditure. Housing benefit payments can also be expected to rise significantly especially because of the higher proportion of private tenants;
- Loss of flexibility: Mobility generally falls during recessions, negatively impacting on productivity. Moreover risk aversion and credit constraints will make it difficult to move out of renting. Private landlords are likely to take a less positive view of capital gains and rental risks so some may exit the market.

On the other hand there are potential benefits associated particularly with land purchase, possibly more stable longer term house prices (although in the short to medium term they are likely to be more volatile) and the potential for a more stable private rented sector looking for rental returns rather than capital gains. However these will all require a well-managed recovery.

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APPENDIX

RENTING IN THE DOWNTURN – THE SUPPORTING EVIDENCE

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1. Housing tenure

In 2008 there were an estimated 14.6 million owner occupiers in England (68.3 per cent of the total – down from 69.6 per cent in 2007), 3.8 million social renters (17.7 per cent – unchanged) and 3.0 million private renters (13.9 per cent – up from 12.7 per cent in 2007).

The proportion of owner occupied households remained steady at around 70 per cent throughout the last decade but the 2008 estimates suggest that this has now declined to 68.3 per cent.

The number of households in the social sector reached a peak of around 5.5 million in 1979 but there was a substantial decline in the 1980s as a result of 'Right to Buy' purchases by sitting tenants. Numbers continued to decline at a slower rate until 2005, since when there have been modest increases, although the proportion of households in England who are social tenants has remained steady at 17.7 per cent.

The number of households renting privately has increased substantially over the last decade from two million in 1998 to three million in 2008. This recent surge may be due to a combination of factors: the flexibility offered by private renting; affordability issues; increased supply due to the availability of 'buy-to-let' mortgages in recent years; and, during the past year, owners choosing to let out properties instead of trying to sell them in a difficult housing market.

Figures on tenure over the last ten years for those households with a household reference person (HRP) aged less than thirty shows a clear upward trend in the proportion of such households renting privately, rising from 31 per cent in 1999 to 45 per cent in 2008. Conversely the proportion buying with a mortgage fell from 43 per cent in 1999 to 32 per cent in 2008. These changes are likely to be a reflection of the high house prices over this period and the associated affordability problems which younger households have faced.

Source: Survey of English Housing (SEH) Preliminary Report 2007-08

<http://www.communities.gov.uk/documents/statistics/pdf/1133551.pdf>

2. Homelessness

See CLG Live Table 622 Statutory Homelessness: Homeless households in priority need accepted by local authorities, by Government Office Region and Live Table 637: Statutory Homelessness: Decisions taken by local authorities under the 1996 Housing Act on applications from eligible households.

<http://www.communities.gov.uk/documents/housing/xls/141752.xls>

<http://www.communities.gov.uk/documents/housing/xls/Table-637.xls>

These show that homelessness has been falling steadily over the past decade,. However, the latest figures relate to the last quarter of 2008. Anecdotal evidence suggests that homelessness has been rising again in the first quarter of 2009.

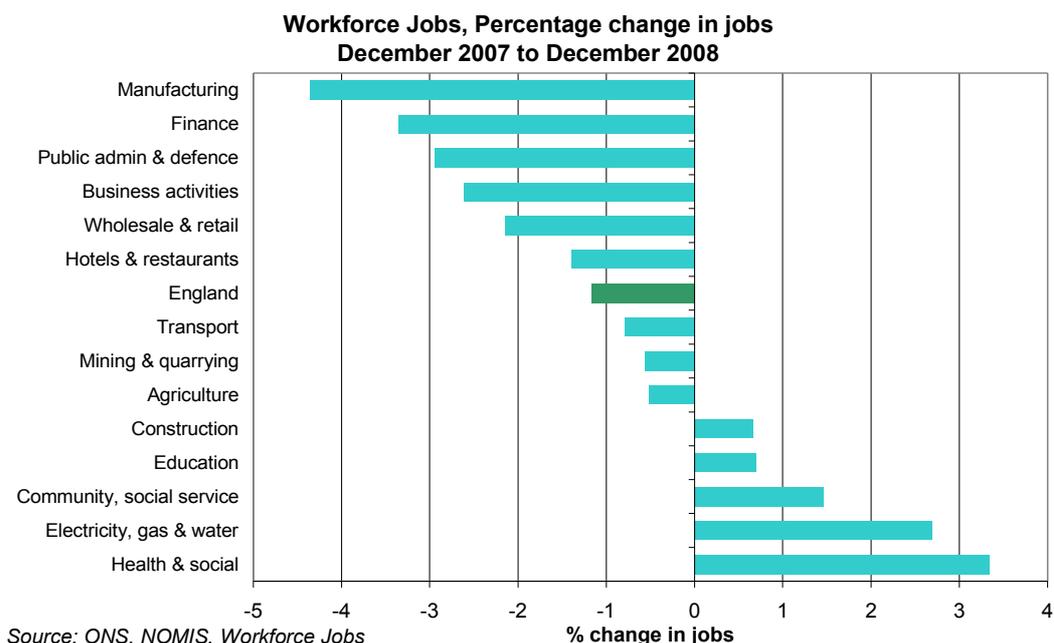
3. Economic activity by tenure

The table below shows that unemployment is significantly higher among social renters than other tenures. So are the retired and other inactive categories.

							Thousands
Tenure	Full time	Part time	All working	Unemployed	Retired	Other inactive	All households
Own outright	1,708	705	2,414	55	3,733	381	6,583
Own with mortgage	6,666	574	7,239	72	234	227	7,772
All owners	8,374	1,279	9,653	127	3,967	608	14,355
All social renters	916	353	1,269	234	1,149	1,107	3,759
All private renters	1,726	286	2,012	115	265	471	2,863
All tenures	11,016	1,918	12,933	477	5,381	2,185	20,977
							Percent
Tenure	Full time	Part time	All working	Unemployed	Retired	Other inactive	All households
Own outright	26	11	37	1	57	6	100
Own with mortgage	86	7	93	1	3	3	100
All owners	58	9	67	1	28	4	100
All social renters	24	9	34	6	31	29	100
All private renters	60	10	70	4	9	16	100
All tenures	53	9	62	2	26	10	100

Source: Survey of English Housing Preliminary Results 2007-08

4. Employment change by sector



This graph shows that all sectors except construction, electricity gas and water and some of the public sector lost jobs in the last year. While construction is likely to be hard hit by the recession, this takes time to bite as developers' initial response is to build out everything that had started which can mean taking on additional labour. The same is true in the utilities sector where major projects are being completed. The public sector also takes time to shed jobs – public sector cuts have not yet been announced following the recent budget (April 2009).

5. Household income by tenure

The table below (table 7 in the 2007/08 preliminary results) shows household incomes in the main tenures. Social renters are significantly poorer than the rest.

Table 7 Gross income of household reference person (& partners) by tenure, 2007/8 (thousands)

Tenure	Under £5k	£5k but under £10k	£10k but under £15k	£15k but under £20k	£20k but under £30k	£30k but under £40k	£40k but under £50k	£50k or over	Total
Owned outright	143	882	917	733	978	529	322	520	5,024
Buying with mortgage	71	201	399	480	1,302	1,307	964	2,032	6,756
All owner occupiers	214	1,083	1,316	1,213	2,279	1,836	1,287	2,552	11,779
All social renters	440	1,414	690	332	367	136	57	31	3,466
All private renters	194	365	347	238	432	303	127	211	2,217

All tenures	848	2,862	2,353	1,783	3,078	2,275	1,471	2,794	17,463
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(percent)

Tenure	Under £5k	£5k but under £10k	£10k but under £15k	£15k but under £20k	£20k but under £30k	£30k but under £40k	£40k but under £50k	£50k or over	Total
Owned outright	3	18	18	15	19	11	6	10	100
Buying with mortgage	1	3	6	7	19	19	14	30	100
All owner occupiers	2	9	11	10	19	16	11	22	100
All social renters	13	41	20	10	11	4	2	1	100
All private renters	9	16	16	11	19	14	6	10	100
All tenures	5	16	13	10	18	13	8	16	100

Source: Survey of English Housing Preliminary Report 2007/08, CLG

6. Proportion of younger households by tenure

In 2008 the proportion of younger households (with Household Reference Person (HRP) aged under 30) buying with a mortgage was 32 per cent and the proportion who were private renters was 45 per cent. This compares to 40 per cent buying with a mortgage and 33 per cent renting privately in 2001 (Survey of English Housing Preliminary Results 2007-08).

7. Household moves

Over two million households had been resident at their current address for less than one year. Forty per cent of private renters had moved during the previous year compared to just three per cent of outright owners. Movement within sectors was more common than movement between sectors. Forty-seven per cent of all newly-formed households had moved into the private rented sector, 34 per cent into owner occupation and 20 per cent into the social rented sector (Survey of English Housing Preliminary Results 2007-08).

8. Buying aspirations

In 2007-08, 24 per cent of social renters and 56 per cent of private renters said that they expected to become homeowners eventually. Of these, 28 per cent of the private renters said they expected to buy within the next two years, compared to 12 per cent of the social renters. (Survey of English Housing Preliminary Results 2007-08).

9. Assured shorthold tenancy rents

Since the 1988 Housing Act introduced the concepts of Assured and Assured Shorthold tenancies (see Definitions) and ended the creation of new Regulated tenancies, Assured Shorthold has become the most common form of tenancy. In 2007-08, 67 per cent of all private tenancies were Assured Shorthold and Regulated tenancies accounted for only four per cent of all tenancies. Eleven per cent

of tenancies were not accessible to the public, for example accommodation tied to employment or rented only to family or friends.

The average 'free market' rent (i.e. rent for property accessible to the public without special conditions) in 2007-08 was £134 per week (this is the average for 'all assured' tenancies). The mean for Assured Shorthold tenancies was £136 a week and for other assured tenancies £126 a week. For the small number of remaining Regulated tenancies the average rent was £85 per week (table 11). For those tenancies that received Housing Benefit the mean weekly rent before Housing Benefit in 2007-08 was £113. The mean amount that these tenants paid after Housing Benefit was £31 per week.

10. Housing benefit take-up by tenure

Figures on housing benefit take-up by private renters show an increase in the last few years, from 719,000 in 2002 to 923,000 in 2007. There was also an increase in housing benefit take-up among housing association renters, from 1,056,000 to 1,485,000 over the same period (UK Housing Review, 2009, table 116). This meant that 67 percent of HA tenants are in receipt of housing benefit, up from 62 percent in 2001. (Survey of English Housing Preliminary Results 2007-08).

The DWP provides estimates of take-up rates by those eligible for housing benefit and for council tax benefit, by tenure. This shows that social renters are more likely to take up these benefits than private renters. In 2006/07 the range was 91-96 percent of social renters for housing benefit, compared to 72-83 percent of private renters; and for council tax benefit, the estimates were 89-95 percent for social renters and 68-81 percent for private renters. Owner occupiers can be eligible for council tax benefits but the range of take-up was only 41-48 percent of those eligible.

11. Benefit take-up by region

A regional breakdown of those in receipt of benefits by tenure at May 2007 is given below:

	Local authority tenants	Housing association tenants	Private tenants	All
North East	104	77	46	227
North West	148	243	128	518
Yorkshire & Humber	157	120	75	351
East Midlands	126	64	53	243
West Midlands	148	146	75	368
East of England	110	120	70	300
London	323	228	143	693
South East	119	177	118	415
South West	77	119	90	286
England	1,310	1,294	797	3,402

Source: UK Housing Review, 2009

12. Earnings levels at which HB entitlement ceases

Those who are likely to be the most vulnerable to financial hardship in the recession are those whose incomes are just above the level at which housing benefit entitlement ceases. The table below illustrates this for April 2007 (2008 for lone parents).

Gross weekly earning levels at which HB entitlement ceases

£ per week	HB allowance	Earnings disregard	Rent levels							
			£50	£60	£70	£80	£90	£100	£110	£120
Single person >25	60.50	5.00	<i>157</i>	<i>179</i>	193	245	269	291	314	336
Couple >25	94.95	10.00	<i>214</i>	<i>236</i>	212	263	314	349	371	393
Lone parent, 1 child	129.84	25.00	<i>95</i>	<i>110</i>	<i>141</i>	199	250	301	352	404
Lone parent, 2 children	182.43	25.00	<i>94</i>	<i>110</i>	<i>141</i>	199	250	301	353	404
Couple, 1 child	164.29	10.00	<i>115</i>	<i>154</i>	212	264	315	366	417	451
Couple, 2 children	216.88	10.00	<i>115</i>	<i>155</i>	212	164	315	366	417	469
Couple, 3 children	269.47	10.00	<i>115</i>	<i>155</i>	212	264	315	366	418	469
Couple, 4 children	322.06	10.00	<i>115</i>	<i>155</i>	213	264	315	366	418	469

Source: UK Housing Review, 2009

Notes to table: Figures are for cases without child care costs eligible for assistance under the working families tax credit scheme.

The housing benefit and earnings disregards are set against net earnings (and child benefit) and tax credits. For consistency all figures assume an adult working 30 hours or more per week, unless this implies earnings below the minimum wage at April 2008 (£5.52 per hour)

The cases based on an adult working less than 30 hours per week are shown in italics.

For single people and childless couples working less than 30 hours it means they do not qualify for working tax credits, and this has a significant impact on the earnings level at which they cease to qualify for housing benefits.

13. Findings from LCHO research by CCHPR 2008/9

- Social housing and intermediate housing being developed on some schemes whilst the market housing is mothballed.
- Some HAs changing the tenure of what were meant to be LCHO units to intermediate rent.
- Some developments have not been completed, are partially unfinished or have been placed on hold. These HAs may see a fall in supply.
- Concerns about falling revenues from sales/staircasing and the impact on the ability to cross-subsidise social rented housing

- Likely to be less move on from the social rented sector. Whilst it was hoped LCHO would enable social tenants to move into owner occupation, it is now only those on the higher incomes in the eligible group that are buying LCHO.
- All HAs have been offered units by the major housebuilders, but these are often of too low standard and in inappropriate locations and cannot be brought into the social rented sector or sold as LCHO by HAs.

14. RICS report on the buoyant PRS

The rental market is buoyant as a result of households needing to move but being unable or unwilling to sell due to falling house prices and a stagnant market. The implication is that these households will move out of the PRS as soon as the market picks up and they are able to sell their properties. Households who want to buy/sell are moving into the PRS as an intermediate move until house prices begin to recover and mortgage finance is more readily available.

As for supply in February 2009, the stock of unsold property on surveyor's books fell from 75.3 to 69.5 in February. Stocks are now 23.4% down on year ago levels (this time last year they were up by 48.2%). Stocks levels have been falling over the last year because vendors have turned to the rental market, opting to let their properties during the current climate. Falling stock levels also coincide with falling new instructions, which declined for the second consecutive month and quite significantly so (although not as sharply as in January).

The main trend is for vendors to place their property into the rental market to derive an income to cover their mortgage and allow them to move. Those people renting are staying put and those people lucky enough to sell are in part (probably 40/50%) moving into rented accommodation. They are keeping a watching brief on the sales market and will move in when they think the time is right and are renting while waiting for the market to reach its "bottom". The few active house hunters were invariably not dependent on the sale of another property and were either living in rented property or did not need to sell in order to buy.

There has been some interest in buying property for BTL investment, mainly from cash investors. Some RICS members reported in February 2009 that low interest rates on savings have led to an increase in demand for low value investment rental property. One RICS member in London reported that due to the market having come down by 15-30%, and the pound weakening against the euro, European buyers are much more active. There is plenty of cash around as people are worried about investing it in the stock market and banks are not giving a good rate on savings, so are looking for alternative investments. This is especially the case in South Kensington which is a strong rental area, being so well located for public transport. Another RICS member reported that keenly priced property is attracting cash buyers out of their rented properties. Lower interest rates make investment in easily let property look attractive and there are quite a number of "bottom feeders" looking for bargains.

Low interest rates are also encouraging some households who decided to rent rather than purchase to move back out of the PRS into owner occupation. One RICS member reported that they are witnessing many family buyers who are currently renting, coming to the market as their savings are now getting a negative real interest rate.

February 2009 saw an increase in interest in properties for sale with an increase in enquiries nationally. RICS members reported that those who have moved into rented accommodation over the last two to three years are now being attracted by appealing, lower, asking prices. The main inhibitor of sales is the lack of mortgage finance.

Source: RICS September 2008 and February 2009

http://www.rics.org/NR/rdonlyres/83AF2FD7-95CC-4140-A2A8A590A7AD7B41/0/hms_0908.pdf

http://www.rics.org/NR/rdonlyres/B5130F9D-B14F-4246-9AC4-437EEA544EDF/0/hms_0209.pdf

15. ARLA Review – Buy to Let Investors do not intend to sell

Buy to Let landlords are continuing to take the long view over their property investments. They expect to hold them for up to 20 years and, even if house prices continue to fall, they do not intend to sell. ARLA believes that it is these investors who are maintaining the core growth in the private rented sector and providing the housing solutions for people during the recession.

The proportion of investment landlords who do not expect to sell during the next twelve months has risen sharply from 77% to 88%.

Instead, the annual life expectancy of residential property investments averages 16.3 years, with more than one in five investors expecting to maintain their investments for over 20 years.

These investors report an average Loan to Value ratio across their portfolios of 56%. Only a third estimate their Loans to Value at more than 76%.

The average rate of return on a Buy to Let investment over the past five years is 10.59% for an outright cash purchase and 21.54% for a mortgage-backed investment.

These results were revealed in the latest quarterly ARLA Review and Index, published today, January 12 200. The data is drawn from 488 lettings offices and 328 Investor landlords. This represents the largest independent survey of its kind in the private rented sector.

Landlords are now reporting that immigration from the new European Union countries is having less effect on the rental market than before. The proportion saying that immigration has some effect is dropping, while the proportion who believe that immigration now has a minimal or no effect is rising.

Meanwhile, three quarters of all landlords are waiting for their next tenancy change before getting their now mandatory Energy Performance Certificates. However, 95% are aware of the requirements for tenancy deposit protection.

The data for the fourth quarter ARLA Review and Index was collected during November 2008. The surveys of lettings offices and investment landlords are supported by the ARLA Group of Buy to Let Mortgage Lenders: Bank of Ireland Mortgages, Cheltenham & Gloucester, GMAC RFC, Mortgage Express and Paragon Mortgages.

The Review & Index and all surveys can be downloaded from <http://www.arla.co.uk>

Source: Buy to Let Investors Provide Recession's Housing Solutions - ARLA Review
<http://www.prnewswire.co.uk/cgi/news/release?id=246165>

16. Buy to Let Repossessions

CML Arrears and possessions in 2008 - February 20 2009 <http://www.cml.org.uk/cml/media/press/2108>
<http://www.telegraph.co.uk/finance/personalfinance/investing/4735440/Buy-to-let-repossessions-advice-and-reaction.html>

20 Feb 2009

Melanie Bien, Savills Private Finance

Historically, far fewer buy-to-let properties tend to be repossessed than residential homes as the vast majority of landlords are professional and treat their rental portfolio as a proper business. Inevitably, however, the number of repossessed buy-to-let properties has increased as the economic downturn takes hold, with tenants defaulting on their rent payments and inexperienced landlords unable to cope with void periods struggling to sell their properties quickly.

Ian Potter, operations manager of Association of Residential Lettings Agents

The contraction in the buy-to-let market will have a very significant impact on the availability of housing stock for the population at large. For some time, the Government has relied on the buy-to-let market to support its housing plans, but with mortgages increasingly hard to come by that policy is now under threat.

Buy-to-let investors are often seen as the "lucky few" who can invest during a difficult time for us all. But the simple fact is that they are supporting a rental market which has expanded out of necessity since before the downturn, as households were choosing to rent as a matter of choice. Without buy-to-let stock coming onto the market, then we will face a housing shortfall in certain parts of the country that threatens our ability to accommodate the UK's ever-increasing population.

Once again, ARLA calls upon the Government to take action to free up the hamstrung lending process, to ensure that people now and in future generations have roofs over their heads.

Simon Gordon, National Landlords Association

The number of buy-to-let mortgage repossessions doubled in 2008, but we are still only talking about less than 1 per cent of the 1.15 million buy-to-let mortgages out there at the moment.

The real issue is the big increase in the number of buy-to-let mortgages in arrears. The recession is difficult for everyone and those speculative investors who decided to try to get rich by dabbling in buy-to-let are now finding themselves overstretched. 71pc of our members think that rent arrears are going to increase in 2009, and that could be one problem too many for these short sighted buy-to-let investors.

What we are seeing is the buy-to-let market go back to its 2004/2005 size, with half of the new buy-to-let mortgages in 2008 being taken by long-term professional landlords who were remortgaging their properties to take advantage of better interest rates.

The number of buy-to-let mortgages rose by 50 per cent in 2006 to 330,000, according to the Council of Mortgage Lenders.

22nd November 2008

<http://www.dailymail.co.uk/news/article-1088146/Buy-let-boom-turns-nightmare-repossession-hotspots-revealed.html>

Soaring numbers of buy-to-let investors have fallen behind with their mortgage and face losing their property, official figures revealed yesterday. The figures, from the Council of Mortgage Lenders, show a rise of nearly 50 per cent in defaults for these mortgages.

Britain's 1.1million buy-to-let loans.

Borrowers are trapped between falling rents and over-supply of rental properties. Many properties are now sitting empty. The biggest worry surrounds the amateur investors who own one or two properties but have no experience of recession. With repayments they cannot afford, a fight to find tenants and a problem remortgaging, prospects are bleak. And the collapse of Bradford & Bingley, the country's biggest buy-to-let lender, has added to their woes.

The CML figures show 18 000 have fallen at least three months behind with their mortgage - up 49 per cent in just three months.

<http://news.bbc.co.uk/1/hi/business/7900854.stm>

20 February 2009

The past year has seen a sharp deterioration in the position of buy-to-let landlords who still have a mortgage to repay. In 2007, they were thought to be suffering less than the average homeowner from the effects of the credit crunch. But the CML's figures reveal that arrears among buy-to-let borrowers are now worse than among homeowners generally. Landlords have found rent levels squeezed as home owners who cannot sell their homes decide to let them to tenants instead.

Buy-to-let loans make up 10% of the total number of mortgages, but now account for 12% of all mortgages which are three months or more in arrears - a dramatic worsening of their position in the past 12 months. Last year, 4,000 buy-to-let properties were repossessed, twice as many as the year before and amounting to 10% of all the homes seized by lenders, up from 7.7% in 2007. Lending to would-be landlords is also declining sharply, with 36,700 new mortgages granted in the last three months of 2008, a fall of 56% over the same period the year before.

17. Demand for Social Housing

The recession will probably lead to a surge in demand for social housing, as more people lose their jobs and cannot afford mortgage repayments or private rent rates

Survey by the Local Government Association, Improvement and Development Agency and SOLACE.
Jan 09

The report shows a rise or an expected rise in:

- People applying for housing benefit in nine out of ten of council areas
- Homelessness in eight out of ten council areas

The report shows a fall in:

- Planning applications in three in five areas
- Large-scale construction projects in almost four out of five areas, with a lack of developers' finance the main reason given.

January 26th, 2009

<http://www.publicnet.co.uk/news/2009/01/26/social-housing-need-continues-to-grow/>

Despite the continued expansion of the housing market in 2006 to 2008 the demand for social housing grew by 100,000 households in the year ended April 2008. There are now almost 1.8million households, or 4.5million people, on social housing waiting lists. The recession will drive demand for more social housing and the Local Government Association is concerned about the impact on local councils.

Because the social housing provision was unable to match demand in favourable economic conditions there are growing fears that the situation will deteriorate rapidly during 2009 as mortgage lenders are unable or unwilling to provide finance. The result is likely to be that many thousands more people will be looking to councils to provide them with a permanent home as they either find it impossible to get on the housing ladder, unable to afford private rented housing or see their home repossessed.

18. Rent retention by councils could be used for housing

The Government target is to build three million homes by 2020, but the National Housing Federation believes it cannot be achieved before 2029. It was announced last week that barriers that deter councils from building new houses will be removed. Councils will be able to retain rental income and capital receipts from any council home sold under the Right to Buy. Rent retention could mean an additional 450 million pounds per year for councils to invest in better homes for their residents and retaining capital receipts could provide an extra 1.5 billion pounds that could fund new affordable homes.

The Local Government Association has called for flexibility in central government housing grants that will allow councils to keep home building going during the economic downturn. This will help tackle rising housing waiting lists and make sure the skills are still there to provide the homes needed when the market recovers.

19. Government responses to the crisis

These include:

- The government's mortgage rescue scheme, enabling housing associations either to take a share in the equity or to buy the property outright and rent it back to the former owner, which is being delivered through local authorities. This is for "priority need" households such as people with dependant children, the elderly, or those with a disability.
- Local initiatives from some local authorities, which vary considerably in type and scope, but are designed to give local home owners a breathing space through short term difficulties.

20. The 1990s recession recovery

<http://www.jrf.org.uk/sites/files/jrf/h190.pdf>

S. Wilcox, 1996, Housing Research 190

Very limited growth in the private rented sector

The resurgence of the private rented sector in the early years of the 1990s had slowed to a trickle by 1996, partly as a result of the gradual outflow of properties that had previously been rented out temporarily because of the housing market recession.

Depressed public investment

The weakness of both economic performance and public finances in 1995, to which the workings of the housing market contributed, led to further pressures on government spending plans. Although housing associations have succeeded in raising private finance to supplement capital grant from the

Government, the 1995 Budget still cut back on the housing association grant for 1996/97, and further cuts are planned in the two following years. Funding for housing association investment in real terms in 1996 was running at little more than a third of its peak level in 1992/93.

The output of new housing association rented homes was therefore also expected to decline substantially in the years ahead, at the same time when the private rented sector could not be relied upon to provide any further significant growth.

21. Regional differences

The private rented sector in England makes up 12 per cent of the housing market, social housing is 18 per cent and owner occupation is 70 per cent. But pressure on the private rental market is growing as 1.7m households wait for social homes and first-time buyers struggle to join the property ladder.

Of course the situation varies across the country and often it requires two or three local authorities to work together to identify how housing markets work across authority boundaries."

The different local profiles of the private rented sector is adding to the confusion. In Blackpool in 2001, for example, housing benefit lets constituted 70 to 80 per cent of the rental market, while in central London between 50 and 70 per cent of rented homes are occupied by managers and professionals. Buy to let dominates in Cardiff and depending on where you are in Leeds corporate lets, student housing or benefit lets dominate the local market. Rural tenants are more likely than their urban neighbours to be renting from an employer, while a shortage of suitable rented homes is forcing single people to abandon the countryside for towns and cities.

Stephen Battersby, president, Chartered Institute of Environmental Health (CIEH)

<http://www.cieh.org/ehp/ehp3.aspx?id=16300>

December 2008

22. Differences between cities

Cities Outlook 2009, from research and policy institute the Centre for Cities, pinpoints the UK cities most exposed to the effects of the recession and least well placed to weather job losses and business closures during the coming year.

Cities Outlook ranks the economic performance of 64 of the UK's largest cities and towns, drawing on data from the most recent releases from government sources. This year's index includes an overall economic prosperity index, social deprivation index and built environment index.

The report suggests that, while the impact of the deepening recession is now being felt in every city, it will play out very differently across the UK during 2009. Leeds, Brighton and Bristol together, it says, could lose over 5% of their jobs over the next three years.

Meanwhile, research commissioned by the Sunday Times from the Centre for Economics and Business Research (CEBR) has found that some parts of the UK are now so dependent on government funding that the private sector is generating less than a third of the regional economy. Northern Ireland tops the list, with the proportion of regional GDP derived from state spending standing at 77.6%, followed by Wales at 71.6%. At 36%, the South East is the region that relies least on the public sector.

Regional differences in impact of recession - claimant counts have jumped significantly in places as diverse as Gloucester and Barnsley, while remaining relatively constant in Aberdeen and Cambridge.

Even before the current problems in housing and credit markets the Government would have struggled to meet its target for 3 million new homes by 2020. The target is now impossible to meet, and we argue that it should be extended to 2025. Moreover, we believe that the Government's house building targets, focused on increasing owner-occupation and affordable housing, are missing a trick – by overlooking the role of the private rented sector in the UK as a means of developing cities' +infrastructure and supporting labour market flexibility. The Centre for Cities has been heavily engaged in the debate, feeding into government reviews, and producing a report 32 which brought together views of a range of experts on how to expand the private rented sector and raise quality standards across the country. And with Housing and Economic Development 33 we have directly advised the new Homes and Communities Agency on how to link housing growth to local economies.

Source: <http://www.centreforcities.org/assets/files/Cities%20Outlook%202009.pdf>

23. Local Authority Responses – housing and the recession

Example – Camden Housing and Adult Social Care department response

6th February 2009

The effects of the financial crisis are being felt in the Camden economy. The number of people claiming Job Seeker's Allowance has increased from 3781 in April 2008 to 4366 in December 2008. The rolling four-week average for new housing benefit claims has shown a steady increase from 144 to 165 between August and late November 2008.

The Council is working through the Local Strategic Partnership to ensure we are ready for action to help our residents, communities and businesses as the effects of the recession become clearer.

The HASC directorate has developed its own set of indicators, several of which are included in the corporate dashboard. For example, the number of homelessness acceptances will be monitored, as

will any increase in street population and/or any increase in the number of care packages for elderly residents.

Who are in rent arrears or struggling to pay rent: it is likely that some people in rented accommodation of all tenures will struggle to pay their rent. Those whose income or circumstances have changed for the worse can get advice from the Council's Benefits Service to see whether they qualify for financial assistance. Camden's in-house housing options service will continue to provide a range of services to help people stay in their home by resolving disputes with landlords or find a home through guaranteeing deposits. Council tenants in rent arrears should contact the rent service where if appropriate, they can be referred for advice from the district based welfare rights advisor.

On the council's waiting list for housing: the economic downturn is likely to further increase demand for social housing. The Council is working hard to make best use of its limited stock. Our new Tenants' Options Fund launched in June 2008 makes it easier for tenants in under-occupied properties to downsize, move to private rented sector or buy their own homes. With the possibility of slower turn-over in rented housing as renters stay put, the Overcrowding Team is working with overcrowded households to help families make better use of existing space in their home (and so improve quality of life).

Decent homes/estate regeneration: Camden is continuing to monitor disposals of properties under the 'Investing in Camden's Homes Strategy' to ensure sufficient receipts are generated for investment in council-owned housing. Additionally, we are exploring possible models for using housing/council land to develop housing such as estate regeneration.

Delivery of affordable housing. The Council is developing more robust mechanisms for acting on the intelligence received by planners and housing staff about housing schemes going through the planning system. A 'risk schedule' of schemes will be drawn up to identify schemes that are at risk of being abandoned or delayed because of the downturn in the house building industry. The Council will try to support failing schemes to get back on track. The Council's offer could include a review of section 106 requirement or supporting RSL bids for more grants. We are working closely with the new Homes & Communities Agency to maximise future new supply and will remain alert to changes to future funding for housing supply, such as the review of the HRA, as these will affect the operating environment.

24. Local Authority Responses – housing and the recession

Example - Ellesmere Port and Neston Borough Council 2 December 2008

The council undertakes the following activities:

- Support for CAB
- Housing Advice – the council operates a Housing Options service providing comprehensive advice to people whose housing situation is uncertain. This includes liaison with families,

referrals to supported housing, access to private rented housing, rent deposits and homelessness prevention grants.

- In the longer term the council has been successful, in partnership with Chester and Vale Royal in being included on the Housing Options Trailblazer programme which will bring in £240,000 over 2 years to develop an enhanced housing options service.
- Floating tenancy support scheme run by Stonham Housing is targeted at tenants with rent arrears problems
- The council has been selected by the Department of Communities and Local Government (CLG) to fast-track their mortgage rescue scheme.
- Referral routes are being set up and suitable people identified. Involves close working with money advisers and RSLs. This will begin in January 2009.
- We have been successful in attracting funding from CLG to offer an enhanced housing options service for people who are homeless or threatened with homelessness. The main features are initiatives to help support people into employment and to tackle worklessness amongst this group. The scheme will begin across Cheshire West and Chester in April 2009.
- The council liaises closely with support agencies such as CAB, Stonham Floating Support, SSAFFA, Age Concern, etc.

Possible additional areas of activity:

- There is a projected underspend of £14,000 on homelessness administration as a result of the reduction in the use of bed and breakfast accommodation. This money could be utilised on homelessness prevention options.
- Run a publicity campaign to publicise more widely the advice/assistance that we and the other agencies can give and the contact details.
- Run a campaign to promote the take up of welfare benefits
- Enhance the above points by joint 'surgeries' involving housing advice, housing benefits advice welfare benefits advice, CAB, Stonham, SSAFFA, etc. including also the utility companies if they will join in. (Possibly using the Oscar bus)
- Provide a free phone number for residents to contact the council if in difficulties with rent, council tax, mortgage arrears and take a more holistic approach to those with multiple debts
- Enhanced support for CAB – officers to meet CAB and discuss?

Further possible additional areas of activity

- Report going to Housing Committee on Thursday seeking approval of use of section 106 money to purchase empty properties to be available to a RSL for social renting.
- Report going to Housing Committee on Thursday seeking approval for the reduction of the eligible age limit for energy efficiency grants from 65 to 60.
- Using accumulated s106 Planning monies in partnership with an RSL to bring back into use, for social rented housing, long-term empty houses. A report is on the Housing Committee agenda for 27th November 2008. If additional resources can be found this idea can be easily expanded.
- Supporting bids from RSLs and Developers to the Housing Corporation for grant funding to improve the delivery of affordable housing and access to the housing market.
- Developers helping first-time buyers through HomeBuy Direct. The Housing Corporation taking a 30% equity stake in new build properties.
- RSLs obtaining grant funding to convert existing shared ownership properties into social rent
- The Council disposing of land it owns to allow the development of social rented housing
- Reduced charges for council services (e.g. pests, cemeteries)
- Support/promotion of the credit union
- Promotion of energy conservation measures and grants to cut domestic costs

25. Regional response – housing and the recession: South West Regional Assembly

Private Sector Opportunities: assessing whether the economic downturn is increasing availability of private rented sector accommodation and opportunities for private sector leasing, and if so, whether this can be harnessed to provide accommodation for vulnerable groups e.g. households considered to be intentionally homeless. Source: <http://tinyurl.com/lz4axd>

26. Housing Benefit reform – impact on private rented sector

Many private landlords may stop providing accommodation for benefit claimants as a result of the government's reform of housing benefit, according to a leading landlords' organisation.

From next month, the local housing allowance (LHA) will replace housing benefit, which is usually paid directly to the landlord. The new scheme gives tenants an allowance with which to find their own accommodation and pay landlords themselves.

However, the National Federation of Residential Landlords (NFRL) says evidence from the government's own trials of the LHA in 18 pilot areas across the country suggests that many landlords

will refuse to take the risk of rent not being paid. 'The evidence from their own trial is that there could be a substantial reduction in the private rented sector, but they are still pressing ahead with it,' says Mark Hayward, NFRL chief executive.

If landlords were to steer clear of benefit tenants, there could be major implications for social housing in the UK. According to the government's Survey of English Housing, there are 453,000 'benefit tenants' in the private rented sector. If that number fell, it would put more pressure on local authorities and other providers of social housing, which are already short of capacity.

The LHA forms part of the government's welfare reform agenda and is aimed at giving benefit claimants more responsibility for their personal circumstances. It will apply to tenancies commencing after 7 April. Existing housing-benefit claimants will be unaffected. Under the new scheme, tenants will be able to keep some of their allowance if they find accommodation costing less than the amount of LHA they have been awarded.

Tenants in council accommodation and other forms of social housing will not be affected by the change; their rent will continue to be paid directly to their housing provider.

A spokeswoman for the Department for Work and Pensions said that trials of the LHA over the past two-and-a-half years had showed that 84 per cent of tenants were managing their rent payments successfully.

Source: *Housing benefit reform could drive landlords away* Wed 9th April 2008

<http://www.landlordexpert.co.uk/index.php?news=1825>

27. The Private Rented Sector, its Contribution and Potential – York study

Centre of Housing Policy at the University of York

- The long decline of the PRS has started to reverse, and the sector has begun to increase in absolute size and in terms of the proportion of households it accommodates.
- Data indicate that 46 per cent of gross advances of buy to let mortgages in 2007 were remortgages: existing landlords were taking the opportunity to refinance their portfolios on more favourable terms.
- The proportion of smaller landlords in the market has grown, as has the degree of investment intent amongst all landlords.
- Twenty one per cent of private renters had been living at their current address for five or more years.

- ‘Churn’ in the PRS is high, reflecting the short term nature of many of the users of the PRS: 40 per cent of PRS households had been living at their current address for less than twelve months.
- There is a long history to the attempts made to frame taxation regulations to effect large scale institutional investment. The Review concludes that much of this debate reflects the attempt to construe residential letting as commercial letting, when in reality the two sectors are very different. The residential market has, at present, very few large landlords operating at a scale where major institutional investment is appropriate. Policies should therefore concentrate on helping good landlords of all sizes to expand their portfolios. It is important that this policy should include smaller landlords, since the larger landlords generally grow through portfolio acquisition. Suggestions include changes to stamp duty and to capital gains tax, to encourage portfolio development.
- The Review also concludes that small scale landlordism does not necessarily mean financial instability. Data indicate that many ‘cottage industry’ landlords are in a good financial situation: the majority have low loan to value ratios and many have unmortgaged properties. Small scale landlordism is also characterised by a great deal of uncosted ‘sweat equity’, with landlords tending not to factor into their rents their time spent managing property. Larger institutional landlords, by contrast, have higher management costs and even where there are economies of scale, these costs will always constitute a substantial proportion of the gross to net reduction in their rental yield.
- Property condition in the PRS has been improving over time, but is still worse than in either social housing or owner occupation. Fifty per cent of private rented property failed to meet the new decent homes standard. Households in receipt of at least one of the main means tested benefits were more likely to live in properties failing to meet the decent home standard incorporating the housing health and safety rating system.
- The economics of poor quality property is not well understood. Analysis of rental yields indicates that yields are higher on property in poorer condition, although these yields are reduced when voids and bad debt by tenants are taken into account. However, it is uncertain how landlords formulate their strategies on repairs and maintenance: EHCS data indicate that expenditure on property repair is not necessarily targeted on the properties most in need of repair, and landlords are not always knowledgeable about whether their properties meet statutory requirements.
- One suggestion is the introduction of competition amongst landlords for tenants at the bottom end of the sector. If tenants on housing benefit had access to a wider selection of properties then landlords owning the very worst quality accommodation would be pushed out of the market. Changes to the benefit regime, to introduce universal assistance with deposits and rent in advance, would mean that more landlords would be willing to accept tenants on housing benefit.

- It is often argued that it is feasible to expect the PRS to expand to meet additional demand for property from low income and/or homeless households. Indeed, the PRS has a distinctive Housing Benefit sub market. However, there are questions that relate to capacity. Landlords can be very reluctant to deal with households in receipt of Housing Benefit, and as a consequence there is a substantial amount of unmet need for accommodation in the housing benefit sub market of the PRS. The level of need is evidenced by the range of incentives that have been developed to encourage existing housing benefit landlords to expand their portfolios and to induce wider market operators to enter the sector. Incentives can include expensive leasing arrangements, which tie statutory authorities into arrangements to guarantee rental payments to landlords over three or five years, irrespective of whether their properties are tenanted.
- Furthermore, increased use of the PRS to provide long term accommodation for eligible, unintentionally homeless households will probably impact on the supply of property to households for which there is no such responsibility. This group – including for example, single people or young couples without children – have always relied on the PRS as the principal source of accommodation. Statutory agency interest in the PRS introduces a further level of competition for property at the bottom of the sector, particularly if those agencies introduce incentives for landlords to let to particular nominated households. Leaving to one side questions about the ability of the sector to meet demand for property at the lower end of the PRS, there are questions about tenants' ability to pay the higher rents that are charged in the sector.
- More policy is needed to encourage a better understanding of managing rented housing, amongst landlords and managing/letting agents and amongst local authorities devising strategies for addressing issues in the PRS.
- The government should devise initiatives to 'grow' the business of letting, encouraging smaller, good landlords to expand their portfolios and move into the business of letting full time, and helping larger corporate landlords to increase their lettings and so attract higher levels of institutional investment. Changes to the tax regime should be framed to encourage landlords to view their letting activity as business rather than investment activity, and buy to let mortgages should be available subject to business planning and the inclusion of strategies to protect tenants in the event of a default on mortgage payments by the landlord.
- Low income households should be able to make a real choice between a social or private let. Equalising the rental choice should be the aim of a series of policy objectives, to ensure that a PRS tenancy can be viewed as being equally desirable by households who would generally look to the social sector for long term housing.

28. Select Committee report on rented housing (private and social)

May 2008, *The supply of rented housing*, House of Commons Select Committee report
<http://www.publications.parliament.uk/pa/cm200708/cmselect/cmcomloc/457/457.pdf>

- More supply of rented housing is needed, just as more supply is needed of homes for owner-occupiers.
- In the private rented sector, particularly at the lower end, a minority of landlords are not fulfilling their obligations to their tenants to provide a decent home, and the Government needs to tackle these issues of quality by strengthening the regulatory approach to the private rented sector.
- Reforms to housing benefit are needed: late payment must be addressed; the single room rate made more flexible; and the operation of the benefit system as a whole better coordinated and made more able to take account of changes to individual circumstances and changes in the local housing market.
- In particular, to tackle worklessness, there is an urgent need to provide clearer guidance to benefit recipients about the effect on housing benefit payments of increasing their income from work.
- More family homes are needed in the social rented sector to address overcrowding. Further steps should be taken to increase the involvement of both private and social tenants in the management of their homes.
- An increase in the supply of social rented homes of some 50,000 a year will be necessary to reduce significantly the backlog in demand. Despite recent increases in spending, current rates of building are below this level; all providers of social rented homes need sufficient encouragement, resources and flexibility to increase supply. The Government must be prepared, if necessary, to raise investment in new supply still further.
- Section 106 agreements have made a significant contribution to the increased supply of social rented homes, but they have resulted in too great a proportion of new social housing built as flats, rather than accommodation suitable for families: action is needed to ensure that new affordable housing is directed at the areas of greatest need. The level of grant support provided for social homes built on s.106 sites must be sufficient to ensure that development on sites critical to addressing local housing needs remains viable. Further analysis and guidance to local authorities are needed on the use of “commuted payments” in lieu of affordable housing on new developments. More emphasis should be placed on deliverability when making grants for affordable housing.
- In the private sector, there is a need for more variety in the length of tenancies available, to enable households in the private as well as the social sector to have stable homes provided through secure tenures. The Government should build on the work already done by the Law Commission on this subject.
- The investment made through buy-to-let has helped to increase supply, but is increasing the pressure on housing markets, especially for first-time buyers, and is not always furthering the aim of the creation of mixed communities. Further research is needed on the local

effects of this investment, as is more work on how the resources of public sector bodies can be used to direct private sector investment into appropriate areas. Action is needed to tackle “buy-to-leave”, where properties are left vacant for long periods. Further research is also needed on trends and patterns in the housing needs of students and migrants.

- In the social rented sector, regulation should minimise administrative burdens and free up resources for the vital task of maximising supply. Reforms to the regulatory and taxation systems should incentivise the supply of new housing and better management of existing housing in both the private and the social sector.
- There should be no impediment to local authorities, exercising their place-shaping role, which wish to build on land that they own. The Government should take further steps to support and enable local authorities to add to the supply of social rented homes.
- In particular, the national Housing Revenue Account system should be reformed, both to remove perverse incentives and to enable councils to use the system to fund the construction and acquisition of more social housing.
- Housing associations should use their surpluses to increase the supply of social housing. They should also be enabled and encouraged to diversify into other private and social enterprises, backed up by appropriate Government support to retain the confidence of lenders.

Paragraph 150. **The state of the housing market is such that we consider that there is a need to develop incentives for private sector landlords to offer longer tenancies to their customers.**

Referring to security of tenure, the Department once again extolled the virtues of home ownership, arguing that “home ownership offers a security of tenure which can be important for families with children.” Increasing numbers of families with children are able neither to afford the option of ownership, nor, because they earn enough to rent privately, to obtain a social tenancy. Not only families with children, but also other forms of household, are turning for a variety of reasons to the private rented sector for their accommodation needs. Not all are looking for the flexibility of an assured shorthold tenancy.

Paragraph 160. The rapid expansion of the private rented sector through buy-to-let mortgages was referred to by many witnesses, including CLG.²⁵⁹ In 2002 there were some 275,500 buy to let mortgages. By 2004 this had nearly doubled to 500,000,²⁶⁰ and the Council for Mortgage Lenders estimated that there were 850,000 outstanding buy-to-let mortgages in 2006. However, the use of mortgage figures must be treated with caution. The Paragon Group told us that “as much as 40 per cent of BTL lending activity is remortgaging, as established landlords move from expensive commercial mortgages”.

Paragraph 161. The buy-to-let phenomenon has increased the role of individual investors while the share of rented housing owned by institutional investors has continued to decline. Lower rates of return from the stock market and from personal pensions have encouraged individual investors who

are better able to increase returns by managing their own properties. Buy-to-let investors have purchased a broad range of new and existing property. One fact emerging from our inquiry which surprised us was that around two thirds of the new-build properties in London in 2005 were purchased by investors rather than owner-occupiers.

Paragraph 162. We have not been presented with compelling evidence to demonstrate that the buy-to-let market has priced out owner-occupiers, even first-time buyers. Despite considerable concern about the possible effect of buy-to-let and the recent publication of a research paper by the National Housing and Planning Advice Unit (NHPAU), we find that this issue is not yet well understood, even though it may be very significant.

Paragraph 181. Another source of growth in the private rented sector is through migration, particularly from eastern European countries. Migrants from the new European Union countries are not automatically eligible for social housing or housing benefit: for example, A8 nationals must be registered and in work for a year before potentially becoming eligible for housing assistance. According to the Paragon Group, migration could increase the private rented sector by 55,000 homes a year. As we have seen during our inquiry on community cohesion and migration, this trend is also leading to increases in shared housing, with the neighbourhood problems which that brings, and in overcrowding. Very little research has been undertaken on the needs, the type of property and location used to house the migrant populations. Such information could assist local authorities when forming housing strategies.

There is a yawning gap between the rights of consumers who are purchasing a property through estate agents, and tenants of private landlords. Prospective and actual tenants in the private rented sector can face discrimination, retaliatory action, and general poor management of their home. A good basis exists in existing regulation, local authority accreditation schemes and the activity of trade bodies to introduce a system of accreditation similar to that which exists for estate agents, devised by trade bodies but reinforced by the involvement of local authorities, with the ultimate oversight of OfTenant. We recommend that the Government work with organisations in the private rented sector to develop a robust scheme which will enable tenants to gain redress against poor landlords.