

# The private rented housing sector: The UK and ideas from other countries

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# Introduction

## **Private Rented Housing Sector (PRS) in the UK:**

- size
- composition
- policy problems: affordability, quality, security

## **PRS in other advanced countries:**

- private ownership and social allocation
- incentivising better quality and improved affordability

# Dwelling stock by tenure: UK, 2014

Owner occupied	Private renting	Rented from housing associations	Rented from local authorities
63%	19%	10%	8%

Source: Own calculations from DCLG Live Table 101

# Dwelling stock by tenure: England, 2005 and 2015

	Owner occupied	Private renting	Rented from housing associations	Rented from local authorities
2005	69%	12%	8%	10%
2015	63%	20%	10%	7%

Source: Own calculations from DCLG Live Table 104

# Changing Composition of the PRS

**Over the last decade, the number of families in the private rented sector has increased; the number of families in the social rented sector has decreased.**

- Between 2005-06 and 2015-16, the proportion of households in the private rented sector with children increased from 30% to 36%. Given the sizeable growth in the overall number of private renters over this period, this six percentage point increase equates to about 945,000 more households in the private rented sector with children.
- Over the same ten year period, the proportion of households in the social rented sector with children decreased from 36% to 32%, which translates to around 123,000 fewer households in the social rented sector with children. There was no change in the proportion of outright owner and mortgagor households with children.

Source: English Housing Survey, Headline Report, 2015/16

# Affordability of PRS

**Private renters spend a significantly greater proportion of their income on their housing costs than social renters or those buying with a mortgage.**

- On average, those buying their home with a mortgage spent 18% of their household income on mortgage payments whereas rent payments were 28% of household income for social renters and 35% of household income for private renters.

# What are the problems with the PRS?

**A flexible tenure of choice for many households, but issues for some households with:**

- Affordability, security of tenure, uncertainty about rents, quality, rogue landlords, high risks and no capital accumulation

# 2017 Housing White Paper (1)

**Acknowledges some of the problems of PRS, including noting:**

- high proportions of income spent on rent
- housing benefits dependency
- the loss of a PRS tenancy is now the most common cause of homelessness

# 2017 Housing White Paper (2)

## **Promises more support for institutional investment in the PRS:**

- Encourage more institutional investors into housing, including for building more homes for private rent, and
- Encourage “family-friendly” tenancies

# The PRS in other countries

- How big?
- Definition of PRS?
- Allocation, rents, security of tenure
- Individual landlords
- Taxation

# Housing Tenure: Selected Countries

## % of stock

	Private Rented	Social Rented	Owner Occupied
England (2015)	20	17	63
Netherlands (2014)	7	33	60
France (2014)	21.9	17.4	57.7
Germany (2014)	50.4	4.2	45.4
USA (2014)	35	1	64
Australia (2011)	4.7	23.4	68.1

### **Sources:**

*England: DCLG (2016) Live Tables on Dwelling Stock, Live Table 104*

*Netherlands, France, Germany: The state of housing in the EU 2015 (2015), Housing Europe*

*USA: US Census Bureau, 2010-2104 American Community Survey 5-Year Estimates*

*Australia: Australian Bureau of Statistics*

# What counts as private rented housing?

Categories	Ownership	Allocation
<b>1</b>	Private ownership by individuals and companies	By market forces Market rents
<b>2</b>	Private ownership by individuals and companies	Not by market forces Linked to employment or family relationships
<b>3</b>	Private ownership by individuals and companies	Not by market forces Social allocation criteria linked to receipt of a tax concession or soft loan Rents limited Incomes of occupants limited Concessions, rent limitations and allocation conditions often time limited
<b>4</b>	Non-profit organisations and public bodies	By market forces Market rents

# Private Social Supply Incentives: Examples

<b>USA</b>	Low Income Housing Tax Credits support some privately owned housing with rent restrictions and income related allocation conditions.
<b>Australia</b>	National Rental Affordability scheme gives tax credits for building of privately owned housing (and housing owned by non-profit organisations), with rent restrictions and income-related allocation conditions. As yet on a small scale to private investors.
<b>France</b>	Tax incentives (principally generous depreciation allowances) and soft loans for some privately owned housing, with rent restrictions and income-related allocation conditions.
<b>Germany</b>	Until 2005, generous depreciation allowances for privately owned housing, with rent restrictions and income-related allocation conditions.

# Market Rents?

USA	Mainly market rents Some element of control on increases for some properties in some states Restrictions on rent levels and increases for tax subsidised properties
Australia	Mainly market rents Some element of control over rent increases – to keep them in line with market levels and to prevent increase in early months of contract
France	Rents for new contracts set freely Limits on increases related to inflation Rent limits for subsidised properties
Germany	Rents for new contracts set freely Limits on increases for sitting tenants – linked to market conditions New rent controls
England	Mainly market rents

# Security of Tenure

USA	Limited security of tenure which depends on the contract Typically six months or one year but can be less or more
Australia	Limited security of tenure which depends on the contract Typically six months or one year but can be less or more
France	Strong security of tenure Standard contract is 3 years (individual landlords) or 6 years (other landlords) Termination of contract only in limited circumstances
Germany	Strong security of tenure. Length of tenancy in principle indefinite. Notice periods of 3 to 9 months depending on how long the tenancy has run for Termination of contract only in limited circumstances e.g. rent arrears, landlord needs dwelling for own family Sale of dwelling does not break the lease
England	Limited security of tenure which depends on the contract Typically no more than six months and, in many cases, 2 months

# Individual Investors

% of PRS stock	
USA	66%
Australia	60%
France	96%
Germany	62%
England	88%

# Taxation of Individual Investors

	Cost deductions against rental income	Depreciation allowance	Losses allowable against other income	CGT system discourages short term holding of the investment
USA	YES	YES	YES	YES
Australia	YES	YES	YES	YES
France	YES	YES	YES	YES
Germany	YES	YES	YES	YES
England	YES	NO	NO	NO

# Subsidy Taxonomy

- Object Subsidies
- Subject Subsidies
- Conditional Object Subsidies

# Conditional Object Subsidies

Conditional object subsidies can provide incentives to:

- Promote allocation to those in need
- Limit rents
- Minimum quality standard

# Key lessons from the PRS in other countries

- Tax incentives can help:
  - to increase PRS supply
  - to promote improvements in quality
  - to influence allocation and rents
- Individual landlords are important

# International studies of Private Rented Housing: some references

- CCHPR & LSE (2016)  
*Understanding the role of private renting – a four country case study*
- Oxley, MJ (2014)  
*Boosting the supply of affordable rented housing in the UK: learning from other countries, ESRC Impact Acceleration Account (IAA)*
- CCHPR (2012)  
*The Private Rented Sector in the New Century: A Comparative Approach*
- Oxley, MJ, Lishman, R, Brown, T, Haffner, MEA & Hoekstra, JSCM (2010)  
*Promoting investment in private rented housing supply: International policy comparisons, London: Department for Communities and Local Government*
- Haffner, MEA, Hoekstra, JSCM, Oxley, MJ & Heijden, HMH van der (2009)  
*Bridging the gap between social and market rented housing in six European countries? Amsterdam: IOS Press*