

Subject: London's Private Rented Housing

Report to: Housing and Regeneration Committee

Report of: Executive Director of Secretariat

Date: 20 September 2012

This report will be considered in public

1. Summary

- 1.1 This report sets out background information to the discussion with invited experts on issues of the cost and affordability of London's private rented housing.

2. Recommendations

- 2.1 **That the Committee notes the report as a background to discussing with experts the challenges facing London's private rented sector.**
- 2.2 **That Members note the focus of the Committee's next two meetings on London's private rented housing as set out in paragraph 3.3 below.**

3. Background

- 3.1 London's private rented sector (PRS) now represents some 850,000 homes in the capital. The sector grew in London by 83 per cent between 2000 and 2010. One in four households (25.8 per cent) in London now rent privately. The PRS is booming in London as a result of the increasing cost of market housing, mortgage finance difficulties and a long term under supply of new homes.
- 3.2 On 18 July the Committee agreed to undertake a major review of London's private rented housing with the following terms of reference:
- To review London's private rented housing to identify its characteristics relative to other housing sectors – in respect to security of tenure, tenant and landlord rights and responsibilities, housing quality, standards and affordability.
 - To identify options that will expand the supply of private rented homes (as part of a drive to increase overall new housing supply in London), improve the sector and make an impact in terms of achieving higher property standards and more secure and affordable tenancies.
 - To examine the policy and record of the Mayor, boroughs and government and to make practical recommendations to them aimed at achieving real improvements in London's private rented sector. Recommendations will also be sought with regards to what the London Assembly can do to improve the sector.

- 3.3 The review will take place over the coming months and Members have decided to use the Committee's next three meetings to cover three main substantive themes: affordability and tenure; quality and standards, and tenant and landlord rights and responsibilities.

4. Issues for Consideration

- 4.1 The main focus of this meeting will be the affordability of the sector and the nature of private rented tenancies.

Rents, affordability and public subsidy

- 4.2 Private sector rents in London are market driven and reflect increasing demand relative to the supply of new housing. There is a plethora of rental statistics that indicate the increase in London's private sector rents – for example the Royal Institute of Chartered Surveyors estimate the level of rents to rose by 6 per cent in the 2011 and they are set to rise by close to 8 per cent in 2012. The British Property Federation suggests using Valuation Office Agency figures that show rental inflation in London has been growing at around 4 per cent annually.

- 4.3 With rents in London higher than anywhere else in the country there is a growing impact on the affordability of this sector, particularly for low income families. Shelter estimates a family would need a net household income of more than £41,000 a year to affordably rent a two bedroom home at the median London rent (£1,200 per month). Shelter estimates that families with incomes less than £34,200 find the median rent for a two bedroom house unaffordable in 26 out of London's 33 boroughs.

- 4.4 The use of the private rented sector to house homeless households is significantly higher in London than elsewhere. At the start of 2012 London authorities were placing more than 78 per cent of homeless households in the sector (compared with 28 per cent in the rest of England). The impact of rising rents and the increasing use of the private rented sector by local authorities means that the cost of local housing allowance (housing benefit in the private rented sector) in London rose by more than 36 per cent between 2009-10 and 2011 -12 to more than £1.9 billion.

Tenure and tenancy

- 4.5 Most people who rent privately have an Assured Shorthold Tenancy that lasts for six months or one year. Landlords offering this type of tenancy only need to give two months' notice to evict the tenant, and can give notice at any time after the first four months without needing to provide a reason. There are fears that these short tenancies give the opportunity for landlords to raise rents more frequently and can allow for "retaliatory eviction" should tenants ask for improvements to their homes. The National Landlords Association however believes that 54 per cent of new tenancies last between two and three years and almost a third in excess of four years. Nevertheless, the issue of extending the length of tenancies beyond the current six months has been raised as important for families now being housed in this sector – they need the security of long tenancies as this is vital for bringing up children, for example in terms of planning for schools.

Issues for discussion

- 4.6 Members may wish to discuss with the invited experts a number of questions relation to the above issues, including:
- Why is the cost of private rented housing in London (in terms of rent and public subsidy) rising over and above inflation? Can rent rises be made more stable and predictable?

- What is the impact of rent increases on low income households and the implications of increasing public subsidy of private landlords?
- What is the nature, scale and extent of public subsidy to the sector in London?
- What will be the impact of welfare policy changes? Is there evidence of reducing rents?
- Does extending the security of tenure in the sector need to be addressed? And if so, how could this be achieved?

Invited experts

4.7 Representatives from the following organisations have confirmed attendance at this meeting:

- Councillor Karen Alcock, London Borough of Hackney and Chair of the East London Housing Partnership. The East London Housing Partnership is the alliance between the eight east London Local Authorities and East London Registered Social Landlords to increase the quality and availability of housing in East London. To ease the pressures on east London councils the partnership has set up a Private Rented Access Scheme Team with the aim to improve accessibility, lines of communication and quality of service offered to private landlords. The partnership has also been concentrating on particular issues around affordability and the implications of welfare reform for private renters.
- Colin Cormack, Service Head Housing Options, London Borough of Tower Hamlets. Tower Hamlets operates a housing advice service, accredited by the Legal Services Commission, that offers a free, and independent service to people who live in private sector accommodation in the borough. It deals with serious problems such as being threatened with homelessness and providing alternative housing options such as referrals to schemes that help with paying rent deposits or rent in advance. It also provides advice on rights and methods of dispute resolution.
- Ian Potter, Managing Director of the Association of Residential Lettings Agents. The Association of Residential Lettings Agents was formed in 1981 as the professional and regulatory body for letting agents in the UK. It has 6,000 individual members. Lettings agents normally charge a commission for their services, usually a percentage of the annual rent to arrange the contracts between landlords and tenants in the private sector. There are currently no statutory arrangements regarding the regulation of letting agents but around half of UK lettings agents are currently self-regulated through ARLA.
- Jacky Peacock, Brent Private Tenants' Rights Group. The Group was set up in the 1980's by private tenants who wanted to campaign for better housing conditions and new laws to protect them. It runs a Housing Advice Centre, providing specialist legal advice and represents private tenants on the Mayor's Housing Forum. The Group believes that the private rented sector is in need of fundamental reform requiring legislative change. Nevertheless, there is much that could be done within the current legislative framework, although many changes will require a re-ordering of policy and financial priorities by local authorities and others.
- Kathleen Scanlon, Research Fellow, London School of Economics. In 2011 Kath Scanlon co-edited a publication entitled "Towards a sustainable private rented sector: The lessons from other countries" that argued if the private rental market is to provide an attractive alternative to home ownership in the UK then a full range of tenancy agreements must be available. It found that security of tenure is a key factor in countries where private renting is seen as a practical choice, even for families and that the tax incentives for private landlords in the UK are less generous than in many other countries.

5. Legal Implications

5.1 The Committee has the power to do what is recommended in this report.

6. Financial Implications

6.1 There are no direct GLA financial implications arising from this report. Financial implications for individual programmes of work in 2012/13 will be dealt with separately in reports to the Committee as and when the Committee is required to make relevant decisions.

List of appendices to this report: There are none.

Local Government (Access to Information) Act 1985

List of Background Papers:

Housing and Regeneration Committee, 18 July 2012

<http://www.london.gov.uk/moderngov/documents/s12269/04%20Private%20Rented%20Sector.pdf>

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