

**Housing and Regeneration Committee**

**20 September 2012**

**Transcript of Item 4: Private Rented Sector**

**Len Duvall (Chair):** Good afternoon and welcome to our panel of experts. I think if we introduce ourselves first then we will ask you to introduce yourselves and then we will proceed with our questions. I am Len Duvall, London Assembly Member for Greenwich and Lewisham.

**Darren Johnson (Deputy Chair):** I am Darren Johnson, London-wide Assembly Member.

**Caroline Pidgeon (AM):** I am Caroline Pidgeon, I am also a London-wide Assembly Member.

**John Biggs (AM):** I am John Biggs, Assembly Member for Tower, Newham and Barking & Dagenham, and the City of London.

**Tom Copley (AM):** I am Tom Copley, I am a London-wide Assembly Member.

**Fiona Twycross (AM):** I am Fiona Twycross and I am a London-wide Assembly Member.

**Onkar Sahota (AM):** I am Onkar Sahota, London Assembly Member for Ealing and Hillingdon.

**Andrew Boff (AM):** I am Andrew Boff, London-wide Assembly Member and Member of the Greater London Authority (GLA) Conservatives group.

**Kathleen Scanlon (Research Fellow, London School of Economics):** I am Kathleen Scanlon, a Research Fellow at the London School of Economics.

**Jacky Peacock (Brent Private Tenants' Rights Group):** I am Jacky Peacock from Brent Private Tenants' Rights Group.

**Ian Potter (Managing Director, Association of Residential Lettings Agents):** I am Ian Potter, Managing Director, Association of Residential Letting Agents.

**Colin Cormack (Service Head Housing Options, London Borough of Tower Hamlets):** I am Colin Cormack, Tower Hamlets, responsible for homelessness and housing options.

**Karen Alcock (Deputy Mayor, London Borough of Hackney and Chair of the East London Housing Partnership):** Good afternoon, I am Karen Alcock, I am Deputy Mayor of Hackney and have responsibility for housing. I am here in my capacity as Chair of the East London Housing Partnership.

**Len Duvall (Chair):** Thank you very much for coming today. We are in hearing and questioning mode around issues relating to the private sector. We have a number of set questions. There will be follow-up questions from the Members concerned, either from something you said or something they have read in the media in terms of clarification. If we can begin with question 1. Tom Copley.

**Tom Copley (AM):** Thank you, Chair. I am going to ask a bit about rent regulation and my first question is, do you think that there are any forms of rent control or rent stabilisation that can be effective without reducing the supply of privately rented housing in London? Can I start with you, Kathleen?

**Kathleen Scanlon (Research Fellow, London School of Economics):** Given the current legal and regulatory system, if the only thing that were to change were to impose rent control, it would almost certainly lead to a decrease in supply. There are many countries in Europe that have systems of rent control and much larger private rented sectors than in this country and the system works well and houses a wide variety of tenants. However, normally in those countries there are restrictions on transferring dwellings from one tenure to another. Either it is a condition of planning that the dwelling remains permanently as a rented dwelling or, in the case of multi-unit buildings, it is not legally possible to separate the ownership. This means in practical terms it is not possible to sell it into another tenure. Here, tenures can change.

**Tom Copley (AM):** Are you saying you would not be able to have the same situation with buy-to-let that we have had here, is that right? An owner/occupier --

**Kathleen Scanlon (Research Fellow, London School of Economics):** In those countries, normally there is a sector of individual single family homes that people can rent and then live in themselves if they want to. However, that is a small part of the private rented sector in some countries, and most of the private rented sector in those countries is in blocks of flats and you cannot split the ownership. It is not possible to sell them into owner/occupation. Since that is possible here, that is what I would expect to happen if rent control were imposed.

**Jacky Peacock (Brent Private Tenants' Rights Group):** Our experience is that landlords stay in the market if they can make a sufficient return competitive with alternative forms of investment. If they cannot, then they are going to pull out and they are going to invest, whether it is commercial property or something else altogether. It seems to me that, if you are looking at the potential impact of rent controls on the risk of people pulling out, then you just need to do those calculations. I am not volunteering to do them - that is not my field - but there are people out there, it is not difficult to do, to get an idea of returns looking at it from an investor's point of view. I would suggest that was the context in which that is considered.

Having said that, I did mention in our written submission the fact that legislation already exists to challenge rent increases. Just very briefly, legislation provides for private tenants to refer their rent to a rent tribunal, the London Rent Assessment Committee in this case. A shorthold tenant can do that within the first six months of the tenancy. This means if they come to the private rented sector, for example, without knowing rent levels and suddenly realise they are

paying above other comparable market rents, they can refer that rent for determination by a rent assessment committee.

I cannot think of a single case where that has been done within the first six months. For fairly obvious reasons, most tenants' original tenancy agreements are only for a fixed term of six months and therefore that tenancy, if they refer the rent, is only going to last six months, or there is a significant risk of that. Once that initial rent is fixed, the lawful way in which a landlord can increase the rent, if there is not agreement between the parties, is to serve a formal landlord's notice proposing a new rent by a certain date, which has to be at least four weeks. If the tenant does not do anything about that then that does become their rent at that time, but they do have the option to refer that notice to the same rent assessment committee who will then again determine the rent.

They will be determining what is a reasonable market rent and obviously they would expect both parties to present them with evidence of alternative market rents for comparable properties. That system exists. It is very little used. There has to be an element of people being nervous about being evicted if they do use it. Most tenants are quite nervous of their landlord when they do not have security of tenure, understandably. However, the overwhelming reason is because people have never heard of it; they do not know, landlords and tenants. I do think one valuable function of the London Assembly would be to make that information widely available, along with of course suggestions that tenants that intend to go down that route should get some advice so that the risk element is made clear to them before they go ahead.

**Tom Copley (AM):** Do you think it could be strengthened?

**Jacky Peacock (Brent Private Tenants' Rights Group):** I think the legislation itself could be strengthened. What I would really like to see is, when the committee determines the rent, it is not just for that tenancy, but it is actually on the property, because then you do away with the intent to get rid of the tenant in order to bump the rent up again with a new tenant. Another idea, even without changing the law, would be if the London Assembly could collect rent of all such determinations and publish them on the London rents map, which you already have, so that a tenant could check if there had ever been a rent determined on that property.

**Tom Copley (AM):** I will come back with some follow-up questions I think, but I would like to move through each guest first, so, Ian.

**Ian Potter (Managing Director, Association of Residential Lettings Agents):** Yes. I do not think that rent controls can work in a free economy either. I think we have examples of where rent controls have decimated the private rented sector in the past, because lots of landlords went out of the private rented sector. If you go back 20-odd years ago, the private rented sector was down to about 7% of the housing stock in England, and London was not particularly that much higher. If you go back 100 years ago, the private rented sector was over 90% of the housing stock in England and again there were rent controls at that point in time that took away all the institutions who were the landlords at that point in time.

What are Government is trying to do, and London is obviously interested in this as well, is get new institutional investment into the private rented sector. They have to see a return, they have to see an exit route and at the end of the day the money that will go into institutional investment is actually yours and mine, it is our pension funds, it is our insurance policies, that the Government is willing to invest and we want to see a return as the owners of that capital. If we put rigid rent controls on it we are losing twice.

**Tom Copley (AM):** Rent controls were abolished I think in 1989 when the private rented sector nationally made up 9% of the housing market, and yet by 2000 the private rented sector had only grown by 1%, even after the abolition of rent controls. Why do you think there was not that growth with the abolition of rent controls?

**Ian Potter (Managing Director, Association of Residential Lettings Agents):** I think there were lots of reasons that it did not grow during that period, not least of which during the first six years without rent controls we had a housing market that was in depression. We had house prices that dropped from 1989 through to 1994. They stabilised from 1994 right through to 1997, and it was only after you started to see an upward graph in the capital uplift, which is what the majority of landlords that make up the private rented sector at the moment were dependent on. What has kept it going in the current market where sales prices are relatively flat is just exactly that; there are lots of small landlords who have the ability to expand their portfolio at the moment because a lot of them are cash rich and they are able to buy where the mortgage loan-to-value is relatively small that the owner/occupier just could not be able to purchase.

**Tom Copley (AM):** But is that not really the reason why there has been the growth in the private rented sector. Rather than any abolition of rent controls, it is the fact that people who would have bought can no longer afford to buy and that so much social housing stock, which was sold in the right-to-buy, was snapped up by private landlords?

**Ian Potter (Managing Director, Association of Residential Lettings Agents):** It was not snapped up originally by investor landlords; it is when that --

**Tom Copley (AM):** But it was sold on.

**Ian Potter (Managing Director, Association of Residential Lettings Agents):** It has been sold on or inherited. A huge amount of it has actually been inherited by the person who exercised right to buy because the generation that exercised the right are no longer with us and the family have said, "Hang on a minute, mum or dad bought this property for £10,000, £20,000, £30,000, the open market value today is £150,000 or £200,000, where will it go in the future? This is an investment for me that I cannot match anywhere else in the investment market." We all know that housing is a reasonably realisable asset as long as your loan-to-value is not excessive.

**Tom Copley (AM):** Colin, can I come to you now on rent regulation and stabilisation?

**Colin Cormack (Service Head Housing Options, London Borough of Tower Hamlets):**

Yes, it is not really my field in terms of the history of this, but maybe as a local authority that is involved in the private sector as tenants in our own right, if you like, and representing 1,800 households in homeless temporary accommodation and representing over 1,000 households who we have brokered private tenancies, I can give a view. I agree with what Kathleen said that on its own rent regulation will fundamentally destroy the supply. To expect any partner business, because that is what a landlord is, to have a static income but have no control over the expenditure suggests a business that is destined to fail. In our work to either identify temporary accommodation that typically families are in for very many years, or private sector accommodation as a prevention for homelessness, we want that relationship between landlord to be as long as possible.

I do think, however, there are opportunities to introduce a cap on rents, to limit rents, but not on their own. Simply a regulatory method is destined to fail. However, if one can expect a provider to have a limit on their income, then partners need to work to limit any rises in their expenditure, such as loss of rent through tenants who are not paying their rent. There is a good example, tenants involving themselves in antisocial behaviour. So that business; if the income is going to stay the same, the expenditure has to stay the same. I think question 2 talks about how we can do some of that.

**Tom Copley (AM):** I just wonder if you could elaborate a bit on what you think might be a model that could work. I mean are you talking longer tenancy agreements with more regulated increases, yearly increases?

**Colin Cormack (Service Head Housing Options, London Borough of Tower Hamlets):** I would dearly love the ability to encourage longer tenancy agreements, but I also appreciate that the longer tenancy agreement has the potential to adversely impact on the asset value of the property. Therefore there have to be other factors in play that can allow a preservation of income; that can allow that asset value not to be quite as badly damaged. There also are issues around how that asset value, does it actually reflect the income stream. There always used to be a very close link between rent and value, and anyone worth their salt really could, if they were so inclined, could go and get a loan, buy a property and rent it out. But the cost of properties has escalated way above its income potential, and that sees a business destined to fail.

**Karen Alcock (Deputy Mayor, London Borough of Hackney and Chair of the East London Housing Partnership):** I think the first thing I would say, just around the concept of the landlord, is certainly in Hackney and I think across east London the concept of a institutional landlord does not exist. It is much more what you spoke about, people who have inherited a right-to-buy or maybe have one or two, so it is not a landlord who is operating and managing their properties as some of the more professional landlords that obviously you hear talking on this subject. I think there is an untapped voice there about those types of landlords. Hearing what their views are I think is important as well.

Just to comment on the Local Housing Allowance (LHA); that was an attempt to try and control how much the State paid to people in the private rented sector for accommodation. In Hackney

- and I would say this is pretty much across East London - the LHA, landlords have jumped well over it. So a four-bed property in Hackney is well above the LHA cap; most three-beds are; most of our two-beds are now above the cap in most areas of the borough. There are some one-beds that you can retain within the cap in some parts of the borough, but that has been continually squeezed, I would say month by month, and what remains within the cap is the worst stock available.

**Karen Alcock (Deputy Mayor, London Borough of Hackney and Chair of the East London Housing Partnership):** Rent stabilisation; it is not my area of expertise, but my perception of it is that the private rented sector (PRS) in Hackney and East London is extremely buoyant. Landlords do not need to rely on the council effectively to place tenants for an income. They are able to quite effectively go out to market and then take extremely expensive rents. The point about the LHA is that landlords are completely able to choose how much money they want to pay. I think an argument for me is that in those areas where it is so buoyant you should be looking at whether it is some type of regional issue or parts of London where you could look at it. I think some of the other examples that people will talk about, like sheltered, will talk about some type of rent control, which would allow those very buoyant parts of the private rented sector to try and be kept within some sort of reasonable increase.

**Tom Copley (AM):** When we talk about rent control, it can mean any number of things, but I think mostly the image it conjures up is the quite crude system that we used to have in this country. Of course there are many different types, various different ways you can do it within various different contexts, and, Kathleen, I know you have written very extensively on this. You have talked about -- I have a quote from you here, it says, "Some of the larger private rented sectors, notably in Germany, but also in other European countries, have strong regulation in place with respect to rent rises and security of tenure". Can you tell us about some of the places worldwide where some form of regulation has worked and what sort of regulation that is?

**Kathleen Scanlon (Research Fellow, London School of Economics):** Generally over the 20th Century, in a lot of European countries, rent control was put in place at the end of World War One to deal with the housing shortages that occurred at the end of the war. It was lifted in some places and then reinstated, but almost everywhere at the end of World War Two there was still rent control. In some places actually rents had not been allowed to rise at all between World Wars One and Two, so it was a very difficult situation for landlords.

Since the 1950s I would say the trend overall has been towards deregulation or maybe towards more sophisticated forms of regulation. The original kind of rent regulation was to put a cap on rents, at first a nominal cap, so no inflation was allowed, and then to change to systems where you built in inflation in more or less sophisticated ways.

Now, I would say the most sophisticated systems allow landlords freely to set the rent at the beginning of a tenancy, although that is not the case in all countries. For example in Sweden they are not allowed to go above a certain percentage above social rents, so initial rents are controlled as well. However, a lot of countries allow landlords to set rents at the beginning of the tenancy. The forms of default tenancy are very different from our default tenancy of a shorthold tenancy. There are often lifetime tenancies or five-year tenancies with the automatic

right of renewal, so essentially a lifetime tenancy. Then at specified intervals within the lease the landlord can raise the rent by a controlled amount. The way that is controlled - - there are many different systems. It could be related to the index of the cost of provision, it could be related to the cost of living or to average earnings, to some kind of negotiated thing; there are lots of ways of doing it.

In Germany, for example, they reckon that this sort of a system allows landlords to get something close to a market rent. Sometimes they will be below and then they can go above when they get the next new tenant, but it more or less tracks the market. Landlords in Germany on the whole are happy with the situation and feel it is a good investment. On the other hand, there is a very different culture, you could go into a lot of factors, but landlords in Germany are much less interested in capital growth than in income. They are basically interested in income and that is not what one finds here.

**Tom Copley (AM):** What are the comparators? I mean the private rented sector nationally in this country is 17%; London is 25-26%. What is it in Germany?

**Kathleen Scanlon (Research Fellow, London School of Economics):** It is about 56% in Germany, and it is about 60% in Switzerland.

**Tom Copley (AM):** Just finally, do you think that sort of system could translate to Britain's private rented sector?

**Kathleen Scanlon (Research Fellow, London School of Economics):** It would require a complete change in the legal and financial and cultural basis of property rights, I think. It works very well there but to just pick an element and transfer it here, I do not see it working so well.

**Tom Copley (AM):** Would anyone else like to comment on any of those things?

**Ian Potter (Managing Director, Association of Residential Lettings Agents):** I think I would echo exactly what has been said that there is a whole cultural thing that we would have to overcome here to make the kind of changes that could possibly have the desired impact. It is a very complex model. You have to look at the whole economic structure of the country as well and how housing is financed in relationship to what the housing policy is.

**Jacky Peacock (Brent Private Tenants' Rights Group):** Yes, I would echo that. The whole tradition of the landlord/tenant relationship goes back centuries in this country. In fact the basic structure is still feudal. We referred to the "land lord" and we tug feed our forelocks. It would take an enormous shift from that very traditional thing, ownership confers all rights that we have; that underpins our view of property in this country. But it would be great to try.

**Colin Cormack (Service Head Housing Options, London Borough of Tower Hamlets):** I think that was the point I was going to make. I can imagine now that massive cultural shift - and this is in the context of so many people owning their own home - to suddenly see that there are wholesale schemes afoot to effectively temper the asset growth that can really skew the market. That does not stop individual schemes being developed with individual investors

where the relationship is your income, your expenditure and your income. At the end of the day that is the business that works, you have to part with an asset issue. I think ironically that is the sort of scheme, if they look around, they would actually find their asset has improved anyway quite independently. I think, if we could nurture that, that would be important, and the more you do it, the more you start actually --

**Len Duvall (Chair):** Can we bring Andrew Boff in?

**Andrew Boff (AM):** The summary I am getting from Ms Scanlon is, "I would not start from here, really". I must say, I absolutely welcome Councillor Alcock wanting to limit my rent rise, which I am negotiating at the moment in one of those areas of Hackney, which is going through the roof! I welcome that personally. However, is the problem not, with all these issues, the supply of housing in London?

**Ian Potter (Managing Director, Association of Residential Lettings Agents):**

Absolutely, and it does not matter the type of tenure at all, it is the lack of housing stock. Then you find an open market value controls it. We had the situation in the private rented sector back at the end of 2009/early 2010, where London rents on average actually fell 15%. The following year, unfortunately, they recouped it by about 17.5%, but there was a real fall because there was no demand because the financial markets and the City was in difficulty and there was nobody coming into London to work. One of the biggest problems London faces is that everybody is gravitating to London because it is where the perceived wealth and employment is. Everybody thinks, because they can get £20,000 a year more working in London, they will be better off. They forget about the housing costs in London.

**Jacky Peacock (Brent Private Tenants' Rights Group):** I have to say I did query what you put in your paper as being the central aim of the review, to expand the supply in private rented homes. If we are talking about new build, new homes coming on to the market, then yes, in every tenure let us have a lot more. However, if you are talking about expanding the private rented sector within the existing stock, as we are seeing, one of the problems is the success of the buy-to-let and other reasons why more and more landlords have entered the market or expanded their portfolios has meant that of course there has been an upward pressure on house prices; they are directly competing with the would-be owner/occupiers, so the more owner/occupiers there are, so the more demand there is for private rented accommodation. So if you just expand it within the existing stock you are expanding the demand at probably the same rate, so you are not really achieving anything in terms of dealing with the housing scarcity in London.

**Andrew Boff (AM):** I absolutely take that point, but we talked about initiatives earlier, new initiatives. Would not the development of things like the Qatari Diar, Delancey investment in new institutional renting on the Olympic village, for example, would that not be threatened by the prospect of future regulation of rent controls because they have made this decision with a long-term investment view rather than a short-term view. Would it not risk those very initiatives that we have been looking for in London for such a long time?



**Ian Potter (Managing Director, Association of Residential Lettings Agents):** I would totally agree with that. I was at a conference last week where the institutions who bought East Village, as it is now known, are actually not 100% convinced it is a hugely wise investment that they have made, despite what a lot of people perceived to be the bargain that they got it for, because they are not convinced of the initial returns. It is how strong the Olympic legacy for the regeneration of the East End is going to be that is going to be the key driver for it. The huge unknown. There is the debate that is in the media at the moment as to what else is going to happen with the land that is allocated to housing in the future. What type of housing will go on it; how affordable is it going to be; what is the demand going to be? Because there is always a problem, a possibility that you can actually also flood the market in a particular area. It is one of the problems that institutional investment could create for the existing private rented sector in the future. If the stock within the existing private rented sector is very scattered, it is very piecemeal in an area, but I know Jacky's problems - I have known Jacky for a long time - but if somebody was to come along, for example, and build 500 new units in Brent that would actually have a potential negative impact on the existing stock. It could work for the new investor but it could actually damage the existing one.

**Andrew Boff (AM):** Only to say, I am sorry about the obvious question about supply, it is just my mission to always ask that question because I think we forget that when we talk about housing.

**Fiona Twycross (AM):** I was actually going to ask a similar question to Andrew, but I have now come up with a new one in the meantime because he has already asked it, which is good! It was the point you made, Colin, about individual schemes and the potential to introduce, if not regulation, then some sort of terms within an individual scheme that would have some control built in that would be there from the start so you would not have the problems of something coming in and affecting existing landlords with all the dangers that people have indicated. I wondered if anybody had any examples of how that might work or if it is working somewhere else or whether there are examples of that that you know of.

**Ian Potter (Managing Director, Association of Residential Lettings Agents):** Colin is quite right in saying that different models might work in different areas, and we spoke earlier on about protecting asset value. There are still quite a lot of properties that are regulated tenancies and the asset value of a regulated tenancy is about 40-50% of open market value of that property; it is seen as a flawed investment. There are very few. It is a specialist investor that will buy regulated tenancy stock now. One of the things that we have to be careful of is making sure that if we come up with new models that there is a market in it because any institution investing will want to come in and out.

**Colin Cormack (Service Head Housing Options, London Borough of Tower Hamlets):** You see, I disagree with that. I understand that, but it is interesting that in social housing we expect housing associations to do exactly that; to acquire land, to take land in partnership with the local authority, to build, do all that investment, take on board rents that are social rents, and it works for them. I have seen the lease cars for most chief executives of housing associations. They do all right on that, because they are in for the long haul. So just substitute

registered providers (RP) for what I think is out there, which is a new breed of animal, it is an investor, it is not a landlord.

**Ian Potter (Managing Director, Association of Residential Lettings Agents):** It works for some housing associations; it does not work for others. If you look at some of the housing associations that were trying to refinance when the markets were at their worst, they were actually having to work on serious bridging finance because there was not mainstream lending for them to do the refinancing because the model did not stack up. Some housing associations are being challenged at the moment as to how the model stacks up because of the changes in LHA rates. Just as was being referred to they are under pressure and therefore some of them, not all of them, for some of them it works fine, and I take your comment about the chief execs and everything else, but I also know lots of housing associations that have had to strip out huge levels of costs to make their existing model viable.

**Colin Cormack (Service Head Housing Options, London Borough of Tower Hamlets):** I think the core model still works. The core model of the social landlord, developing schemes in inner London, and those high land prices, at social rents, generally is a successful model, notwithstanding efficiencies and the housing association (HA) grant disappearing. It works. There is just an invitation to say to some private new breed of investor that is not after both income -- the cake and the eat it, the income and the asset growth.

**Jacky Peacock (Brent Private Tenants' Rights Group):** Just a couple of quick points. Ian [Potter] mentioned the specialist market for regulated tenants. First of all, we need to bear in mind that when we are talking about their rent levels they are at least half the market rent, and some of them are even lower than real social housing rents, rather than affordable so-called rents. Certainly it is an attractive proposition, I think to the largest private landlord in the country. They view it as being a sensible commercial decision because they have long-term tenants; they do not have void problems; they do not have to do all the repairs and redecorations between lettings, and they have tenants who know they are going to be there these days - the ones that are left - are probably almost certainly there for the rest of their lives. They invest in the property, they look after it in a way that a shorthold tenant, who does not know if they are going to be there for longer than six months, would never dream of doing. Why should they? It is crazy. So I would not rule out the advantages to be argued for that sort of long-term security of tenure, because at least one very large landlord can see the point of it, and I think others might too.

**Nicky Gavron (AM):** What I was going to ask about was the supply and we talked about Qatari and it is just that I think perhaps there does seem to be a movement to create more supply in terms of market homes for rent, and sometimes some housing associations are suggesting cross-subsidy, but, Chair, I think that might be for another session.

**Andrew Boff (AM):** Just very quickly. I take the point of what has been said about individual schemes being developed by people with a certain mission and being able to guarantee long-term security. That has been going for many years. We have had the Crown Estates, we have had Peabody Trust, we have had many other developments as well where people can get that kind of long-term security. It is a question of whether or not regulation is applied. They make

their long-term business decisions and they look at their income over the next 30 years typically for a housing scheme and they will look at that return. My concern is, will it not make those very same investors feel quite insecure if they are unable to predict the legislative constraints that are going to come along in the future. If we do not provide some stability for investment it may very well end up reducing the overall number of homes we have in London.

**Jacky Peacock (Brent Private Tenants' Rights Group):** Certainty is a very important consideration for investors in any investment, but particularly in terms of residential stock. But that does not mean to say it is anti-regulation; it is anti "I do not know what regulation and whether I am going to be able to live within it or not". I think if the Government or whoever is minded to have regulation, we need to see what it is, it needs to be announced, consulted on, and ideally get some cross-party agreement. I think what has happened in the past, landlords have felt uncertain because they have thought with the next change of government there will be change in the regulations again. So that is important.

**John Biggs (AM):** I was simply thinking of the parallel with regulated utilities. I mean you can be blunt, as Mr Potter has said, and say, "Institutional investors have all this money, stating these things, and if you were to regulate their rents they would see a massive loss in their pension values and so on", and I do understand that blunt argument. Clearly there are all sorts of flavours of regulation, some of which would have an impact on price and security, and we could spend a month talking about them I suppose. However, within your membership I am sure there is a recognition that there are some healthy forms of regulation, which will have a price impact, but which will maintain the reputation of the market and it is a win-win and they will provide some security and respect for individuals.

I suppose the other question, which I think all of our constituents, all the political parties would hold, is that maintaining a balanced community in different parts of London is a pretty vital part of how the market should work, and left purely to price that is not going to happen. It may not be your individual members who have to worry about that, but we do as politicians. Can you cast any light on these issues?

**Ian Potter (Managing Director, Association of Residential Lettings Agents):** I do not disagree with anything that you are saying there. I think lots of landlords are in it for the long term, there is no doubt about it at all. We do a quarterly survey of our members and have a landlord panel, and the majority of them have been in the private rented sector as a landlord in excess of 15 years. I think that does demonstrate longevity of a landlord's commitment to it. We speak to these same landlords and say, "How long are you happy for a tenant to be there?" and the simple answer is, "We will let a tenant stay there as long as the tenant is looking after the property and paying the rent". We have some issues around the discussions that are ongoing at the moment about extending the minimum period for an assured shorthold tenancy (AST). For example, I know that Shelter would like to put forward the argument that it should be two years. However, they also accept that to get that you have to get the change of policy from the mortgage lenders who normally want a tenancy for six months. Landlords are quite often happy because they can get adequate comfort in the covenant of the tenant to grant the tenancy for longer than that. You also have to change the ability for a landlord to actually get their property back if the tenant is not looking after it. From the point in time that a tenant

goes into rent arrears at the moment in the private rented sector, a landlord will tell you it can take nine months to a year to get that property back without any rental income at all. So there are all sorts of issues, it is not just housing that we need to be looking at, there is a whole legislative background to actually make the market work properly.

**Karen Alcock (Deputy Mayor, London Borough of Hackney and Chair of the East London Housing Partnership):** I was going to say that what I see again in Hackney and East London is that landlords are, because of the LHA cap, as well as obviously the further welfare reforms next year, very easily switching from landlords who were very happy to take people off our waiting list, take people out of temporary accommodation and put them into their stock, are now very happy to switch to those, effectively those people who cannot buy, professional people, people who can spend £800 a month each on a four-bedroom property, which through the LHA cap they would never see that. I do not see, from the things that I deal with, that landlords are happy just to see a tenancy remain as long as the income is spent, they are looking to maximise their rent and they will switch.

Going back to John Biggs' point about balanced communities, that has a massive implication, not just on Hackney and East London, but across London as effectively you see people squeezed out of Inner London. That is the big question for me. Obviously there are issues about how you make financial models work, but ultimately, if there is not a radical change in the things you have just outlined, that is what is going to happen and that is what needs to be addressed.

**Ian Potter (Managing Director, Association of Residential Lettings Agents):** I do not disagree with what you are saying about landlords switching at the moment, but one of the things that landlords are having to do when they switch to a different market quite often is present a better property. Therefore, you are getting in some areas, I accept it is not universal, but you do get a more demanding type of tenant and therefore quite often the landlord having to improve how the property is managed and the condition of it.

**Tom Copley (AM):** First of all, anecdotally, I know a lot of people who their landlords have just decided to kick them out, put the rent up by 20% or 30%, no improvement to the property. We will not go into this now because we will have a question on letting agents later. However, often the letting agency said, "The market value has gone up, you can get a better deal".

My question actually was, in relation to what you said earlier about tenancies, I wondered if Kathleen could talk about maybe those issues you had with tenants where they are not looking after the property, how they are dealt with say in Germany where they do have these longer tenancies.

**Kathleen Scanlon (Research Fellow, London School of Economics):** In the countries that have very long or indefinite tenancies, there is normally a list of reasons in the legislation that the landlord can evict the tenant: non-payment of rent; not looking after the property; the landlord wants to use the property themselves, are the normal ones. Then the question is, how long the legal process takes to carry out one of these evictions. In some countries it is very

quick and very certain, a few months. In a place like Italy the norm is two years. Clearly you want to have a procedure that is certain and that is quick.

The other question is how they deal with selling the property. This is a concern of the mortgage lenders, if they have the mortgages secured on the property they want to know that they can get their hands on it if they have to. In some countries that is one of the valid reasons for evicting the tenant, but in several countries any new buyer of the property also takes on the existing tenancy, which obviously has an effect on value.

**Tom Copley (AM):** Just quickly, in Germany can you get a one-year tenancy in the way that we get one-year tenancies here, or are they all longer?

**Kathleen Scanlon (Research Fellow, London School of Economics):** That I would have to check. In some countries like Spain there are special kinds of short-term tenancies, if you know you are going to move, and another standard long-term tenancy. I am not sure what the case is in Germany.

**Ian Potter (Managing Director, Association of Residential Lettings Agents):** I think Germany has that as well, and so does Holland.

**Jacky Peacock (Brent Private Tenants' Rights Group):** Yes, sorry, the point I was going to make was partly to echo what Ian was saying about the sort of landlords that you would have in your members, where, if they have a good tenant they do not want to get rid of them, they would like them to stay as long as possible. We held a conference a couple of months ago with the National Landlords Association (NLA) and certainly the landlords that attended were saying exactly that. Even one of them said, "I am actually charging well below the market rent now, but I have had this tenant, she is really good, and she has been there for three years and I am not going to put the rent up in case that persuades her to leave". So terrific. Unfortunately, members of NLA, Association of Residential Lettings Agents (ARLA) clients, etc, are in probably a very small minority in terms of landlords as a whole, and certainly when we are talking about the lower end of the market they are virtually non-existent. We are talking about landlords who -- one of my current clients, the landlord ended the tenancy because the tenant dared to complain about the bed bugs, which he had paid to be treated himself once already, and then the landlord brought in some more infested furniture. The importance of longer-term tenancies is not just that it is nice to know where you are going to be living and planning what schools your kids are going to be and so on, but it is also the fact that, as long as all the time the landlord can evict you for no fault whatsoever, effectively you have no housing rights at all. Demand that the smoke alarm is fixed and fire precautions, energy efficiency measures, nothing, because you always risk that eviction.

Obviously we are looking not just to moan about what is wrong, but ideas about doing something about it. The more landlords that we can bring up to the standard of NLA members then that is an important step forward. I do not think all accreditation is necessarily the answer because it depends on the accreditation and the criteria, but that is one possibility to look at.

In terms of the worry about getting rid of tenants when they are not paying the rent or whatever, nine months sounds an extraordinarily long time these days. I know courts a few years ago did not have their act together, but certainly in our neck of the woods, if you follow the process correctly from the beginning and preferably using a solicitor rather than save money, then you will actually get your possession in a matter of a couple of months.

**Andrew Boff (AM):** Just a very small detail, it is more to clarify something for a member of the public, Mr Potter, did you make a reference to mortgage lenders and their attitude to a six-month let, why would mortgage lenders be interested in the length of the let?

**Ian Potter (Managing Director, Association of Residential Lettings Agents):** Because they are interested in the situation that evolves if they have to repossess the property if the landlord stops paying.

**Andrew Boff (AM):** Are there any incentives that -- I should declare an interest really because this is personal, because I have been in private rented for 11 years now, so I can see a lot of what is being said here. What are the disincentives to providing a longer contract? I, for 11 years, have been trying to negotiate a longer contract than one year and I cannot do it; the landlord is not interested at all, even though there is a financial advantage in the landlord in having some. It just seems that that message has not got around to landlords that you can negotiate more security of tenure.

**Ian Potter (Managing Director, Association of Residential Lettings Agents):** I think there is an ignorance in the fact that the assured shorthold tenancy can be for much longer than they are averagely being created for at the moment, and I think the lenders quite often just do not understand the issues. If it is a proper buy-to-let mortgage, it is actually not an issue, because the mortgage deed allows them to leave the tenant - provided it is not the tenant that has caused the landlord to be repossessed - in situ and they can take rent in receivership. Some of the bigger buy-to-let lenders have actually got quite chunky portfolios at the moment where they have that. One of the specialist lenders has over 10,000 properties that have been repossessed that they are currently still letting, taking rent in receivership. That is to protect their capital asset.

Whereas, if it has been purchased with an owner/occupier mortgage, the lender has a legal obligation to get the best deal for the person who has been affected by the repossession, ie the person who has borrowed the money, as quickly as is practically possible in the market. So they have a conflict with leaving that property in the market.

One of the things that Jacky was saying that I think there is a simple answer to is this threat of retaliatory eviction. It is quite simple to say - and it is potentially within the hands of local authorities, because quite often retaliatory eviction is taking place at the bottom end of the market where benefit is being paid - that, if the tenant has applied to use housing health and safety rating system and is evicted as a result of it, the local authority will not pay LHA until the landlord has actually done -- the property has been properly investigated as to whether there are the risks and the work has been carried out if there are risks. Whereas in actual fact what we

are doing is we are subsidising that bad landlord by allowing payment of benefit to a new tenant as soon as he has evicted the first one.

**Len Duvall (Chair):** Thank you, we really need to move on in terms of other issues, away from the rent controls and stability of rents. There will be further questions we need to ask you, and we will put those in writing. If we can then turn to, I think Nicky Gavron has a question on incentives to private landlords, other incentives to reduce rent levels.

**Nicky Gavron (AM):** Yes, just a bit of a wrap-up question, because we have had some ideas already given to us, but just perhaps to start with Jacky, what incentives you can think of that we should be considering that private landlords would need to reduce the level of rent? I mean you have already talked about how one of the larger residential landlords was keeping rents lower because he wanted to keep these good tenants and so he wanted a stable tenancy rate.

**Jacky Peacock (Brent Private Tenants' Rights Group):** Obviously it depends on the type of landlords. I am not aware that there is a kind of model that anyone has come up with yet, but I did talk this morning to the section of the council, if you remember the Government gave some large sums of money to local authorities to deal with the potential problems of the shortfall arising from the housing benefit cap. The team in Brent that has been working on that has actually succeeded in negotiating lower rents with the landlords and the main incentive they are offering is, if the landlord is prepared to offer a new tenancy agreement for that family on a two-year fixed term and reduce the rent to the capped amount, then they will give the landlord up front - it is coming from the discretionary housing payment pot - £3,000. Landlords are saying, "Oh, £3,000, that is really nice, yes of course". They do not appear to be calculating that in seven cases the shortfall was more than £100 a week, so it did not take them long to realise how long it is and that they are actually getting less. However, it appears to be an attractive proposition and I do think that is one of the other things the Assembly could do, collate together all the incentives that boroughs are taking at a local level to try and negotiate rents down to see what is good practice and what is working and what is not.

**Colin Cormack (Service Head Housing Options, London Borough of Tower Hamlets):** There is a whole raft of incentives, but so many of those incentives I think are bridging the gap and I am glad that £3,000 is not bridging the gap. We were drawn, in Tower Hamlets, into negotiating with landlords to take a rent reduction and the first response was, "OK, how much are you going to give me from your homelessness grant or any bridging monies?" However, we have actually been able to persuade landlords of the real business cost of evicting somebody, the fact that even the best tenant, if they are about to be evicted, may suddenly stop paying their rent and have little regard to their references. Then there is the marketing of that property and we have been able to persuade lots of landlords, when the sums have been quite small. We are supremely confident of our ability to do the same when the welfare cap comes in.

Going back to the incentives on rents, that first observation I made about the fixed income when there is loads and loads of expenditure that needs to be stabilised as well, and that is around the mortgage for the property itself. I know people who are tempted into the market and will not pursue that market because of the large deposit, the large interest rates, and maybe the institutional investor who is not just on a mission but actually might see this is a good

business model if the lenders, the banks themselves, were to have a look at some interest-only mortgages and forget about paying off the asset. Maybe that will have that sort of tempering effect of taking this away from an asset growth and just being like McDonalds. There are no price rent caps, there are no burger caps on the price in McDonalds, and yet there are people queuing out the door to buy them. So maybe, in terms of the investors and the way the banks are not lending to small businesses, maybe the banks need to rethink about what they are doing to people who are prepared to become a landlord and to deliver a service but simply cannot afford to.

**Nicky Gavron (AM):** It would be interesting to know and perhaps this is something we can find out how many -- actually I suppose you have the stats on how many landlords there are in London and I guess a lot of them are very small landlords, but it would be good to know what proportion are small and what proportion are the big residential ones and what proportion actually own things outright. Not everyone has a mortgage.

**Kathleen Scanlon (Research Fellow, London School of Economics):** One model that is used in a lot of countries that do not have very large social housing sectors is to offer some kind of upfront grant or tax credit to private landlords in return for an agreement to rent below a specified rent ceiling only to low-income households for a certain time period. The lock-in period can be normally 20 or 30 years. The biggest programme of this kind is the low-income housing tax credit in the United States, but also this is the way that all of what they classify as social housing in Germany is provided. It is actually rented by private landlords but is subsidised under this system.

**Ian Potter (Managing Director, Association of Residential Lettings Agents):** The majority of your landlords own less than five properties, so it is a small, fragmented market. One of the things that we have campaigned for for a long, long time is for them to be treated fiscally as a business because they are not. They cannot get capital allowances. It is one of the things that cause a lack of repair in the stock, particularly upgrading of heating systems, rewiring a property and putting in double glazing. The landlord has great difficulty with Her Majesty's Revenue & Customs (HMRC) in getting that set against their income until they sell the property. It is treated against the capital gains tax situation when they sell the property. That is different for a landlord who owns a bigger portfolio. However, given the make-up of the market, it has been an issue for quite some time. Effectively, over a 15 to 20-year period, it is actually tax-neutral. I mentioned that to a Treasury Minister just before the election and that was exactly the answer I got: "Yes, it is a good idea, but it is a 15-year policy and my interest is being re-elected in two months' time".

**Nicky Gavron (AM):** Notwithstanding that, I think it would be good to have a bit more information about that. What about value added tax (VAT) on refurbishment and so on?

**Ian Potter (Managing Director, Association of Residential Lettings Agents):** It is another potential area of encouraging a landlord to keep the property up to a standard and there have been lots of organisations that suggest a VAT cap at 5% or 7% as against 20% on the purchase of goods and on the provision of the services for it. However, there is much more



of a fiscal burden in the short-term for the Treasury, which is why there is not a huge amount of Treasury appetite for it.

I think it was you, John [Biggs], a moment ago who mentioned as well interest on the mortgages. Sorry. It was Colin [Cormack]. One of the problems with offering interest-only mortgages is that that goes against the thinking of the European Mortgage Directive and the banks are being told not to lend on interest-only mortgages because that is partly what has damaged the banks' balance sheets. We have all these extraneous factors kicking in on the market at the moment that, if we were having this conversation in 2007, we would have said we were in a totally different place. Today, one of the challenges is finding a system that can work in all economic models.

**Karen Alcock (Deputy Mayor, London Borough of Hackney and Chair of the East London Housing Partnership):** If there is one thing that I would want people to remember from what I have said today is that the myth, certainly in east London, that landlords are negotiating rent reductions is not happening. In fact, it is going very much the other way. That is the one thing that people need to understand. The LHA has not worked. It is nothing to do with the Olympics. There is a general shift in east London. The market is getting very strong in the private rented sector and incentives may help, but I do think there has to be something more fundamental to respond to some of the fundamental issues we have to deal with with the private rented sector.

I guess, if the question is about what incentives we would need to consider for the private rented sector to help me and other authorities respond to housing waiting lists, I know you are going to come on to the welfare reforms, but the most fundamental problem we will have next year is when Universal Credit comes in because landlords not only will be able to switch from the traditional councils who might give them a couple of thousand pounds and who may offer a maintenance service, all those nice things that we hear about, but fundamentally with the changes for Universal Credit, if there is a buoyant market for people who earn a good income and are deemed good tenants, they would not act as a tenure for me and other authorities to deal with our housing waiting lists and we all know where that goes in terms of outer borough placements and all the rest of it.

I think that is what I really just want everyone to understand. I have read that there is a view that landlords are prepared to negotiate down if you just offer them a couple of thousand pounds. In Hackney and east London, we are not seeing it. What we are starting to see is effectively us not being able to place people in our temporary accommodation, even in what was acute annex-type accommodation. People are actually switching because they are finding a better, as they see it, client. I do not know how you address it unless we go back to the first question from Tom [Copley] around not rent control but certainly some type of rent rationalisation in the areas which are so hot that it is very difficult to understand what level of intervention that Nicky [Gavron] talks about would actually lower the temperature in this part of London over a longer term period.

**Len Duvall (Chair):** Can I bring in John Biggs and then I will bring Nicky [Gavron] back?

**John Biggs (AM):** Very quickly, in the first evidence session we had, we came up with a point which again has been repeated here and to my mind is a very powerful one, which is particularly with smaller landlords they are operating a business, although quite often it is treated as if it is a bit on the side, if you like. They have a bit of money so they buy a house and they get a mortgage and they collect the rent.

Where that leads me to is a question, which is if rented property was universally treated as a business, then you could imagine a small business framework in which there were various incentives and tax treatments and so on which would help to provide encouragement for different approaches to income levels and meant that although everyone may take a hit, it would be far more equitable. You could, for example, have a tax incentive for accommodating a tenant on a lower income, something like that. I am sure there are models in other parts of the world that work on that basis and it does sound fiendishly complicated, but if it is a small business and it is regulated through annual returns and the tax system, even though there may be a delay in collecting the revenue, that could be the beginnings of a model that might work. Everyone is nodding.

**Ian Potter (Managing Director, Association of Residential Lettings Agents):** We were not nodding but --

**John Biggs (AM):** Apart from Ian, yes.

**Len Duvall (Chair):** You wanted to come in earlier on. Do you want to respond to that as well and make a point?

**Ian Potter (Managing Director, Association of Residential Lettings Agents):** I think John [Biggs] is right. Where I was wanting to come in was on something that Karen [Alcock] was saying there. I understand where Karen is coming from because she is focusing on making sure that those people that are the local authorities' obligation under homeless and everything else can be housed.

The fundamental problem, Karen, is that you are saying that people who can afford to pay are squeezing out the people who cannot afford to pay. However, if that was not what was happening, then where are the people who can afford to pay going to stay? Where are they going to live? The fundamental issue is lack of housing stock.

**Karen Alcock (Deputy Mayor, London Borough of Hackney and Chair of the East London Housing Partnership):** No, I do not disagree with that.

**Ian Potter (Managing Director, Association of Residential Lettings Agents):** That then controls rents and everything else.

**Len Duvall (Chair):** Yes, but I would argue that that is not the fundamental issue. That is one of the fundamental issues. I think there are other fundamental issues which politically we have to take account of and which are not just market-driven fundamental issues, so like having somewhere for your local shop assistant to live, just like your local investment banker.

**Ian Potter (Managing Director, Association of Residential Lettings Agents):** We know that we are building this year almost 150,000 units in England and Wales less than what we need to meet the housing projections. The problem is only going to get worse. Society has totally changed in how it lives. There is a greater demand for single person accommodation. We are coming back to right-to-buy. What is going to be of interest to somebody to exercise right-to-buy with the three- and four-bedroom properties that the local authorities just do not have adequate stock of themselves? And they are going to have even less. We need really joined-up thinking in the policy.

**Fiona Twycross (AM):** Mine was just a point, really. It would be useful to get some more information generally, not necessary this afternoon, on tax because I had understood that there were things that you could count against income tax in relation to if you had rented out a small number of properties or you had moved and had to. I think it would be useful for us to understand what people currently can claim against tax.

**Andrew Boff (AM):** Back to the subject of supply, we are not one on this side. I think there are market solutions that could be provided should the supply be there. On that supply, the Residential Landlords Association has suggested that there are over 16,000 empty properties currently in the capital that were owned by local authorities, housing associations and other public bodies. I would like to ask the panel if they recognise that figure and, if that figure does stack up, is there not an opportunity there for allowing private landlords to re-engage and get these properties working again by perhaps having some association with private landlords?

**Colin Cormack (Service Head Housing Options, London Borough of Tower Hamlets):** In a large portfolio, social housing in Tower Hamlets is 36,000, it is inevitable that any one time a property is going to be - -

**Andrew Boff (AM):** In turnover, but that would be about 500 a borough, which it seems you cannot really account for by turnover.

**Colin Cormack (Service Head Housing Options, London Borough of Tower Hamlets):** I think this is predominantly turnover. In terms of the efforts that Tower Hamlets does to avoid minimised turnover by pre-allocating properties, so that as soon as a tenant has bid for and has not even moved out of a property, that property is being advertised and being pursued by other tenants, there is still a significant proportion of voids. I do not know the void level in Tower Hamlets. I would have no idea. But I do know the efforts. There are not properties just sitting there abused other than in our decant programme. There are shedloads of units that are about to be demolished, absolutely, and what we typically do with those for a good part of the scheme is use that as homeless temporary accommodation.

**Karen Alcock (Deputy Mayor, London Borough of Hackney and Chair of the East London Housing Partnership):** I was going to say obviously there are the voids. When you take out your voids and obviously your decant programme, where you have people in licence but effectively they are probably in the numbers that you will always hear on the news or in newspapers. Actually you are looking at much smaller numbers than that. Certainly I follow this

every month. I look at the empty properties by month. Actually, when you look at those that have been empty for over six months, they then dramatically go down again, so there is a lot more detail in those numbers. I have to say, in terms of what I do in Hackney, it is probably the one thing that I make sure we prioritise. Even if it involves a property which is in a very poor state of disrepair, I would rather sell it off and actually then be able to do something else with some other properties.

**Andrew Boff (AM):** Yes. Councillor Alcock may say that but I know of an estate in Homerton, for example, where I know a property guardian and he is now in a second year.

**Karen Alcock (Deputy Mayor, London Borough of Hackney and Chair of the East London Housing Partnership):** Which one?

**Andrew Boff (AM):** The one close to the hospital on the main road opposite the school. There is an estate there.

**Karen Alcock (Deputy Mayor, London Borough of Hackney and Chair of the East London Housing Partnership):** Yes, I know. That is a regeneration estate.

**Andrew Boff (AM):** But the property guardian is in their second year.

**Karen Alcock (Deputy Mayor, London Borough of Hackney and Chair of the East London Housing Partnership):** Yes. It takes a long time to pull down estates and decant them and actually build new houses. It takes an awful lot of time.

**Andrew Boff (AM):** Is there not a solution, therefore, with that if we recognise that if we have to employ property guardians over into a second year, we might just as well be putting families in there.

**Karen Alcock (Deputy Mayor, London Borough of Hackney and Chair of the East London Housing Partnership):** I do want to answer that. A lot of the properties which have been decanted are put in licence, i.e. for people who are homeless. The property guardians are used mainly because they are in such a poor state, frankly, we would not put children or families in there, so there is a need to think about the condition of the property. You do not know what the condition is of that property and actually neither do I because I do not know the detail of each void in the borough. There are some properties we cannot let out. That is why we are knocking them down. They are of such poor quality we would not put anyone in them, even on a licence.

**Jacky Peacock (Brent Private Tenants' Rights Group):** In terms of the empties, I am tempted to say why do we not first persuade all those property owners out there in the private sector to bring them back and get them rented before we start talking about publicly owned land? I am all for making maximum use of every square inch that is available in London, but I would think that if there are properties - and I think already the point has been made - most local authority and other publicly owned buildings, if they are empty, it is for a good reason. You are either waiting to pull them down or to refurbish or whatever. However, if the resources

are not going to do that for the next few years, then let us look at other alternatives, not giving them to necessarily private landlords but community land trusts, dare I say, and other initiatives like that.

I do think the whole focus of this session is talking about the private rented sector, but I do think we need to bear in mind the context that the private rented sector is not actually the tenure of choice for most of the people in it. They are in it because they cannot get into social housing or they cannot afford to buy and they cannot get a mortgage even if they could afford the cost.

I just briefly wanted to come back to the issue of taxation that was raised. Something I simply do not understand is landlords always complaining about the fact that they do not get the same tax breaks. I am not a tax expert, but my understanding is all they need to do is to register as a business. I do not know why more small individual landlords do not, but maybe Ian can help us.

**Ian Potter (Managing Director, Association of Residential Lettings Agents):** No, it is up to the local tax inspector whether they think it is a property business and then what they look at and what they define is whether the businesses buying and selling property have any properties that they have in their portfolio and everything else. There are lots of them that are actually being knocked out by HMRC as not being a correct property business.

**John Biggs (AM):** And it seems a tax dodge.

**Ian Potter (Managing Director, Association of Residential Lettings Agents):** Therefore, you are left with it being as an individual, even if the property might be owned by ABC Ltd.

**Len Duvall (Chair):** I think this is a subject we will return to around those tax arrangements.

**Nicky Gavron (AM):** I think actually it would be very good if we could have what you have been talking about, Ian. If we could have a submission on it, it would be helpful, some of the fiscal and financial things you have been talking about.

I wanted to talk about, just finally for this part of our session, the role of letting agents in reducing rents. We have just actually heard and it would be quite useful, actually, to know what voids there are within the private rented sector if we are looking at voids within the public sector too. You might just mention that as well and talk about it.

**Ian Potter (Managing Director, Association of Residential Lettings Agents):** The average void period in the private rented sector in the last quarter across London was something like 12 days.

**Nicky Gavron (AM):** The average void?

**Andrew Boff (AM):** Not two years but 12 days.

**Ian Potter (Managing Director, Association of Residential Lettings Agents):** It took 12 days to get a property re-let. A huge proportion of it is actually move out in the morning from one tenant and move in in the afternoon for the next tenant. The private rented sector is particularly good at actually being able to achieve that, sometimes to the detriment of the outgoing tenant, to be fair, because they will be told that the property was filthy and they are going to have deposit reductions and everything else. However, I think as far as recycling the property, the private rented sector is pretty good at that one.

**Nicky Gavron (AM):** Just on the second part of my question which is about the role of letting agents in helping reduce rents, is there a role? Letting agents, I have to say, do not always have the best press and everyone has their story about letting agents, so it would be good for you to defend letting agents in this respect.

**Ian Potter (Managing Director, Association of Residential Lettings Agents):** Their legal role is actually to push up rents because they have the responsibility to ensure that they are getting the best rent that they can for the client. For instance, if in Karen's situation where the market is under pressure and things are being squeezed, the agent is not doing the landlord client a service if they are not saying, "On the open market, you could get £800 a week as opposed to £250 a week", or whatever the rent is. They would be in serious risk of being sued for professional malpractice if they did not do that.

**Nicky Gavron (AM):** What about the actual increases in terms of rent, every six months, every year, whatever?

**Ian Potter (Managing Director, Association of Residential Lettings Agents):** For a sitting tenant, again, they should be advising their landlord client what they think the open market rent for that property would be so the landlord can make the subjective decision, "Do I want to risk a void? Am I happy with this tenant? What level of increase can that tenant reasonably afford?" They do look at the affordability of it. A lot of landlords insure themselves against the tenant not paying the rent. The insurance providers in that will say that 40% of gross income is affordable. That is the insurance market which, again, sets its rates in relation to the claims experience that it gets. I think the 40% depends on what somebody's income level is. If you are at 40% of £15,000, it is totally different to 40% of £100,000 in the capacity and the expectation, but nevertheless that is what is insurable even for a benefit tenant.

**Nicky Gavron (AM):** Then the last question and perhaps other members of the panel might want to come in. Since you have to advise your landlords about best value, so to speak, in this market with massive scarcity as we have been hearing and you can just pick who you want more or less, are you advising them to increase their rents more than they might have done?

**Ian Potter (Managing Director, Association of Residential Lettings Agents):** There are instances of that. There is no doubt about it at all. However the end decision is still with clients. If the landlord does not want that rent to go up, then the agent has to take the landlord's instruction, so it is a business partnership that is working there and there are plenty of examples where the landlord will say, "Yes, I can maybe get 10% uplift but I would be happy with 5%". It depends on their own personal circumstances, it depends on their borrowing rate,

whether there has been any change to that. I think one of the things that we have not really gone into is actually what the average borrowing rates are for a landlord. With buy-to-let mortgages, you are struggling to get a new one today at all. If you can, you are looking at somewhere about 6%.

**Nicky Gavron (AM):** But you are taking a proportion, are you not, of the rent --

**Ian Potter (Managing Director, Association of Residential Lettings Agents):** Yes.

**Nicky Gavron (AM):** -- to manage the property. So if the rents are increased because there is scarcity, then your management costs are increased, too.

**Ian Potter (Managing Director, Association of Residential Lettings Agents):** You can look at it both ways because the market amongst agents at the moment is hugely competitive and there are lots of examples of cut-price fees and everything else and all sorts of deals being done to attract landlords. One of the things that we are always caution about is that there is a cost to providing the service. We have very strong evidence that the agencies in particular that have disappeared with landlords' and tenants' monies are those who have been providing the cheapest service in the market. Every one of them has been trying to do a full managed service at under 8% and that is about as fine as the margin can go.

**Nicky Gavron (AM):** So, if I listen to what you are saying, what we should really be doing is talking to landlords because they are the ones who are controlling the rents and it is nothing to do with letting agents at all?

**Ian Potter (Managing Director, Association of Residential Lettings Agents):** It is a partnership on it. I would not deny the agents are advising the clients and some will be being greedy because they do see the potential for a greater income for themselves. But it is not by any means universal.

**Karen Alcock (Deputy Mayor, London Borough of Hackney and Chair of the East London Housing Partnership):** I was going to add the other element to letting agencies, which again is an issue in terms of affordability. In some bits of Hackney you will have closed bids now for the private rented sector. In the more popular areas people just put a price in an envelope and the landlord or agent can obviously go with the highest amount, so that is where bits of Hackney have been for a while now.

The other thing with letting agencies is not just about the rent. The letting agency will be charging every six months in a lot of cases for charges certainly for credit checks and all that sort of thing and administrative charges every time the tenancy is renewed. Actually you can end up paying hundreds of pounds extra per year, not for the rent but for those extra services, which is probably nothing to do with the landlord but is to do with how that letting agency operates. I am presuming that is obviously legal and again people sometimes would rather pay the letting agent another £200, £300 or £500 to renew their lease rather than have to go through the rigmarole and the costs of moving and trying to find another property if they are particularly happy in the locality. I do not know how that fits into the thinking around --

**Ian Potter (Managing Director, Association of Residential Lettings Agents):** The fees are legal. The only thing about it under the unfair terms and consumer contract regulations and consumer protection regulations is: is the fee clear and transparent? Does the tenant know at the beginning that in 6 months' or 12 months' time they are going to have another charge? An awful lot of those are not and the power to do something about that actually lies with the local authority trading standards officer because they are the prosecuting body under the legislation.

**Tom Copley (AM):** I moved recently as a tenant. I paid £100 for credit and referencing checks, which I thought was daylight robbery, but there is very little you can do about it if you want to move into the property that you want to move into. Just a comment!

**Len Duvall (Chair):** We need to follow up on letting agents but we do need to get to some of our core questions. I will bring in Darren.

**Darren Johnson (Deputy Chair):** Yes, we have had some discussion already about this figure for an affordable rent level in disposable income terms. Is there a consensus amongst our guests? It would be useful to get some views on this. We have heard a 40% figure mentioned, so it would be useful to take some views. We will start with Councillor Alcock.

**Karen Alcock (Deputy Mayor, London Borough of Hackney and Chair of the East London Housing Partnership):** Certainly the way that we in the East London Housing Partnership as well as the local authority, it would be lower than that. You are completely right; obviously it depends on your total income because obviously there is a totally different impact depending on how much money you earn. I would use generally as the number about 33%, about a third of your income. That is certainly what I would use and what the boroughs use and how we have asked housing associations to calculate their affordable rent model. Anything above that, particularly obviously again with the LHA and all the other things, starts to actually mean, I believe, that people will be making decisions about whether they heat their home, how they get their children to school, etc. So I would put it a bit lower than that. I think that is actually pretty much the standard amount.

**Darren Johnson (Deputy Chair):** Colin, what is it for you in Tower Hamlets?

**Colin Cormack (Service Head Housing Options, London Borough of Tower Hamlets):** It is 25%.

**Darren Johnson (Deputy Chair):** Do you want to elaborate on that?

**Colin Cormack (Service Head Housing Options, London Borough of Tower Hamlets):** No, I just think it reinforces what Ian says, actually. It is about the balance that you have left. For people on a low income, about 75% is not a lot anyway.

**Darren Johnson (Deputy Chair):** Absolutely. Ian, I think we have heard from you anyway, so, Jacky and Kathleen, it would be useful to hear from you.



**Jacky Peacock (Brent Private Tenants' Rights Group):** It has already been said that a percentage is not really helpful because a multimillionaire could probably pay 80% of their income and they could still afford the gas bill.

**Darren Johnson (Deputy Chair):** And a few yachts as well, maybe!

**Jacky Peacock (Brent Private Tenants' Rights Group):** The argument is just meaningless and what we've been looking at is disposable income after housing costs and fix on that.

**Kathleen Scanlon (Research Fellow, London School of Economics):** I think the most widely accepted international measure is about a third of your income for housing costs including utilities.

**Darren Johnson (Deputy Chair):** That is a useful point to note. And then coming back, particularly aimed at our local government representatives, what can local authorities do to make the sector more accessible in terms of financial guarantees and support?

**Karen Alcock (Deputy Mayor, London Borough of Hackney and Chair of the East London Housing Partnership):** I have said some of this already and I know I sound very negative about some of the private rented sector in east London, but I think it is very difficult. I certainly think some things could work for local authorities. Certainly in the past you could offer longer tenancies so they knew what the rent would be in the future. I know that some boroughs have looked at effectively taking on the ongoing maintenance and reactive repairs for properties. I think Southwark has done that in the past, so effectively the property remains with the landlord but as long as it is deemed decent and in a good condition when it is taken on, the tenant would not ring up the landlord if a cupboard door is broken or a tap is broken on the sink. They would ring up as if they were a housing council tenant and the Direct Labour Organisation (DLO) or whatever would come out. Obviously there is a cost to Southwark for that. I do not need to make the point that councils are not exactly cash-rich at the moment.

**Darren Johnson (Deputy Chair):** No, obviously there is a pressure there, but that is an interesting model. Ian, would that make that more attractive for landlords to take on tenants receiving benefit?

**Ian Potter (Managing Director, Association of Residential Lettings Agents):** It may with some local authorities. It may not with others. I think there are case studies out there where local authorities have provided guarantees and landlords have had their fingers burned by the time that it has taken the local authority when the tenant has left to do the work that they had guaranteed. I had a personal experience of that not within London but within Glasgow and it took the local authority two years to put the property back into the order that they had guaranteed. The landlord got no income for that length of time. When I was operating in the market as an agent, I just was not interested in getting into partnership with the local authority involved in that at all. They were coming to me all the time and saying would we take this type of tenancy and, "We will guarantee the condition of the property at the end of the day". No, thanks.

**Darren Johnson (Deputy Chair):** But that could vary between local authorities, so have you had good examples of local authorities where it has worked and it has been a smooth process?

**Ian Potter (Managing Director, Association of Residential Lettings Agents):** Yes, and I have seen the same example with the same local authorities and it depends on the person in the council who is actually dealing with it. It can be as finite as that. Some are very good at it and others are, just like every other walk of life, not as efficient.

**Darren Johnson (Deputy Chair):** Jacky, have you any experience on this?

**Jacky Peacock (Brent Private Tenants' Rights Group):** I share Ian's concern in that I certainly have had landlords complaining that they never, ever got their money. I think what probably happened was that local authorities got the idea about the usefulness of deposit guarantees and got all the procedures in place for getting them paid and assessed and all the rest of it. What they did not have in place is what you do when you have to come up with the money. Hopefully, there are some that are doing it right now.

**Darren Johnson (Deputy Chair):** There are the Homelessness Codes of Guidance. How can local authorities realistically comply with those in relation to affordable private rented property? Colin?

**Colin Cormack (Service Head Housing Options, London Borough of Tower Hamlets):** Before I answer that, could I just go back to your original question because you jumped over the local authority. This is a bit of a tension for me because my service is about catering to the statutory obligations to homeless households and placing them in temporary accommodation and on the other hand, where appropriate, encouraging – I mean encouraging and not gatekeeping - but encouraging some people to consider the private rented sector as a better housing option. For those people, it is often a challenge to find the right private sector landlord. There is a legacy of repairs. There is a legacy of concerns around the sustainability of that tenancy.

For that first group of 1,460 private rented sector properties where effectively I am the tenant, all I do is pay the rent. I guarantee that I will always pay that rent. We have about 15 managing agents. They have no tenancy agreement at all. They have no lease. They have a 28-day licence and they are incredibly content to rent properties to me at LHA less 5%. We never really explored that and I am sure it is not just my charisma that keeps those properties on the board. They do not have a contract. A new landlord will appear and say, "Here is a lease deal. Just sign that". I will say, "I am not signing that lease agreement. Our rates are 5% reduced LHA." We have very high repair standards because we are reflecting the suitability of temporary accommodation and they slip on those repair standards and we are on them, sometimes not as well as we should do. I think a number would say never as fast as we should do. As I say, there is no lease. There is a 28-day licence and we do guarantee to pay.

We are taking away some of the biggest risk, which is income. How are we mitigating that risk as a local authority? No family leaves our service with a set of keys until they have seen a benefit officer and they have benefit processes in train. I do not know what the private sector

would consider to be a good arrears level, but last year our arrears were 1.5% of our total revenue. I think that is quite good. I think many social landlords would be impressed with that figure. Up to 3% would be the norm. That is just the model that seems to work very well.

As we move into trying to look at how our duties will be ending and not using the private sector because what is attached to using the private sector as homeless temporary accommodation is a destiny to social housing, so if someone has a homeless duty accepted, it is a destiny to social housing. Actually, that is a ten-year cheque for us. If someone is in temporary accommodation for ten years, we have to pay that cheque back in some ten years' time. We would therefore be very keen to end that homeless duty sooner rather than later in the private sector. The welfare reform proposals are fundamentally derailing that.

We have talked about departments and services not talking together. This is classic. I remember at a conference when it was announced that we would be able to use the private sector as a cessation of our statutory homeless duty. However, the politicians at the time went, "OK, but let us see what guarantees there are around equality of that", and we are developing a landlords accreditation scheme that is more around we will do some of the responsibilities. We will not do repairs because we tender our repairs. Our landlords can get it done a darn sight cheaper through the black economy and get just as good a product, so they are not interested in our repair service. They are interested in some of our support services by using the family intervention model where you have families which are struggling but they just love the fact that we are paying our rent on time. They were really pleased about the capacity to use the private sector when it is appropriate and then welfare reform said, "But do not forget effectively that means the private sector in Southend. That is not anywhere near Tower Hamlets".

**Darren Johnson (Deputy Chair):** Yes. You are nodding, Karen [Alcock], so similar experiences in Hackney in terms of the forthcoming changes. Any other comments before we move on?

**Jacky Peacock (Brent Private Tenants' Rights Group):** I am not trying to direct answers to your question, but the things that we think would improve the experience from the tenant's perspective would be first of all accompanied viewings because quite often we find that tenants have refused accommodation that has been found for them for what seems on the face of it to be a very real problem but actually it is a problem that could have been overcome. We have just had a client who turned down a property because he did not think there were any buses and there was not a Tube station nearby. I am sure there were buses if somebody had been there to explain that. Sometimes it is unfurnished and they do not realise there might be some financial help available to furnish it. Those general things would make a big difference in terms of the acceptance.

The second point would be to have a proper tenancy sign-up service, to make sure that both parties read the tenancy agreement and understand what their rights and obligations are.

Just taking it one step further, I think a colleague had said the alternative is Southend or whatever. I do think we have to be realistic, sadly. There is less and less accommodation now for clients on benefits that is anywhere near payable. I think there is a vast amount more work

that could and should be done by the boroughs getting together collectively and looking seriously. I know obviously there are contacts being made with authorities outside London, but I would like to see it go further. For example, I was talking to the Leader of Brent this morning and saying I think it would be a sensible investment for Brent to actually pay for families to go and spend a week in Halifax or wherever it is, with liaison support there so there is somebody at the other end to show them the local schools, the support from social networks, the medical centre, whatever it is, and let them really get a feel of the place. Look at the wonderful places there are there for the sort of rent you are paying for your studio flat. I just think that would be a really sound investment.

**Colin Cormack (Service Head Housing Options, London Borough of Tower Hamlets):** I want the minutes to reflect that Tower Hamlets' homeless service is embarking on property acquisitions in Southend.

Just to share some of the figures on welfare reform, I am quite proud to say we have done an awful lot of work. 800 of those 1,400 households in temporary accommodation are going to have a varying degree of inability to pay their rent. I have talked about the rent arrears in our service and how successful we have been. We think the inability adds up to something like £7 million of rental income that we will be losing from 1 April for 800 families because of the £500 cut. We know that there are about 450 families in Tower Hamlets homes and double that number in the RP sector. The biggest one for us is the 2,000 to 3,000 in the private sector adequately housed, completely off the radar, most probably very content with their landlord and not on regulated rents. They are on local housing allowance rents. Their relationships will be of varying degrees but they are not in employment. On 1 April they are going to be significantly - it is not £5 and it is not £10, if it was, we did that when we had the LHA caps and there were some negotiations around that, this is £100. We know that those landlords love them to bits, their tenants, but they are going to have to say, "Go". They are going to have to say, "Go". The homeless approaches in Tower Hamlets have actually been reasonably static. Homelessness in Tower Hamlets has gone down slightly. That has bucked the east London trend. That is what Tower Hamlets does. It always does the opposite to the rest of east London. However, there are 2,000 to 3,000 people who by about June when the landlords have had enough will be saying, "We need some help from the local authority".

**Karen Alcock (Deputy Mayor, London Borough of Hackney and Chair of the East London Housing Partnership):** The other element of that I would want to add just in terms of consequences is it is going to affect families more because obviously larger properties in Hackney and east London cost a lot more. They are way, way higher than any Universal Credit or even the LHA cap. It is not just about people finding somewhere nice to live - I am sure Halifax is lovely - it is the consequences of a borough where effectively your families with children, a significant part of what makes boroughs exciting and the places they are, what makes London what it is, are going to not be able to afford to live in London. For me it is actually fundamental because it is not just, "If you cannot afford to live here, go and live somewhere else that is just as lovely". Effectively, you are taking out large sections of the population because of the unaffordability of larger units, not just in east London but across London and there are massive consequences for this capital for that.

**Colin Cormack (Service Head Housing Options, London Borough of Tower Hamlets):** In fact, dare I say it, the majority of our private sector family supply is ex-right-to-buy. There is an awful lot of it, second and third generation. If you look at what welfare reform will do to those families and their inability, it is comparable with what welfare reform has done to single people who now can only access the shared room rate. How long is it going to be before family accommodation on estates is actually houses in multiple occupation (HMOs) with single people and all the lack of cohesion and responsibility to the rest of the estate? They do not care where the refuse unit is. They do not care about the controlled entry. Whilst they are entitled, I just know that is what is going to happen.

**Andrew Boff (AM):** We are talking about making it more attractive for private landlords. Is there not some scope, bearing in mind that the institutional landlords tend to want larger developments rather than pepper-potting their ownership around an existing area, here for the use of additional public sector land for developing privately rented accommodation? The advantage is that the local authority or whoever owns that land can covenant the conditions of the rental of the properties. Is there scope there for increasing supply?

**Karen Alcock (Deputy Mayor, London Borough of Hackney and Chair of the East London Housing Partnership):** I do not think that is a bad idea. I think that the decisions that need to be made by local authorities, particularly in a borough like Hackney which, obviously I know very well, is that it is already a highly densely populated borough. There are only so many people I would want to, let alone I could, put into Hackney before you are actually beginning to fundamentally change the liveability of the borough. In terms of actually what you use public land for, as you know, we are doing some major estate renewal schemes where it is shared ownership, council target rent and obviously the privates rents are subsidised. In principle, I would not be against looking at a private rented scheme (PRS) or even some type of submarket PRS to try to deal with some of the issues I have explained today.

However, the fundamental problem is local authorities can put 200 extra units on a piece of council land or another 500 across borough over two or three years. But that is fundamentally not going to change the problem that you face as GLA members around affordability and people on waiting lists and where you put those people. Boroughs can do their bit, but we are never going to solve it by that type of approach, although it is an element of it and I am up for those types of decisions in Hackney.

**Andrew Boff (AM):** It is encouraging what you have said there, that you are open to it. I do not think there is any solution that solves the housing problem. It is unknown number of solutions you are going to make along the line. If that is something you are sympathetic to, I totally take the point that it works for some boroughs. It possibly would not work for Hackney. It possibly might work for Newham. It possibly might work for Barking and Dagenham where there is more public land available. But I take the point.

**Colin Cormack (Service Head Housing Options, London Borough of Tower Hamlets):** It is actually working for Barking and Dagenham. They have some land there. I think we will always have to recognise, though, if the local authority had a parcel of land - and in Tower Hamlets and Hackney that is a struggle - are they going to look to that private investor

or are they going to look to the housing association where there is rent regulation, where there is more control on service delivery and where there are longer tenancies? I know where I would go, I think.

**Andrew Boff (AM):** I am not offering it as the solution, but it would be useful if you could say, “Yes, that is one of the things that we could do.” It is one of the things about the private and institutional investors. They are not as bound by some of the regulation that other developers are. The problem is they are quicker.

**Colin Cormack (Service Head Housing Options, London Borough of Tower Hamlets):** Ostensibly the Government is actually trying to make the social housing sector like the private sector rather than the other way around by making rents non-affordable and by making tenancies finite, so the lowest common denominator is the perception.

**Fiona Twycross (AM):** Lovely, thank you. We have covered issues around affordable rent and I think Shelter says that a household income over £52,000 a year is required in order to rent the average home on the market in London, so it is obviously out of the reach of quite a lot of people. What options are there, then, for low income households who genuinely cannot afford the rent levels in the private sector?

**Colin Cormack (Service Head Housing Options, London Borough of Tower Hamlets):** We are looking at 800 of our families. We are about to embark on a whole raft of visits for those families. There is not very much in the way of an offer for us. I said this to Karen [Alcock]. This is not where I have sought the endorsement of my politicians. This is where I have told my politicians, “This is what I need to be doing. You just need to know what I am doing. My offer is around taking away choice and bidding for social housing. My offer is about potentially having to move you”. We think some of those people will react quite adversely by giving up that accommodation and going back to overcrowded accommodation. They may rent smaller. They may go back with mum and dad who are the architects of their homelessness. Some will go. Some will try and stay and set themselves up to fail. Overall it does not bode very well at all.

**Karen Alcock (Deputy Mayor, London Borough of Hackney and Chair of the East London Housing Partnership):** It is more children and families being severely overcrowded. That is not just children sharing bedrooms. We all know the stories of children sleeping on sofas with mum and dad because they are having to live in a two-bed and they are obviously in larger families. So there is the severe overcrowding becoming worse and obviously issues around health and wellbeing around that.

There are obviously the issues around just people moving to the worst accommodation, the cheapest accommodation and, again, about when you are looking at poverty and consequences for children, particularly in families, then obviously that is a significant issue. Basically, as I said, it is not good news. You are going to effectively push people into the worst housing.

Actually, what we are seeing in Hackney, for those people who cannot even access public funds because we do not have a duty to house them, what you are now seeing is effectively old

industrial units being illegally turned into what I can only describe as -- it is not quite the Newham Sheds. It is similar to the Sheds. It is effectively large industrial units where there have been MDF walls put up and rented out. These are often people from Europe who work maybe in the service industry and they can afford to pay a landlord £100, £150 or £200 a week but it is illegal, it is not residential and obviously there are severe health and safety issues.

In a sense that is at the very extreme end of what can happen for those people who cannot access the private rented sector and do not even have what is left of the welfare foundation to catch them. That is obviously a great concern because you are dealing with people who -- there was one last year where I think was a fire and some died because landlords are unfortunately taking advantage where people are so desperate to live for whatever reason in this part of London, they are able to make what you can only call going back to Victorian-type accommodation for workers.

**Len Duvall (Chair):** Do you have any contributions, Jacky?

**Jacky Peacock (Brent Private Tenants' Rights Group):** That is very much the experience we are seeing around housing advice. One of our clients recently moved. She qualifies for four-bed accommodation. She has a disabled daughter and she has just had to move into two-bed accommodation with all the implications that imposes over time.

One of the problems we have is that even if you could find accommodation within the cap, you still have the lowest 30% and, first of all, the whole of that lowest 30% is not available to housing benefit claimants for obvious reasons, but in Brent I think the percentage of claimants is something like 40%, so even if it was all of it, they could not all fit into it and much of it is above the cap anyway. It seems to me there is no other solution. They either have to move away or they have to downsize.

**Len Duvall (Chair):** OK. I think we covered this earlier on but let us move for the record in terms of -- let us go to Onkar Sahota for the next question.

**Onkar Sahota (AM):** In terms of the LHA, the Government intended that this reform would drive down the private rent values. Is there any evidence that this is being achieved at all?

**Len Duvall (Chair):** None at all?

**Ian Potter (Managing Director, Association of Residential Lettings Agents):** I do not think there is any at all. I am not 100% convinced that that was what they thought they were actually trying to achieve. I think part of it was that they were trying to --

**Tom Copley (AM):** That is what they said. That is how they sold it to us. Or tried to.

**Ian Potter (Managing Director, Association of Residential Lettings Agents):** Yet, when you are speaking to civil servants within the Department of Work and Pensions (DWP), that was not what they were saying. In a one-to-one they were actually saying that they were trying to cut the State bill. What they are not taking into account all the time when they are cutting one

State bill is that they are actually building up another one for the future. It would be very easy, and the health services have done some work on actually predicting the health problems that were building up and the cost of dealing with that as this underprivileged generation, if I can use that expression, becomes older and the health impact comes through. You also have the overcrowding issues that Karen [Alcock] was referring to that have impacts on antisocial behaviour, the police costs as a result of that and pressure on some of the schooling as well. I think one of the things that I get quite frustrated with central Government is that everything is worked in a silo and there is a real inability to work across departmental boundaries for the benefit of the population.

**Len Duvall (Chair):** Jacky, you wanted to come in?

**Jacky Peacock (Brent Private Tenants' Rights Group):** Sorry, just very quickly I wanted to come back to the question about what councillors can do because I just realised there is a third one for certain families because we have a very large Somali population in Brent who do tend to have quite large families in the four-bed plus group. Where they have older children, we are encouraging them to split their families up into two units. The overall cost is more in terms of the housing benefit that we pay but at least there is some chance of most of the rent being covered by benefit.

**Len Duvall (Chair):** Caroline and then John Biggs.

**Caroline Pidgeon (AM):** I just wanted to pick up. I know we heard some of this evidence earlier and Karen [Alcock] in particular was saying in Hackney you had not seen any reduction as a result of some of the changes in housing benefits so far. I appreciate the challenges for the future, but in our last session we had evidence from Neil Wightman, who came as Chair of the Association of Housing Advice Services but actually works for Lambeth. He was talking in particular about Lambeth and he said the actual impact on reductions in housing benefit was very low. They have been able to reduce rents. He said 600 households and their failure rate had been 9 to reduce the level of rent. Lambeth clearly have some sort of formula that is working and they have managed so far, appreciating the challenge is the next limit with the cap, but the evidence they gave us last month was they had managed. Is there some learning perhaps that could be done between boroughs to find out what is working in Lambeth that is not working in Hackney or Tower Hamlets?

**Colin Cormack (Service Head Housing Options, London Borough of Tower Hamlets):** We have to be very, very careful and unpick what Lambeth did there because what we did in Tower Hamlets is we had people reapply for their housing benefit a day before the caps came in. That gives you up to 19 months grace at the old rate. So be very, very careful. Some of the earlier benefit changes will not have actually kicked in financially until next year.

**Caroline Pidgeon (AM):** It was just because we had evidence on this because my assumption would be the same as what you are saying. He actually said, "We have proactively worked with over 600 households and our failure rate is 9. We have managed to do a lot of negotiation with landlords to reduce rents.



**Colin Cormack (Service Head Housing Options, London Borough of Tower Hamlets):**

Sorry, in terms of another dynamic, when the LHA went from 50% to 30%, it came at the same time that LHA went up, so 30% of the new rate was not a lot different to 50% of the old rate.

**Caroline Pidgeon (AM):** Maybe we could clarify this because I think that was -- yes.

**Tom Copley (AM):** Let us clarify on that because I remember that. I think what he went on to say was that it was going to be next year when the Universal Credit came in that he was expecting the massive problems to kick in. I am sure that is what he says. I have not seen his transcript but I remember the case you say but I am sure he said it was when the Universal Credit comes in in response because I queried him on that.

**Caroline Pidgeon (AM):** Yes, and then he went on and said all this, which is why I thought maybe we need to go back and clarify with him on some of the other boroughs because it seems very different to what I had assumed and from what we are hearing today.

**Karen Alcock (Deputy Mayor, London Borough of Hackney and Chair of the East London Housing Partnership):** Certainly you do need to look at exactly where that happened. It happened in Lambeth because Lambeth is geographically a very different borough from Hackney and it would be interesting to see where that was negotiated because there are obviously higher and lower values in Lambeth like there are higher and lower values in Hackney.

As I said when I first spoke, there are some places where you can just about slip under the LHA cap in Hackney. It is the poorest accommodation and it is in the cheapest areas. I can assure you, if my head of service were here, if she thought she could negotiate to reduce that, she would. I do not think that is the issue. I think it is about the dynamics of different boroughs as well as some other things, as Colin has said. I would be interested to see where geographically in what is a quite narrow borough that has happened because you have extreme differences, I would have thought, in rents there. It would be interesting to see in terms of when you drill into that what that looks like because there is granularity in Hackney between some of the lower value, cheaper, less desirable areas and the higher value areas. As a pattern, as a general trajectory in terms of whether these people can pay their rent if they are on an LHA, my answer remains no, they cannot, and I do not see any evidence of that changing. In fact, as we know, it is going to get worse next year when Universal Credit comes in, which effectively takes it to another level.

**Colin Cormack (Service Head Housing Options, London Borough of Tower Hamlets):**

Can I make just one observation that I think might help? In the work that we did, there were three reasons why there was not a significant rise in the loss of assured short-hold tenancies as a result of the earlier benefit reforms: (1) the capacity simply to put somebody on the old rate now and have that reviewed next year, (2) the 30% made very little difference to the 50% because of the annual uplift and also (3) because the change was about £5, £10 or £15 and a lot of the landlords did realise there was real business sense in just biting that bullet. That is where we were able to preserve tenancies. However, independent of that, there has been an increase in the loss of assured short-hold tenancies where landlords are being able to go to a different market with the first-time buyer becoming the first-time renter.

My other point is really passionate for me. The Government is talking that there will not be too much problem with Universal Credit and I absolutely agree because the damage will be done in April with welfare reform. By Universal Credit in October, they are already dead. They are already moving. They are already skint! Universal Credit, which sounds quite administrative and makes a lot of sense, coalescing with all the individual benefits, is not going to do the damage because they have already had that damage done by welfare reform.

**Ian Potter (Managing Director, Association of Residential Lettings Agents):** I think there is another dynamic, Colin. You are saying the first-time renter is the person who would have been the first-time buyer. I have heard several agents saying to me they have found a new phenomenon creeping into the market which is the person who has bought is now becoming a renter again because they need bigger accommodation. They are actually letting out the property because they cannot sell it because, with current house prices, they are in potentially negative equity by the time they have met the costs. This is particularly a problem in shared ownership developments. A lot of the shared ownership people are in negative equity on their share of the property and it is causing real problems in some parts of the country and obviously impacting in London as well.

**Len Duvall (Chair):** Are landlords and letting agencies increasingly refusing to accept tenants in receipt of LHA? Is there evidence for that, Jacky?

**Jacky Peacock (Brent Private Tenants' Rights Group):** Yes, I went onto one of Upad's websites. Upad has become now the largest online letting agency. You may have read in the papers this week they already had all the properties on the main websites, they go on those as well and so all the Evening Standard property. They have just done a deal this week with the Telegraph Group, so they are having all their properties as well.

I just noticed every single property that I looked for said, "No DSS [Formally Department for Social Security, now DWP]", so I rang them up to say, "Why are you doing this automatic thing?" He said, "No, every landlord before they put their property on the site, they have a questionnaire with various things including, 'Will you take housing benefit claimants?'" I said, "Are you telling me 100% are saying no?" He said, "No, strictly speaking it is 98% say no". That is a marked change.

**Len Duvall (Chair):** We might follow up on this with some further written questions to you as well around this issue. I want to go to Caroline Pidgeon in terms of a set of questions that she has.

**Caroline Pidgeon (AM):** It is just at the end, really. I think some of it we have covered quite a lot of, really, throughout the discussion. Are there any particularly good examples that you have of schemes that will look at and that will deliver longer term tenancies in the private rented sector? Are there any other innovations or schemes or ideas from elsewhere that you think could work that we have not already touched on today? I do not know, Kathleen, whether you want to start.

**Kathleen Scanlon (Research Fellow, London School of Economics):** The practice in other countries is mostly because of different legal regulations around tenancies. It is not something that landlords offer voluntarily. It is what is set out in the law. It is the case that in a lot of countries with very long tenancies the responsibility for maintenance falls much more heavily on the tenant than it does in this country, so that is one thing that encouraged landlords to do it, I suppose. But, no, I cannot really think of something that is in the nature of a scheme rather than a law.

**Jacky Peacock (Brent Private Tenants' Rights Group):** I have not come across any evidence, unfortunately, although hopefully some schemes will be developed.

**Ian Potter (Managing Director, Association of Residential Lettings Agents):** I have not come across anything, either. I think one of the issues that Kathleen is mentioning there is an interesting dynamic because the landlord has a vested interest as far as possible in lots of cases that the property is maintained. There is a real risk if you flip that the other way that the tenant does not see it as a home. Some do. But you have to be careful with how that dynamic works. Commercial property is a perfect example of that. It traditionally works on a repairing and renewal lease and you will get lots of tenants who just do not bother, particularly in certain parts. The whole industrial development becomes a real eyesore because the tenants either are not interested or do not have the money to do it. I think, with the types of tenancy that we are tending to focus on today, the question would be if they cannot afford our rent, how are they going to be able to afford to deal with repairs when they can at the moment turn around and say to the landlord that you have to deal with?

**Colin Cormack (Service Head Housing Options, London Borough of Tower Hamlets):** I am going to be quite reactionary and say I think there is a whole group of people who rent, who are very good occupiers of that property - I am using my words very carefully - and who typically maintain those properties, look after them and act as good occupiers. They are people who rent their properties off their building society and I know they are owner/occupiers but more and more - and my son is an example - he is going to retire before his mortgage is paid. Is there some sort of way that we go back to institutional investors and give some opportunity for the tenant to inherent some of the asset value of that property?

**Caroline Pidgeon (AM):** Interesting.

**Colin Cormack (Service Head Housing Options, London Borough of Tower Hamlets):** I do not hate right-to-buy but I just hate right-to-buy --

**Caroline Pidgeon (AM):** But not even that but - -

**Colin Cormack (Service Head Housing Options, London Borough of Tower Hamlets):** An investment. If the investor is -- you know, we do it with leased cars. There are lease car companies and their interest is not in the asset value of the car. It is in the income of the lease and at the end of the term they sell you the car cheaper and you look after the car because it is potentially your interest. There are people who finance cars, not in the lease way but that sort of balloon payment, so there are sorts of models but I am not -- you know.

**Caroline Pidgeon (AM):** No, but it is an interesting point.

**Len Duvall (Chair):** I think you are right, you have rightly raised a new issue, which we will look at. We will look at the private owner/occupier market and see how it is operating for all sorts of reasons. But there are increasing numbers of people who would have retired and who would have paid off their mortgage but they will not have. Therefore, the market will come up with a solution maybe along the lines of what you have said, or there are going to be added problems here. Maybe that is something we hold on to and return to.

**Colin Cormack (Service Head Housing Options, London Borough of Tower Hamlets):** I was not thinking about the evidence. What I am thinking about is now go back and use that model and go back to the tenant.

**Len Duvall (Chair):** Yes, use it to get in there before the problem begins.

**Colin Cormack (Service Head Housing Options, London Borough of Tower Hamlets):** If you can have that income having all the tax advantages -- I did not know that either about what he was saying, I thought most small landlords could offset all of those repairs costs. Now I understand why maybe they are less inclined.

**Karen Alcock (Deputy Mayor, London Borough of Hackney and Chair of the East London Housing Partnership):** Not really to add on that, I am afraid. I wish there was but,-

**Len Duvall (Chair):** Are there any other questions that members of the panel want to raise as we are coming towards the end of this session? Is there anything you think we have not covered that you wish to tell us? We will follow up with some written questions to further clarify the submission on some additional subjects.

If that is the case, then, can I thank you for the way that you have responded in terms of the questions? It is a fascinating subject, but at the end of it, it is about people and about where they live and in that sense it is what we are dealing with. We are very grateful for the way that you answered the questions. Thank you very much.