Chapter 2

Developments in the private rented sector

Tom Simcock

Introduction

The private rented sector (PRS) is an important tenure for millions of households across the UK. The sector has diversified from the types of households 'traditionally' associated with the PRS (i.e. mobile young professionals, students and migrants) to providing housing to a wide variety of households including those with low incomes, families with children and people over 65.

Before the Covid-19 pandemic, private renters were already struggling with issues such as insecurity of tenure, affordability and poor property conditions. The last two years have shone a light on the importance of an affordable, safe and secure home, with this increasing the pressure for further reform across the UK. There have been announcements and legislative changes aimed at addressing these challenges. Scotland introduced the Private Residential Tenancy (PRT) in 2017 to improve security of tenure for renters. In Wales, the Renting Homes (Wales) Act 2016 made changes to security of tenure and contract terms and is due to be introduced in July 2022. In 2019, the UK government announced that it intended to abolish section 21 of the Housing Act 1988 to end 'no fault' evictions in England: a white paper is promised on this and other reforms in 2022.

It seems that uncertainty will continue as the world adapts to the Covid-19 pandemic, and new reforms are either implemented or put forward for consultation. There are many challenges facing the sector, including improving the energy efficiency of properties, addressing the increasing difficulties in affordability and tackling the health inequalities arising from poor quality housing.

This chapter examines key developments over the last year, the continued impact of the pandemic, and the diverging policy and regulatory landscape across the UK. Specifically, the chapter explores the following key themes:

- The Covid-19 pandemic and the PRS.
- Developments in the sector including landlord activity and attitudes, the build to rent sector and the growth of short-term letting.
- The changing regulatory landscape across the UK.

Note that aspects of the PRS are also discussed in Commentary Chapter 3 on the private housing market.

The Covid-19 pandemic and private renting

Clearly the last two years have presented significant challenges: lockdowns and requirements or advice to work from home have further demonstrated the importance of safe and secure housing for our health and wellbeing. The economic consequences of the pandemic threatened many renters' ability to retain their tenancies. Nearly a quarter of private renters saw their income reduced at some point during the pandemic.[1] In Scotland, a higher proportion of private renters (45 per cent) had experienced a fall in income at the start of the pandemic in comparison to other tenures.[2]

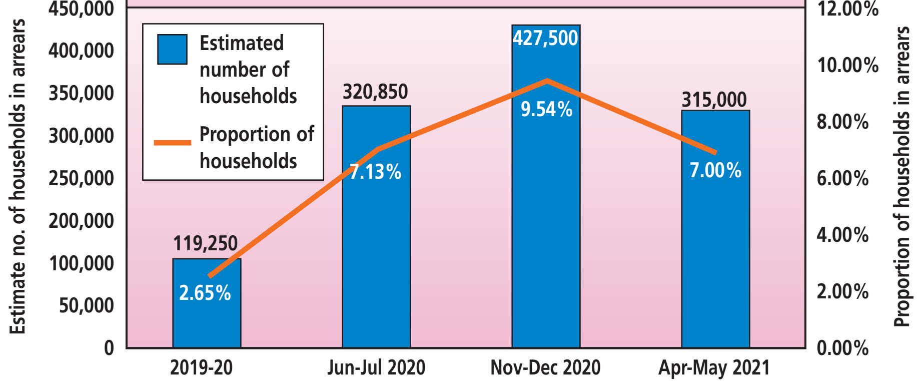
Governments across the UK responded by introducing temporary measures designed to prevent tenants from losing their homes. These included the furlough scheme, the evictions moratoria, changes to notice periods for evictions, the re-aligning of local housing allowance (LHA) to the 30th percentile of local rents and introducing a £20 uplift to universal credit.

However, in 2021 these measures were wound down and withdrawn. The government removed the uplift to universal credit and reverted to the austerity-era policy of freezing LHA rates. Criticism of these changes came from across the sector, with 100 organisations issuing a public letter to the prime minister in September urging the government not to proceed with the cuts.[3] The National Residential Landlords Association argued that the cut to universal credit would 'worsen the rent arrears crisis'.[4]

The negative impact of the pandemic continued throughout 2021. Signs of economic recovery occurred alongside government measures to alleviate the suffering of households, including loan/grant schemes for renters to pay-down rent arrears due to pandemic loss of income.

As Figure 1.2.1 demonstrates, in England seven per cent of renters were in arrears in April-May 2021, down from nine per cent in November-December 2020. Seven per cent equates to approximately 315,000 households across the sector and is still well above pre-pandemic levels of rent arrears. Furthermore, there are concerns that more households could experience arrears, with nearly one-in-ten renters reporting that they were very or fairly likely to fall behind with their rent payments in the next three months.[5]

Figure 1.2.1 **Proportion of private renting households in England in rent arrears 2019-2021**



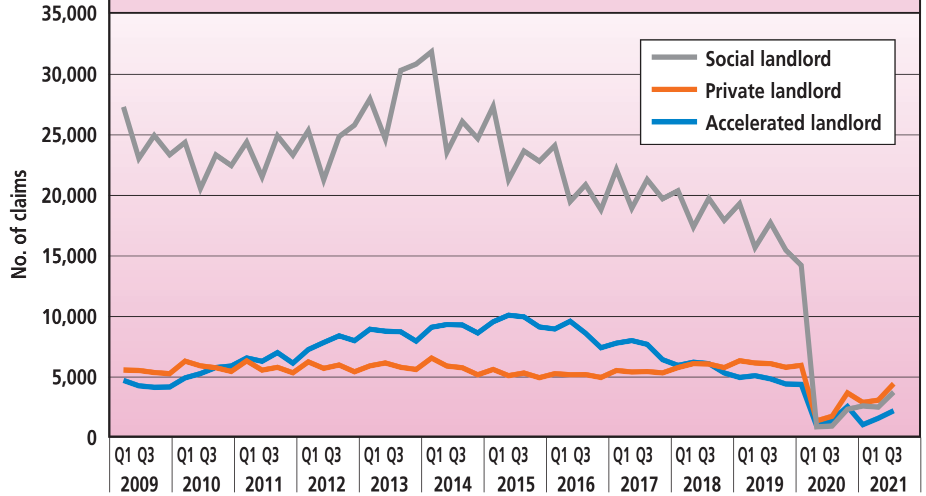
Source: Author analysis of DLUHC English Housing Survey: Household Resilience Study, Wave 3.
Note: Estimated number of households is based on an estimated 4.5 million PRS households.

In the 2021 *UK Housing Review* Autumn Briefing Paper, we noted that, while the government had introduced furlough, increased LHA rates and imposed an evictions moratorium, these were not by themselves enough to prevent rent arrears arising as a result of the pandemic. The government in England has now taken some steps to address the rent arrears crisis with the launch of an additional £65 million Homelessness Prevention Grant. This is to be administered on a case-by-case basis by local authorities, to support lower-income households with rent arrears. While it is a step in the right direction, there are challenges, such as ensuring renters know how to access this support. The funding also may not be enough, given that the Housing, Communities and Local Government Select Committee have previously estimated that £200-300 million would be needed to fund a Covid-19 financial package for the PRS.[6]

Across the other countries of the UK, there are limited data on the proportion of rent arrears in the PRS, a symptom of issues with pan-UK data on the sector. However, a recent study in Scotland found that, at the end of 2021, three per cent of private renters reported that they were currently in arrears.[7] Somewhat earlier in the pandemic, the Scottish and Welsh Governments had introduced financial support for private renters. However, this was provided through loan schemes, and the BBC found in Wales that only 41 applicants had qualified for support in the first seven months.[8] The effectiveness of the schemes was hampered by the creditworthiness and affordability requirements imposed on applicants. The schemes were criticised across the sector, and to ensure the support was more widely accessible, the loans were transformed into grants schemes. Discretionary housing payment budgets were also increased across Great Britain, with some of this intended to support private renters. However, it was left to local authority discretion on how to allocate this funding and it required the applicant to be in receipt of universal credit/housing benefit.

As described in the 2021 edition of the *Review*, during the pandemic governments across the UK introduced a raft of changes to eviction procedures in efforts to limit homelessness. These have included extended notice periods and pre-action protocols. As Figure 1.2.2 shows, the measures helped to limit the number of landlord possessions, supporting private renters to remain in their homes during the pandemic. However, there are now emerging data that show that evictions in the PRS are starting to pick up again (as they are in the social sector, too).

Figure 1.2.2 **Landlord possession claims in England and Wales, 2009-2021**



Source: Author analysis of MOJ Mortgage and Landlord Possession Statistics (2021).

Figure 1.2.2 illustrates the trend in landlord possessions since 2009 in England and Wales on a quarterly basis. While the latest data are affected by Covid-19 restrictions and the restart of court proceedings, several trends are evident. In 2020 evictions dropped off significantly; however, they are now starting to increase rapidly, albeit not to the same levels as pre-pandemic. Social landlords are making considerably fewer claims, and now the majority come from private landlords and accelerated (or section 21) claims, which are also overwhelmingly made by private landlords. Without further action it is likely that pre-Covid PRS repossession claim levels will be reached in 2022.

Sector developments

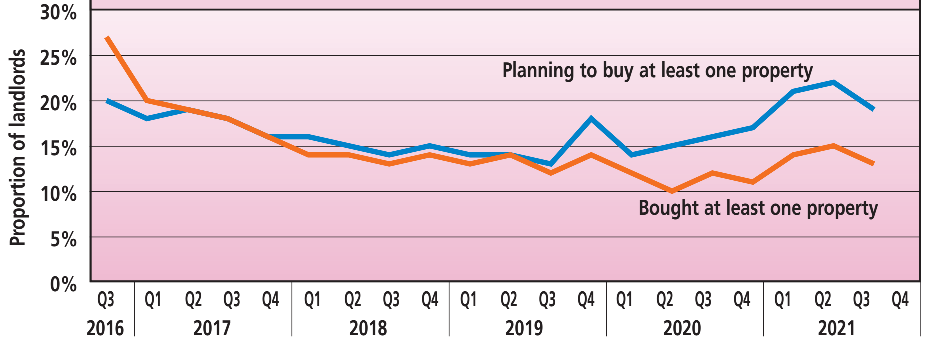
Over the last year there have been several developments across the sector, including changes in attitudes by landlords, continued investment by build to rent developers, and changes in the short-term rental market. These are now examined in turn.

Changes in landlord investor attitudes

During the Covid-19 pandemic, the UK government introduced changes to the stamp duty land tax paid in England and Northern Ireland. From July 2020 to September 2021, home buyers did not have to pay stamp duty on the first £500,000 of a purchase price. Similar measures were introduced in Scotland and Wales relating to their devolved property transaction taxes. However, these concessions did not apply for landlords in Wales, where no changes were made to higher rates of land transaction tax. In England, Northern Ireland, and Scotland, while landlords and second homeowners still had to pay the surcharge for second properties, this still meant a tax cut for property purchases. The likely impact of this policy on landlord attitudes to portfolio changes can be identified in long-term attitude tracking from the National Residential Landlords Association (NRLA).

As Figure 1.2.3 demonstrates, there was a steady weakening in landlord appetite to invest in additional properties – measured through either their plans to buy or reporting the purchase of additional properties – until the start of the pandemic. However, from mid-2020 onwards this trend reversed, with increasing proportions of landlords reporting either their intention to purchase an additional property or

Figure 1.2.3 **Landlord attitudes to the purchase of additional properties in England and Wales, 2016-2021**



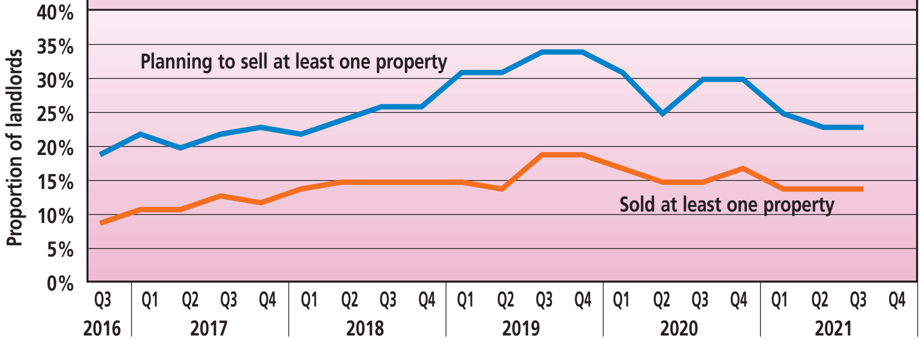
Source: Author analysis of NRLA quarterly survey data (2016-21).
Note: For Q1 2020, the proportion of landlords who have bought at least one property is based on author estimation from NRLA narrative reporting.

the actual purchase of at least one extra property. Since this change occurred around the time of the stamp duty concession, it is likely to have been a factor affecting attitudes, especially due to the downturn in Q3 2021 once the tax cut was removed in England.

There are also important trends emerging in landlord attitudes to the sale of rental properties (Figure 1.2.4). Since 2016, the proportion of private landlords who reported that they planned to sell at least one property had increased, from just under one-in-five landlords in 2016 to over one-in-three landlords by the end of 2019. However, since the end of 2020 and throughout 2021 this has decreased and now under a quarter of landlords report they plan to sell property in the next 12 months.

A major area of contention for private landlords is the significant tax changes that governments have introduced since 2015 to stem investment from small-scale buy to let landlords. These measures include the additional three per cent levy on stamp duty land tax (and devolved equivalents) for additional properties, the restriction of finance cost relief for individual private landlords (reducing tax relief for mortgage costs to a basic rate), and the replacement of the fixed, ten per cent wear-and-tear allowance with the 'replacement of domestic items relief' (RDIR).

Figure 1.2.4 **Landlord attitudes to the sale of properties in England and Wales, 2016-2021**



Source: Author analysis of NRLA quarterly survey data (2016-21).
Note: For Q1 2020, the proportion of landlords who have sold at least one property is based on author estimation from NRLA narrative reporting.

While the majority of these tax changes are unlikely to seriously affect existing landlords with one or two properties, the effect is likely to be more severe for landlords with larger portfolios.[9] Previous research showed that 70 per cent of landlords surveyed thought these tax changes would reduce their profitability, with 62 per cent reporting that it would fall by at least 20 per cent.[10] Given these tax changes and the potential 'threat' of future legislation and regulatory changes, it is not surprising that some landlords are seeking to cash in on their portfolios, especially given that more than half of landlords are aged 55 years or older, so may be looking to run down their assets in any case.[11]

However, there are some disparities between the proportion of landlords who report planning to sell properties and the proportion of landlords who report they have actually sold them. Analysis reveals an average difference of ten percentage points between those planning to sell and their reported behaviour 12 months later.[12] Despite the differences between planned and reported sales, there has been an increasing proportion of private landlords who reported selling property, and this appears to have levelled off over the latter stages of 2021.[13]

Further research is needed to understand the trajectories of this stock. For example, does this housing remain within the tenure after being bought by other landlords, or is the stock moving into homeownership? If so, is this making it more difficult for other households to find a property to rent? A reduction in supply of privately rented properties could hamper economic recovery by limiting labour mobility and could also create pressures in already 'hot' local markets, making it more difficult for lower-income renting households to find somewhere affordable to live.

Reasons for growth in the build to rent sector

The build to rent (BtR) sector is attempting to meet the increased demand for rental properties and is marketed as part of the solution to the challenges faced by the PRS generally (i.e. affordability, professionalism and property quality). From a very low base the UK build to rent sector has gone from strength to strength over the last decade, and in 2021 hit a record of £4.1 billion in investment.[14] This is an increase of 14 per cent since 2020 and is despite the pandemic, illustrating the demand for the sector from both investors and renters.

BtR has primarily focussed on city-centre developments for young professionals and offering improved tenancy conditions and amenities such as longer-term tenancies and allowing pets. However, Savills report that the sector is now diversifying into different segments such as family and suburban developments and is supporting an increase in housing supply across the country.[15]

As noted in Commentary Chapter 3, the total size of the BtR sector is 205,500 units, which is still very small in comparison to the broader PRS. However, there are 99,500 units in the pipeline for future development, showing potential growth in the sector in the near future.[16] Growth outside London is likely to continue: Savills report that in the year to Q3 2021, more than twice as many BtR developments started construction outside London than within the capital. Further, these developments outside London are larger, delivering an average of 260 units compared to 205 units in London. The BtR is shifting towards cities and towns in other parts of England, with the pipeline for future BtR developments increasing by 22 per cent in such areas.

While there has been growth across the UK, the sector still represents a minority of the overall PRS. BtR is currently a fairly niche market, and as noted in

Commentary Chapter 3 it caters more for younger households and middle-income earners. Sizeable, continued investment would be needed to increase the size of BtR in the PRS, add competition and provide more choice for consumers.

Short-term rental

The loss of properties from the long-term rented sector (LTR) to short-term rental (STR) activity is a key issue facing policymakers, neighbourhoods, and renters seeking affordable properties. STR has always been part of the housing sector, however platforms such as Airbnb have driven the rapid growth in this activity, as Alasdair Rae reported in Contemporary Issues Chapter 3 of the 2019 *Review*.

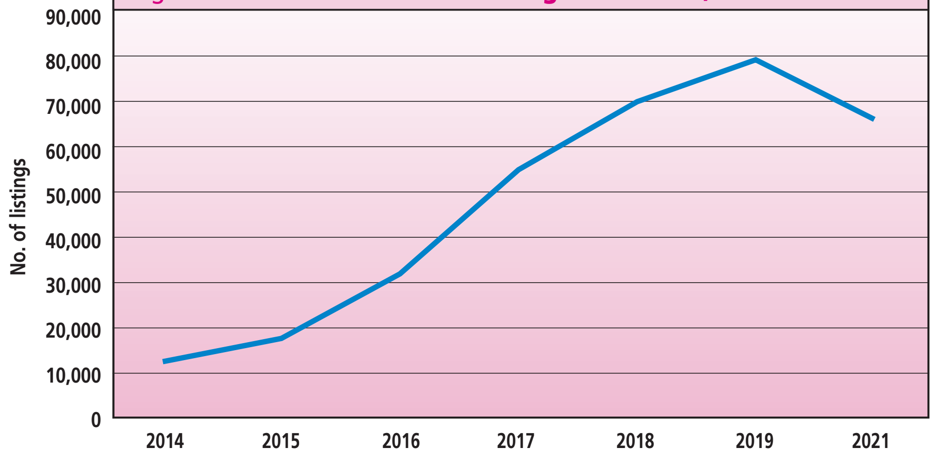
In 2017/18, the English Housing Survey reported that around 2.8 million households casually let part of or their entire home on platforms such as Airbnb, with 640,000 households doing so in London alone. Since the global financial crisis and technological advances, new platforms are disrupting activities through the 'sharing' and 'gig' economies. Key examples include Deliveroo, Uber and Airbnb. Airbnb has been one of the most prominent platforms enabling millions of people worldwide to advertise their home and has become a staple part of the tourism industry.[17]

The growth of these platforms and the use of housing stock in this way has raised concerns about their impact on housing markets, and specifically the private rented sector. This is especially pertinent in the UK. Here the tax changes in the PRS help to make STR financially more attractive to private landlords, as the tax changes to mortgage cost relief do not apply to STRs. Furthermore, property owners prefer the STR sector over LTRs due to the prospect of higher rents with little capital investment.[18] In 2017, seven per cent of landlords reported they had already converted some properties to STRs.[19]

In London, short-term letting activity was prohibited without planning permission until the introduction of the Deregulation Act 2015. This enables homeowners to let their property as a STR in the capital for up to 90 nights per year without the need for planning permission. In London there was substantial growth in activity, with a 571 per cent growth in entire home listings on Airbnb from 2014 to 2019.[20]

This growth is linked with an increase in the proportion of the STR sector operated by 'professional hosts' with multiple lettings: the research found that 12 per cent of hosts had more than one property, and these hosts operated nearly half (44 per cent) of all entire-property listings in London. There is also evidence that some landlords and agents are bypassing planning permission and Airbnb restrictions to let properties for more than 90 nights per year.[21]

Figure 1.2.5 **Total number of listings on Airbnb, 2014-2021**



Source: Author analysis of InsideAirbnb.com data.

The Covid-19 pandemic, however, has put a dent in STR activity through travel restrictions and public health measures (such as lockdowns). In response, landlords were reportedly switching from STRs to LTRs, with a substantial increase in rental property availability.[22] This does not seem to be a short-term effect, with the number of Airbnb listings in December 2021 down 16 per cent in London compared to April 2019.

It will be important to monitor the changes in this activity and the impact on LTRs as the pandemic evolves. If travel and tourism increase considerably then demand for STRs could rise. With looming policy changes across the UK, this may nudge some landlords, especially those with properties in sought-after locations, to (re)enter the STR sector. The reduction of supply of properties could price households out of neighbourhoods and cause further affordability pressures.

Changing landscape of renting across the UK

The regulatory landscape of the private rented sectors across the UK is in a state of flux. While the demographics of renters has evolved and become much more mixed, there is a core demographic of younger households. These demographic shifts alongside a more substantial PRS represent a significant political challenge for governments and political parties across the UK.

In UK elections over the last decade including the 2019 election, younger people were more likely to vote Labour, while the Conservatives had a much stronger lead in the over 65s. At the 2019 election, while the majority of homeowners were likely to vote Conservative, 46 per cent of private renters voted Labour. At the 2017 election Shelter identified that Labour had a 23-point lead over the Conservatives among private tenants and found that in marginal seats in England the number of private renters correlated with a fall in the Conservative vote.[23] This 'renter vote power' makes the concerns of renters politically important, especially as the sector now accounts for approximately one-fifth of all households.

In England, in 2019, the then prime minister Theresa May announced the end of 'unfair evictions' with the abolition of section 21 'no-fault' notices. These notices allow private landlords to serve notice for repossession of the property without any reason being needed. They provide a two-month notice period before the landlord can make a claim to the court to end the tenancy and gain repossession.

The landlord's ability to serve notice without citing a reason, combined with the short notice period, are major causes of insecurity for private renters and provokes fear and anxiety. Insecurity of tenure along with other elements of renting can make it difficult for private renters to settle down and create a 'home', with research findings showing that insecure private renting can have negative effects on health and psychological well-being.[24]

Therefore, efforts to rebalance the power dynamic between landlord and tenant and improve security of tenure should be welcomed. There are concerns from landlord groups in England that the removal of section 21 notices would be detrimental to the sector without broader reform to section 8 grounds for possession and to court procedures. Section 8 grounds allow the landlord to regain possession if a certain condition is met, such as rent arrears or anti-social behaviour. Some grounds are mandatory, meaning that the court must provide the landlord with possession, while other grounds are discretionary. Landlord groups are lobbying for these section 8 grounds for eviction to be streamlined and to make it easier for renters to lose their home.

Despite the announcement of the abolition of section 21 in 2019, there has been little policy movement. Plans for a Renters' Reform Bill were announced in the Queen's Speech in 2019 and re-confirmed in the 2021 Queen's Speech. A white paper leading to a Renters' Reform Bill was planned and is only now firmly promised in 2022 as part of February's Levelling Up white paper.

The forthcoming white paper in England will include abolition of section 21 notices and reform to section 8 grounds, new mandatory minimum standards for lettings (based on an updated Decent Homes Standard), a 'strong' right to redress for tenants and strengthened enforcement in the sector. It will 'explore' the introduction of a national landlord register. Deposit passports or 'lifetime' deposits are also believed to be under consideration, addressing the problem of renters having to find a deposit when moving property while waiting for their previous one to be returned. The passport proposal would solve this by allowing renters to transfer their current deposit to their new tenancy.

The whole sector will be waiting in anticipation to see how far these proposals go to improve renting for millions of households across England. In the meantime, Wales is also facing significant rental reforms with the Renting Homes (Wales) Act 2016 and the Renting Homes (Wales) (Amendment) Act 2021 coming into force on 15 July 2022. This new legislation is a major change for the PRS in Wales and introduces new rights for tenants and responsibilities for landlords. In particular, the 2021 Act increases security of tenure for renters, extending the minimum notice period under section 173 (similar to the section 21 notice) to six months rather than two months; preventing landlords from serving a section 173 notice until six months after the start of the tenancy; and delaying a further section 173 notice until six months after the expiry of a previous one. This ensures that the tenant has a minimum of 12 months' security of tenure from the start and provides more time for a renter to find a new letting if they are not at fault.

Northern Ireland is also considering some limited reforms to its PRS. A Private Tenancies Bill is at the first stage of the legislative process and will place restrictions on the frequency of rent increases, extend notice periods and introduce new regulations on standards of electrical safety and energy efficiency. However, the bill may not receive royal assent before the end of the current Northern Ireland Assembly term.

In contrast, Scotland has already experienced substantial rental reforms that have enhanced security of tenure through the Private Housing (Tenancies) (Scotland) Act 2016. This introduced the Private Residential Tenancy (PRT) and also allows local authorities to apply to designate 'rent pressure zones' where rents can be restricted to a certain level. In addition, separate legislation increased the purview of the First-tier Tribunal for Scotland (Housing and Property Chamber). The Scottish Government has now published for consultation a draft Rented Sector Strategy, informed by discussion with tenants. Broader research projects will feed into a final strategy, promised by the end of 2022.

A core component of the Scottish strategy is putting the voices and experiences of renters at the centre of reforms, including the potential development of a long-term tenant panel and the funding of new research. A project funded by the Joseph Rowntree Foundation in partnership with the Scottish Government seeks to understand the challenges faced by low-income renters and to co-produce solutions. Emergent findings highlight issues of affordability, professionalism, access to the sector and property conditions and repairs.[25]

The draft strategy addresses these issues and also seeks to improve renters' experiences, for example making their house a 'home', having the flexibility to decorate, have pets and enjoy greater security of tenure. It seeks to improve standards and introduce a new housing regulator for the PRS. One key commitment, that will be contentious to some, is to improve upon the current rent pressure zones and introduce a system of national rent controls by 2025. However, the design and detail of how rent controls will work are still to be determined. It will be important to see how this policy develops, what the impacts are on renters, landlords and the broader sector, and what lessons it provides for the rest of the UK.

Notes and references

1 Bell, T. & Judge, L. (2021) *Lockdown lessons: what 2020 has to teach us about the difficult weeks ahead*. London: Resolution Foundation.

2 Joseph Rowntree Foundation (2020) *Poverty in Scotland, The independent annual report 2020*. York: JRF.

3 Joseph Rowntree Foundation (2021) *Keep the lifeline – open letter to the Prime Minister*. York: JRF on behalf of various organisations.

4 NRLA (2021) *Universal Credit cut will worsen rent arrears crisis says NRLA*, press release, October 6. London: NRLA.

5 DLUHC (2021) *English Housing Survey: Household Resilience Study, Wave 3 April-May 2021*. London: Department for Levelling Up, Housing & Communities.

6 HCLG Committee (2021) *Protecting the homeless and the private rented sector: MHCLG's response to Covid-19*. London: HoC (see https://committees.parliament.uk/publications/5342/documents/53217/default/).

7 Simcock, T., McKee, K., Soaita, A., Harris, J., Moore, T., Marsh, A. & James, G. (2021) *What do lower income tenants in Scotland's private rented sector want to see from a new Rented Sector: Emergent findings briefing*. York: JRF.

8 Davies, C. (2021) *Rent arrears grants as eviction ban ends in Wales*. London: BBC (see www.bbc.co.uk/news/uk-wales-politics-57651773).

9 Jones, M., Muir, K., Udagawa, C. & Burgess, G. (2018) *The impact of taxation reform on the private rented sector*. Cambridge: University of Cambridge.

10 Simcock, T. (2018) *The Impact of Taxation Reform on Private Landlords*. Manchester: Residential Landlords Association.

11 MHCLG (2019) *English Private Landlord Survey 2018: Main Report*. London: Ministry for Housing, Communities & Local Government (see www.gov.uk/government/publications/english-private-landlord-survey-2018-main-report).

12 Simcock, T. & Kaehne, A. (2019) *State of the PRS (Q1 2019): A survey of private landlords and the impact of welfare reforms*. Liverpool: Edge Hill University.

13 Note there are differences in sample size across these quarters, with a steady decrease in sample size from approx. 2,500 landlord respondents up to 2019 to approx. 1,100 respondents throughout 2021. These changes in sample size could affect the confidence interval and margin of error for later data points.

14 CBRE (2022) *UK Build-to-Rent Investment Hits Record High in 2021*, press release, January 5 (see https://news.cbre.co.uk/uk-build to rent-investment-hits-record-high-in-2021/).

15 Savills (2021) *UK Build to Rent Market Update – Q3 2021* (see www.savills.co.uk/research_articles/229130/319811-0).

16 BPF (2021) *Build to rent map*. London: British Property Federation (see https://bpf.org.uk/about-real-estate/build to rent/).

17 Alizadeh, T., Farid, R. & Sarkar, S. (2018) 'Towards understanding the socio-economic patterns of sharing economy in Australia: an investigation of Airbnb listings in Sydney and Melbourne metropolitan regions', in *Urban Policy and Research*, 36(4), 445-463.

18 Wachsmuth, D. & Weisler, A. (2018) 'Airbnb and the rent gap: Gentrification through the sharing economy'. in *Environment and Planning A: Economy and Space*, 50(6), 1147-1170.

19 Simcock, T. (2017) *From Long-Terms Lets to Short-Term lets: Is Airbnb becoming the new buy-to-let?* Manchester: Residential Landlords Association.

20 Simcock, T. (2021) 'Home or hotel? A contemporary challenge in the use of housing stock', in *Housing Studies,* 1-17 (https://doi.org/10.1080/02673037.2021.1988063).

21 Lynn, G. (2019) *London firms helping landlords break letting laws*. London: BBC (see www.bbc.co.uk/news/uk-england-london-47305575).

22 Burns, H. (2020) 'Covid-19 forcing landlords to switch from Airbnb to long-term lets, says Rettie', in *Insider.co.uk* (see www.insider.co.uk/news/covid-19-forcing-landlords-switch-21824879).

23 Akehurst, S. (2017) *Housing and the 2017 election: what the numbers say* (see https://blog.shelter.org.uk/2017/06/housing-and-the-2017-election-what-the-numbers-say/).

24 Clair, A., & Hughes, A. (2019) 'Housing and health: new evidence using biomarker data' in *Journal of Epidemiology and Community Health*, 73(3), 256-262 (https://doi.org/10.1136/jech-2018-211431); Harris, J., & McKee, K. (2021) *Health and Wellbeing in the UK Private Rented Sector: enhancing capabilities*. Glasgow: CaCHE; McKee, K., & Soaita, A. M. (2018). *The 'frustrated' housing aspirations of generation rent*. Glasgow: CaCHE.

25 Simcock, T., *et al* (2021) *op.cit.*