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Property supply to the lower end of the English private rented sector

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Foreword

In 2018, the Nationwide Foundation funded the Centre for Housing Policy at the University of York to deliver a review of the private rented sector in England and create an accompanying report into vulnerability in the private rented sector. Coming out strongly from this seminal work was evidence about how precarious the lowest end of the private rented sector is, both in terms of how it operates as a market, and the experiences of renters living there.

Critical questions that emerged from the 2018 review remain: what role is the private rented sector expected and willing to play in the wider housing system? And how sustainable is it? For the Nationwide Foundation, sustainable means that landlords are able to operate their business, and renters are able to live in decent and affordable homes.

This new research by the Centre for Housing Policy looks to start answering those questions with a particular focus on the part of the private rented sector that is typically occupied by renters in poverty, in receipt of housing benefit, on the lowest incomes or paying the lowest rent.

What is clear to us from this research is that this lower end of the private rented sector is not sustainable. In most of England, housing is simply unaffordable for private renters on low incomes. Even in more affordable areas, the decisions being made by landlords, letting agents and intermediaries about who they let to and how they operate their businesses, are skewing the market, often disadvantaging renters on low incomes.

We know that many of these renters are particularly vulnerable to harm in the private rented sector, yet there is simply nowhere else for them to turn. Until there are more social rented homes, reform of the welfare system and changes to the private rented sector, this problem will only get worse. We can no longer accept that the private rented sector in its current form will continue to be able to deliver housing to renters on low incomes.

Our thanks go to Dr Julie Rugg and Dr Alison Wallace for carrying out this thorough and insightful research that can inform thinking and decisions relating to the private rented sector. We hope stakeholders will find this new evidence about the characteristics of the lower end of the private rented sector and its landlords, as interesting as we have.

Bridget Young, Programme Manager
The Nationwide Foundation
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Nationwide Foundation

As an independent charity, the Nationwide Foundation influences changes to improve circumstances for those people in the UK who most need help. Its vision is for everyone in the UK to have access to a decent home that they can afford, and its strategy seeks to improve the lives of people who are disadvantaged because of their housing circumstances. To do this, it aims to increase the availability of decent affordable homes. The Decent Affordable Homes strategy began in 2013 and the Nationwide Foundation is committed to this strategy until 2031.

Funding for this work, totaling £199,434, has been given as part of the Nationwide Foundation's Transforming the Private Rented Sector programme. The Nationwide Foundation has a commitment to transforming the private rented sector so that it provides homes for people in need that are more affordable, secure, accessible and are better quality.

The Nationwide Foundation was established by Nationwide Building Society in 1997 as a fully independent foundation. It is a registered charity (no. 1065552) and a company limited by guarantee in England and Wales (no. 3451979).

Executive summary

Key messages are summarised in the boxes.

1. Introduction

- This report assesses the sustainability of property supply to the bottom end of the private rented sector in England. The report defines 'sustainability' in terms of property coming to the market at sufficient scale to replace properties that have been withdrawn, supplied by landlords with stable business models and where income is sufficient to undertake necessary repairs and maintenance.
- A great deal of research has considered the impact of austerity measures on tenants living in the PRS. Little attention has been paid to the characteristics and behaviour of landlords meeting the need for lower-rent housing. This report explores why some landlords might express a 'No DSS' preference whilst others actively target that market. A sustainable supply of affordable rental properties depends on continued landlord engagement with this part of the sector, and the research also examines letting intentions amongst this landlord group.
- In the absence of substantial investment in social housing, there is an expectation that the PRS will continue to meet lower-income household need. This report explores how far it is viable for private landlords to play that role, and whether future supply will be robust and sustainable.
- This research is taking place at a time when PRS growth has faltered nationally although there is substantial regional variation in terms of increase and contraction in this part of the market. Sectoral reconfiguration has led to a refinement of supply-side characteristics. There is increasing investment – including large-scale institutional investment – in the 'mediated' market which secures access to PRS properties for households in acute housing need. This interest reflects higher levels of housing benefit that are often payable, for example, for temporary or exempt accommodation.
- At the same time, the regulatory context for landlords has altered the complexion of a market that has hitherto been regarded as relatively benign for small investors.
- The research is based on multiple methods and data sources including secondary analysis of existing datasets, qualitative interviews with professional informants, a short quantitative survey of landlords and detailed qualitative interviews with 55 landlords.

A number of policy changes have impacted on the PRS since 2012, and each change has had the potential impact of reducing landlord willingness to supply property to the bottom end of the market.

2. Characteristics of tenant demand

- There are a number of ways in which it might be possible to define the 'lower end' of the private rented sector. Definition can rest on any of the following terms: the household living in poverty, being in receipt of housing benefit, being on the lowest incomes or paying the lowest rent. Taken together, all those features cover well over half the rental market. However, lower-end demand is generally expressed by one or two of these elements: private rented households in poverty are obviously in the bottom third of households, but do not all claim housing benefit or have the lowest rents. For the purposes of this report, it is important to note the lower end of the PRS is not coterminous with all households receiving housing benefit.
- Landlords do not regard the bottom end of the market – however defined – as a single market. Some landlords are willing to accept working tenants on lower incomes but not in receipt of housing benefit. However, the introduction of Universal Credit means that it is increasingly difficult to draw binary distinctions between working/not working tenants since many tenants receive some benefit to augment lower wages, and many landlords do let to 'benefit-supported' tenants.
- Tenants wholly dependent on housing benefit are more likely to have financial problems than working lower-income tenants assessed in terms of – for example – keeping up with bills. However, less than five per cent of tenants in receipt of housing benefit were currently behind with their rent payment. Notwithstanding these difficulties, across all economic and demographic types at the lower end of the market, there tended to be similar proportions of households having stayed in the same property for five years or more.

'Lower end' has multiple definitions and tenants have different characteristics depending on those definitions. Working, 'benefit-supported' tenants are less likely to be in financial difficulties than fully 'benefit-dependent' tenants who are not in work because of their health, age or caring responsibilities.

3. Landlord characteristics

- For the purposes of this report, definition of landlord types is essential in order to establish trends in decision making and in longer-term letting strategies. Landlords are not a homogenous group. Further, classification has to be dynamic: landlords move into, through and out of the market. A total of 55 landlord interviews, analyzed in detail, indicates the ways in which the classification and the dynamics played out at the bottom end of the market.
- Landlord classifications included accidental, investment, portfolio and business landlords. None of the landlords who were interviewed were 'accidental' landlords in the sense that their letting was short-term, but a number had not set out to be landlords and so moved from that category to a more active engagement with the market. 'Investment' landlords were defined principally in terms of whether or not their income was derived from working for an employer or from pensions or similar

kinds of investment. 'Portfolio' landlords were working as landlords full-time, and were generally hands-on, often with a background in building-related trade. 'Business' landlords were letting property and running ancillary property-related businesses including letting agencies or property development. They often owned more than one type of business. They were more likely to act in a 'CEO' capacity and have staff to deal with property management and maintenance.

Landlordism is a dynamic state and includes accidental, investment, portfolio and business landlords who are moving into, through and out of the rental market.

- Landlords often moved from one category to another, and the number of lettings they had was a poor indicator of the kind of landlord they were. This is because holdings were dynamic: some landlords were actively growing their portfolios; others had reached a species of more or less welcome plateau; and some were selling down. The landlords who were interviewed varied in terms of age: some had been letting property since the 1980s, and had built up their holdings following the introduction of readily-available buy-to-let mortgages and low interest rates following the Global Financial Crisis.
- A number of respondent landlords were very unwilling to let to tenants in receipt of housing benefit, reflecting the wider sectoral preferences. The qualitative respondents indicated that their preference reflected the fact that their rents were set at some way above the LHA rates and were not affordable to tenants who needed help to pay the rent. Other landlords viewed this kind of tenant as problematic in relation to benefit bureaucracy, or as having personal characteristics that were in some way undesirable.
- The majority of landlords in the qualitative sample - and a quarter of respondents in the quantitative sample – were not averse to letting to tenants receiving LHA and/or Universal Credit – but did not change their letting practices to accommodate the benefit. For qualitative respondents, provided the rent was paid in full and on time, the source of their tenants' income was of no concern. This group included a large number of landlords with 'legacy lettings': very long-standing tenancies which in some cases had been inherited with the property, and where the landlord's historic commitment to the tenant extended to forbearance during times of financial difficulty.
- The majority of landlords who were interviewed qualitatively were rather more firmly in the housing benefit market: this was a target market, landlords were fully aware of the LHA rates and set their rents in reference to those rates. Landlords had preferences within the housing benefit market. These preferences might include:

> *Working tenants* who were lower income and benefit-supported rather than wholly benefit dependent.
> *Single parents* or *pensioner households* who were wholly reliant on benefit, and where benefit receipt was not fluctuating as a consequence of employment income.

Single older individuals who were likely to be seeking accommodation in shared properties, and at the higher 'over-35s' LHA which is paid irrespective of whether the property is shared or a studio; and
Vulnerable people with long-term health issues including drug and alcohol dependencies, where it was possible to for the landlord to secure direct payment of housing benefit via an Alternative Payment Arrangement.

The 'housing benefit market' is not one market. Some landlords tolerate tenants receiving housing benefit but do not set their rent through reference to the Local Housing Allowance rates or charge or their management practices. Landlords who actively target tenants in receipt of housing benefit do both of those things, but also have letting preferences depending on the *degree* to which tenants rely on benefit.

4. Financial decision-making

- Landlords had two principal strategies in building their portfolios. Many used a 'tumble-through' model, whereby properties available at below-market value, often because of condition, were purchased and refurbished. These properties were then remortgaged to release the additional equity, with that money then used as a deposit on another property. This model depended on locating properties at the right price. The availability interest-only mortgages contributed substantially to the attraction and profitability of this model, and landlords in this group tolerated a high loan-to-value ratio on their properties.
- Other landlords were more likely to expand steadily, looked to repay their mortgages and sought to achieve a debt-free portfolio certainly by retirement age. The difference in approaches generally reflected personal attitudes towards debt.
- A small number of landlords had built up their holdings using alternative strategies which included operating 'sale and rent back' schemes in the 2000's. Recourse to this strategy had led to rapid growth of holdings for a handful of respondent landlords.
- It is notable that some landlords were mortgage free either because they had, over time, succeeded in paying down their debt or because properties were inherited or paid for in cash from rental income or other business dealings.
- Recent taxation changes had variable impact on landlords depending on their financial strategies. Many landlords were unmortgaged, had small portfolios or shared their tax liability with their partner to keep them below the relevant tax threshold. Some landlords had transferred their properties into company ownership which meant that the tax change did not apply. Landlords who had seen an impact were considering their ongoing letting strategy (see Chapter 9).
- The majority of respondents had a robust financial strategy and had built sufficient contingency to deal with external shocks. Many brought additional competencies to their lettings which minimized financial risks, including trade skills, property knowledge or general business, finance or legal acumen. Landlords who were less

stable were often at an early stage in their letting experience, and had insufficient contingency funds to deal with unanticipated repairs.

- Landlords who were letting at the bottom of the market tended to pursue a strategy of cost minimization rather than rent maximization. The most common tactic for reducing costs was minimizing turnover and voids which meant attracting and retaining good tenants through charging a lower-than-market rent, infrequent rent increases and prompt attention to repairs and maintenance. Indeed, expenditure on property condition was regarded as an essential element of a good business model. However, the relationship between longer-term tenancies at the bottom of the market and higher incidence of non-decency remains unexplained.

Landlords who were targeting the bottom end of the PRS focussed on cost minimisation rather than rental maximisation, with strategies aimed at reducing voids and tenancy turnover.

- Arguably, much of the current supply of property to the lower end of the market is not commercially replicable: investor landlords were generally happy to accept a lower rent because they had taken out interest-only mortgages and current interest rates are low; similarly, many landlords with long-term, 'low-income' tenancies tolerated a lower rent because the properties were not mortgaged. Furthermore, much of the sector is reliant on a cohort of landlords who accrued substantial holdings during a distinctive period of more flexible finance and benign taxation which is unlikely to return.

A great deal of current supply to the bottom end of the market is being let in circumstances that are not easy to replicate: in particular, there is an aging cohort of landlords with portfolios that were built at a time of flexible financing and benign tax treatment. New entrants to the market will not be able to build their holdings in the same way.

5. The role of place

- There is substantial regional difference in the proportion of lettings to tenants in receipt of housing benefit, and geographic variation in the principal reasons why tenants need to apply for assistance. There were seventeen local authorities where tenants receiving benefits comprised over 50 per cent of all households in the PRS. Nine per cent of all HB tenants were in a 'HB-dominated' market. Using a threshold of 40 per cent as the definition, 28 per cent of all HB tenants were in a HB-dominant market.
- Landlords who were actively engaged in letting to HB tenants were often responding to spatial opportunities created by the LHA rates themselves. Landlords bought properties where yield was calculated using the LHA rates. In some

locations, the very slight increases to LHA rates since 2012 took place against stagnation in market rents. These circumstances created pockets of low house prices but LHA rates offering more satisfactory yields. Almost all the larger business landlords had identified these opportunities and were operating in this type of location, using their own paid staff to manage properties.

- Other landlords targeting the HB market had properties in their 'home' location, and were more likely to rely on a combination of highly localized knowledge – for example, to identify purchase opportunities – and cost minimization strategies. These landlords were, more often, portfolio landlords who were actively managing their own stock and themselves working on property renovation and maintenance.

There are areas of the country where the LHA rates are higher than market rents, and larger business landlord activity was targeted at those areas.

6. Management practices in the housing benefit market

- Landlords who targeted the bottom end of the market tended to be the more experienced portfolio and business landlords, and each had their own preferences within the housing benefit market. Tenants who received some benefit support but were in work were favoured by some landlords as being a group least in need of active management, but some landlords were not happy with the fluctuations in income and benefit entitlement that employed tenants could experience. 'Steady' tenants included young families and older households who were not seeking work and whose income did not change. Some landlords regarded more vulnerable tenants as being preferable, since it might be possible to apply for an Alternative Payment Arrangement (APA) and so have rent paid directly. There were landlords whose management plans were geared towards taking tenants who were nominated by the local authority's homelessness team, where an APA was guaranteed and the local authority offered some level of tenant support.
- Landlords letting at the bottom of the market were generally of the view that setting the rent at the LHA rate was easiest to manage least likely to result in rent arrears. There was little point in setting up tenancies to fail. Large business landlords employed staff to manage rent collection proactively and deal with arrears quickly before they accrued. Landlords who knew their tenants well, tended to be flexible about missed payments where they knew that tenants would resolve the debt over time.
- A common risk-mitigation strategy was to require tenants to provide details of a home-owning guarantor who would make good any arrears, and some landlords indicated that they had pursued those guarantors where tenants left owing substantial amounts of rent.

Landlords requiring the tenant to provide a home-owning guarantor was a common risk-mitigating strategy.

- Many HB landlords were actively involved in their tenants' HB claims. A number of landlords had experience in working with the LHA system and were dismayed by their early experiences under Universal Credit (UC). In particular, landlords were unhappy with the fact that their communication with benefit staff had been curtailed. This limited landlords' ability to help tenants when problems arose with their benefit. There were particular problems when more vulnerable tenants were transferred onto UC and received their HB payment themselves.
- Some landlords saw arranging APAs as central to their business strategy, and only took nominations where the nominating agency could guarantee that an APA would be put in place.
- Landlords in the HB market regarded tenant support as part of good management, and likened their role to social workers. This was particularly the case where landlords had more vulnerable tenants. One larger business landlord employed a tenancy manager who had previously worked in social housing.
- It was notable that, for many landlords, early experiences with UC were provoking a change in their target client group. In some instances, this mean a move towards more independent, working 'benefit-supported' tenants. Landlords cited problems with securing direct payments and tenants moving themselves off APAs, but were also clearly unhappy with the fact that they no longer had a working relationship with the local authority HB department.

Landlords in the HB market judged tenant groups in terms of the level of risk and options for risk mitigation. Alternative Payment Arrangements (APAs) could offset the risks of letting to more vulnerable tenants. Where landlords had poor experiences with APAs they were likely to change their target market.

7. Letting agents and other risk-absorbing intermediaries

- The Private Landlord Survey 2018 indicated that letting agents were much more willing than landlords to let to tenants in receipt of housing benefit, in being more likely to have some knowledge of the benefit system and less likely to indicate that mortgage or insurance companies had restrictive policies in this regard.
- Respondent landlords indicated that letting agents were often involved in housing benefit letting, for example if the property was located at some distance from the landlord's home, or if the landlord had a background in trades or felt they did not have the skills or aptitude for the tenancy paperwork.
- An estimated 10 per cent of the HB market is 'mediated' and involves statutory or third sector agencies procuring properties under contract to local authorities. Interviews took place with large-scale mediating agencies operating in the private

sector and in the third sector, and these indicated that property procurement to meet housing need is increasing in scale and profitability as an enterprise.

Mediating agencies are playing an increasing role in the housing benefit market, and are becoming oriented towards large-scale procurement and management of rental property backed by investment capital.

- Landlords also dealt with more traditional 'help to rent schemes', which absorbed some of the risks involved in letting to a tenant on lower income by offering assistance with setting up the benefit claim or – if required – a APA, and giving support to ensure that the tenancy continues.
- Landlords had variable experiences of these schemes. Accounts were coloured by 'horror stories' which were evidently common currency amongst landlords. Landlords who were happy with the arrangements they had made included a London landlord who was receiving incentive payments to take tenants; and a landlord dealing with a homelessness charity, where the level of tenancy support had reduced risk and his own burden of management.
- An equal number of landlords had less positive experiences and were, as a consequence, stepping away from the housing benefit market. Poor experiences included the mediating agency failing to give the promised support to a problematic tenant, which in some instances left the landlord accruing rent arrears, dealing with anti-social behavior or having to evict the tenant.

Landlord experiences of poorly-supported 'help to rent' schemes often led to their stepping away from the HB market.

- It was notable that some landlords were using rent insurance products to mitigate the risk of rent arrears. Some landlords who no longer accepted tenants in receipt of benefit cited higher insurance premiums as the principal reason.

8. The impact of Covid

- The government introduced a number of measures to support the PRS in response to the pandemic. The two measures of principal concern to landlords at the lower end of the market were changes in LHA rates and changes to possession proceedings. Note that fieldwork with landlords took place during the summer months of 2020, between the first and second lockdowns.
- Few landlords reported that they were having serious problems with rent arrears as a consequence of the pandemic. Landlords who had tenants who were wholly reliant on benefits saw no change, and indeed some increased their rents to take advantage of the uplift in LHA rates.

- Recourse to mortgage deferral was low, and many landlords resisted this measure given possible impact on their ability to remortgage in the future.
- Landlords were most concerned about changes to possession proceedings, which they generally referred to as a 'suspension' of s21 which allows landlords to evict without specifying a reason. Landlords reported difficulties with some tenants who had stopped paying the rent or whose anti-social behavior was causing difficulties, or cases where proceedings against a tenant had been halted.
- Landlords were generally of the view that the suspension had left them vulnerable to criminal tenants who entered into tenancies with no intention of paying the rent, and who sought to use the property as a base for illegal activity. This aspect of Covid fed most strongly into decisions framing landlord letting intentions.
- Some landlords had paid problematic tenants so they would leave. This measure reduced the amount of arrears that would have accrued and immediately brought to an end problematic anti-social behaviour that was often affecting neighbours.
- Landlords also tended to tighten up their vetting procedures, and no longer 'took risks' with tenants they felt might fall into difficulties with paying the rent. Risk mitigation measures included more routinely requiring tenants to provide home-owner guarantors.

The Covid impact felt most strongly by landlords was limitation in the ability to use s21 as a means of evicting highly problematic tenants. Some landlords had simply paid those tenants to leave principally as a means of reducing the accumulation of unrecoverable arrears.

9. Landlord intent

- Data from the Private Landlord Survey 2018 indicates that the intention to sell property and/or leave the market was more marked amongst larger landlords and landlords agreeing that housing benefit tenants were a group they would let to.
- Amongst the respondent landlords, almost all the business landlords and handful of investment and portfolio landlords were planning to expand their holdings (n=15). Of the remaining 40 landlords, 22 were not intending to make any change to their holdings in the short or medium term, and eighteen were selling down.
- Landlord intent was reviewed in terms of their continuing letting generally, and their continuing to let in the housing benefit market. The landlords who were expanding their lettings included larger business landlords who were letting in locations where the LHA rate was higher than the market rent; landlords who had secured nomination agreements with guaranteed APAs; and landlords who were taking nominations with attached incentive payments. Other landlords who were expanding indicated that none of their new properties would be let to people receiving UC.
- Landlords with no immediate plans to buy or to sell included those who were happy with the size of their holdings: they had reached a 'sweet spot' in terms of tax

liability and a manageable portfolio. Other landlords had reached a point where regulatory and tax changes had reduced their willingness to increase their holdings.

- Seventeen landlords were selling property. The process of disinvestment was slow, and sale generally took place when the property became vacant. None of the landlords sold tenanted properties. Landlords were most likely to sell the properties they regarded as problematic, and that generally included properties they had let at the bottom of the market.

There were multiple reasons why landlords were choosing to exit the market, which often worked in combination. Taxation changes, introduction of UC and a swathe of new regulations had increased the risks attached to letting whilst at the same time reducing profitability.

- There were six factors underlying a landlord selling down or exiting the market:

  Demography: many landlords were 'baby boomer' landlords who had built their holdings during the prime 'by-to-let' years and were now beyond retirement age. These landlords were often selling properties at the rate of one a year, and using the released equity to improve their quality of life.

  Finance: the taxation change had impacted on some landlords, who saw the profitability of their lettings reduce substantially. In these circumstances one common strategy was to sell down to a smaller number of unmortgaged properties.

  Universal Credit: many landlords with extended experience of Local Housing Allowance were extremely unhappy with the operation of UC and looking to reduce their HB lettings. The direct payment of rent to tenants was a key issue for landlords dealing with tenants they regarded as being incapable of managing their own finances.

  'Regulatory burden': the increased burden of regulation was felt to be problematic for some landlords. None had issues relating to the need to regulate property quality and management, but some felt that compliance timescales – for example, for energy efficiency – could be unrealistic, and penalties for non-compliance were excessive. Investor landlords were particularly wary of inadvertent non-compliance.

  Hassle: for a number of respondents, the financial returns from letting property were not commensurate with the level of 'hassle'. Portfolio and investor landlords who were actively managing their own properties were working long hours and effectively on-call 24/7. Investor landlords in particular were beginning to view more passive investment options as preferable, given similar levels of return.

  Risk: landlords were of the view that the market now presented a harsh environment for small landlords. The previously listed factors were felt in combination, and the prospective abolition of s21 signaled a substantial increase in the risks attached to letting property.
- There is evidence of a slow-down in new entrants to the market. The PLS 2010 indicated that 22 per cent of landlords had been letting for three years or less; in

2018 the comparable figure was 9.5 per cent. Willingness to let to housing benefit claimants was lower amongst those newer landlords.

- Amongst the respondent landlords, the newer entrants to the market were much more likely to have set up their businesses to be tax-efficient under the new regime and establishing frameworks to accommodate UC regulations. However, there was general agreement across landlords that although the market presented the opportunities to make good returns, the risks attached to letting had multiplied.

> **Larger landlords who were seeking to expand in the HB market were more likely to be targeting localities where LHA rates were above market rates, and let to tenant groups where APAs could be secured.**

10. Conclusion

- This report has focused on property supply to the lower end of the PRS and included a detailed exploration of demand-side characteristics, market geography and landlords' financial decision making, management practices and portfolio intentions. The conclusion indicates a number of new developments in the market which are concerning, including market reconfiguration and landlord use of risk-mitigation strategies which are likely to exacerbate the exclusion of tenants who are already disadvantaged in the market. There is evidence of a lowering in the scale of supply to replace properties being withdrawn from the market in areas outside HB-dominant markets. Growth is evident within the HB-dominant markets. Outside these locations, response to the increase in risk attached to letting has led to a reduced willingness to let to people in receipt of benefit. Landlords are much less willing to take chances. This trend is being amplified by a mismatch between the number of landlords exiting the market and those entering: taxation, financial and regulatory change has resulted in a less amenable context for small landlordism.

1. INTRODUCTION

Introduction

The private rented sector (PRS) is a part of the housing market that meets multiple purposes. Reduced investment in social housing and the sale of social housing stock via right to buy have led to an increased reliance on the PRS by low-income households. The PRS expanded steadily from the turn of the 21st century, but growth has stalled in recent years. A wide range of policy changes has created new contexts for landlords letting to low-income households. Housing Benefit payments under the Universal Credit system and a freeze in Local Housing Allowance rates have not been welcomed by landlords, who are also accommodating taxation changes and an increase in operation costs following a number of regulatory interventions. It is generally understood that landlords are withdrawing from the market. If landlords are withdrawing from letting or more specifically from letting at the bottom end of the market, and with no corresponding increase in social housing supply, one likely consequence will be an increase in levels of homelessness.

This report assesses the sustainability of property supply to tenants at the bottom end of the PRS. Here, 'sustainability' is viewed in terms of properties coming to this part of the market at sufficient scale to replace properties that have been withdrawn, and supplied by landlords with stable business models. In undertaking this assessment, the research has focussed on the characteristics of landlords operating in this part of the market and explored their financial and management strategies. The report – based on detailed analysis of qualitative interviews and supported by secondary data analysis – presents substantial new data on the behaviours, attitudes and future intentions of landlords letting to tenants on lower incomes.

Background to the study

In the last twenty years, the PRS has expanded to house lower-income households whose needs might, in earlier decades, have been met in social housing. Landlords will generally have a target tenant group, and some aim to meet demand from lower-income tenants. Indeed, there is a 'housing benefit (HB) market', with landlords operating management practices that take benefit receipt into account. These landlords will tolerate a delay in the first rental payment to allow for the time for the initial application, accept on-going rental payments in arrears and set their rents at or close to the Local Housing Allowance (LHA) rates.[1]

When they were introduced in 2003, LHA rates were originally set at the 50th percentile of rents for a range of household sizes. The rates were adjusted to the 30th percentile in 2011. Since that time, the LHA rates have become increasingly disconnected from any

[1] J. Rugg (2007) 'Housing benefit and the private rented sector: a case study of variance in rental niche markets', in D. Hughes and S. Lowe (eds.) *The Private Rented Housing Market: Regulation or Deregulation?* Aldershot: Ashgate, 51-68.

relationship between the bottom 30th percentile of rents, as a consequence of capped increases and a four-year freeze from 2016/17.[2] These restrictions were part of austerity measures designed to reduce welfare expenditure. The regulations have restricted the pool of affordable properties, since possible landlord responses to the measure include requiring tenants to make an additional payment to meet a shortfall between the LHA rate and the market rent, and refusing to let to tenants who rely on benefits.[3]

> **A note on terminology**
>
> In this report, 'Housing Benefit' or HB will comprise a generic reference for benefit support with housing costs; Local Housing Allowance (LHA) refers to the system of assistance for private renters in operation between 2003 and the introduction of Universal Credit (UC) in 2013. Housing assistance within UC is still paid according to LHA rates defined for different household sizes; the rates are set for each of the 152 Broad Rental Market Areas in England.

Reports have highlighted the impact on tenants of affordability issues in the PRS and of the increasing incidence of homelessness as a consequence of landlords deciding not to renew assured shorthold tenancies often as a consequence of rent arrears and benefit-related problems.[4] Little attention has been paid to the characteristics and behaviours of landlords meeting the need for lower-rent housing. Moral judgement of landlord unwillingness to accommodate 'DSS' tenants has overshadowed the need to understand why landlords might express that preference, the circumstances in which landlords *do* let to lower-income tenants, and intentions with regard to continuing to supply that market. In the absence of substantial investment in housing available at social rent levels, there is an expectation that the PRS will continue to meet lower-income household need. This report explores how far it is viable for private landlords to play that role, and whether supply will be robust and sustainable.

Key trends

There are three major contexts defining the operation of the bottom end of the PRS: substantial regional variation in patterns of growth and stagnation; broad sectoral reconfiguration; and an increased flow of policy intervention that has introduced regulations impacting on landlord finances, costs and management practices.

Regional variation in PRS growth

According to the English Housing Survey, the proportion of households in the PRS grew by around one percentage point between 2013/14 and 2018/19. In understanding supply-side

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[2] CIH (2018) *Missing the Target*, Coventry: CIH.

[3] Shelter (2020) *Stop DSS Discrimination: Ending Prejudices against Renters on Housing Benefit*, London: Shelter.

[4] S. Fitzpatrick, H. Pawson and G. Bramley *et al.* (2018) *The Homeless Monitor: England 2018,* Edinburgh: Heriot-Watt University; K. Reeve, I. Cole and E. Batty (2016) *Home: No Less Will Do. Homeless People's Access to the PRS*. Sheffield: Sheffield Hallam University.

characteristics, relative tenure proportions are less relevant than absolute growth. The number of households in the PRS nationally has increased roughly in line with population growth, but there has been substantial regional difference. Table 1.1 indicates that, between 2013/14 and 2018/19, the number of households in the PRS has grown markedly in some regions, whilst falling in others. The North East region has seen a particularly high level of increase – by 22.4 per cent – compared with an absolute drop in numbers in both the Yorkshire & Humberside and the East Midlands region.

Table 1.1: All PRS households: growth in number by region (000's)

	2013/14	*2018/19*	*Percentage growth, 2013/14-2018/19*
North East	165	202	+22.4
North West	547	571	+4.4
Yorkshire & Humberside	445	427	-4.0
East Midlands	368	359	-2.4
West Midlands	347	405	+16.7
East	423	437	+3.3
London	1,014	964	-4.9
South East	651	713	+9.5
South West	418	474	13.4
Total	**4,377**	**4,552**	**+3.9**

Source: English Housing Survey

Sectoral reconfiguration

PRS growth has slowed down nationally, but the market is reconfiguring. Stakeholder interviews indicated a number of key trends that will have a direct impact on the lower end of the market. These include change in the nature of supply-side characteristics and the identification of large-scale investment opportunities in meeting the needs of lower-income renters. The interest of larger players in this market is challenging presumptions that landlordism is or will continue to be a 'cottage industry'. Major trends identified in the contextual stakeholder interviews include:

- Growing institutional investment in properties meeting the needs of low-income households, where it is possible to build a substantial portfolio under single management. There was evidence of institutional purchase of properties for 'squeezed middle' renters at below market rates.[5]
- A number of firms specializing in managing rental portfolios on behalf of institutional investors with 'patient capital' that are satisfied with low dividends secured over the long term, particularly where there is evidence that investment meets social need.
- The expansion of build-to-let into regional cities and increasingly focused on the creation of competitively priced rental family homes in private 'estates'.

[5] Also see e.g. L. Heath (2021) 'Investment firm acquires 95 homes from house builder', *Inside Housing*, 3 Mar.

- The general expansion of affordable rental products supplied by housing associations and local authorities which will draw demand from the middle of the private rental market.
- Reconfiguration of 'student' cities, as large-scale investment in purpose-built student accommodation absorbs demand previously met by landlords offering 'street' properties: these landlords are exiting the market or letting to lower-income tenants.
- Financialisation of the Temporary Accommodation (TA)/mediated market: including third sector and local authority investment in TA. This includes the emergence of large-scale commissioning of rental property procurement either to confederations of charities or to commercial providers.
- Expansion of the exempt accommodation model which offers intensive housing management funding to HMO providers who include support with accommodation. This funding is not subject to LHA caps.

All these factors will impact on the opportunities available to landlords seeking to meet demand at the bottom of the market. These trends will be revisited in Chapter 11.

Policy intervention

The sector has been subject to a succession of policy interventions that have included tax changes, regulatory change relating to property quality and management, and radical alteration in the delivery of assistance with housing costs. These interventions are briefly summarised below, with an emphasis on the element of change carrying major importance from a private landlord perspective.

Finance Act 2015

S24 of the Finance Act 2015 introduced a tax change aimed at landlords who personally held buy-to-let mortgages, loans and overdrafts relating to property: tax calculations would be based on rental income with no adjustment made to accommodate finance costs. Essentially, landlords would no longer be able to offset mortgage interest costs against tax liability. The change was introduced in tranches of 25 per cent over four years. In some instances, the adjustment pushed some landlords into a higher tax bracket. Landlords holding their property in a property company were not affected.

Housing and Planning Act 2016

Regulatory changes in force from April 2017 have introduced a range of civil penalties for non-compliance with offences under the Housing Act 2004. As an alternative to prosecution, local authorities can apply a maximum civil penalty of £30,000. All landlords are required to meet licensing requirements as they relate to houses in multiple occupation (HMOs), but some local authorities have introduced additional and selective licensing schemes that extend the reach of that licensing. In 2019, 44 local authorities were operating some kind of selective licensing scheme which included all rental property within a defined boundary and required landlords to pay a licence fee for each of their properties within that boundary.[6]

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[6] Lawrence, S. (2019) *An Independent Review of the Use and Effectiveness of Selective Licensing*, London: MHCLG.

Minimum Energy Efficiency Standards

From April 2019 it was no longer permissible to let or renew tenancies on property rated F or G in terms of energy efficiency. Landlords with properties rated at this level are required to spend up to £3,500 to bring those properties to at least an E rating. The Government has expressed the intention to implement an incremental increase to bring all let properties up to band C by 2030.[7]

Electrical Safety standards

The Electrical Standards in the Private Rented Sector (England) Regulations 2020, in force from 1 July 2020, requires all landlords to arrange electrical safety inspections every five years. This measure applies to all tenancies created on or after 1 July 2020.

Immigration Act 2014

From February 2016, landlords and letting agents are obliged to determine the immigration status of prospective tenants to ensure that they have leave to remain in the UK. Under what is generally known as the 'right to rent' legislation, landlords letting to someone who they had reason to believe did not have a right to stay in the UK may be subject to imprisonment or an unlimited fine.

Tenant Fees Act 2019

The Tenant Fees Act 2019 applies to all tenancies created or renewed on or after 1st June 2019, and severely curtails the fees that might be chargeable to the tenant by either the landlord or the letting agent. Landlords will be required to bear the cost of any tenant referencing.

Welfare Act 2012

The Welfare Act 2012 introduced Universal Credit (UC) which combines six working-age benefits into one single payment, paid to the applicant monthly. The payment includes a housing allowance based on the LHA rate for the household. Roll-out of UC has been gradual, and it has recently been reported that 100 per cent coverage of all households eligible for UC is unlikely to be achieved before 2022. There are two principal changes brought by UC, compared with the earlier LHA system. All payments are made directly to the tenant unless an 'Alternative Payment Arrangement' (APA) is made to transfer the rental element directly to the landlord. APAs can be arranged at the outset if a tenant is deemed to be in a 'Tier 1' category which includes the tenant being homeless or in temporary accommodation or having addiction problems. Once a tenancy has started, APAs can also be arranged if a tenant falls eight weeks behind with their rent. A second major change is that UC is administered through job centres rather than by local authorities. Landlords will no longer have access to a local authority HB officer to assist with problems relating to a particular claim. Queries are dealt with centrally, or via job coaches at job centres.

Covid-19 interventions

One final set of interventions has been introduced in response to the Covid pandemic. The changes have included landlords being required to give a minimum of six months' notice to

[7] https://www.gov.uk/government/consultations/improving-the-energy-performance-of-privately-rented-homes

seek possession. In addition, there has been a moratorium on s21 'no fault' evictions: this measure was introduced in March 2020 and at the time of writing had been extended until the end of May 2021. It is permissible for landlords to bring possession orders against renters in cases of severe rent arrears or anti-social behaviour. Courts are still hearing cases, but bailiff actions have been paused aside from some exceptional circumstances.

In addition, and of particular importance to landlords letting to tenants in receipt of HB, there has been a temporary readjustment of LHA rates to the 30th percentile of local rents. This measure was intended to improve affordability at the lower end of the market and reduce the incidence of rent arrears. These measures were in place during the fieldwork period for this project.

Objectives, aims and methods

This report is based on a study which was funded under the Nationwide Foundation Transforming the Private Rented Sector programme. The objectives for the research were broad and highly exploratory, and included:

- definition of demand and supply-side characteristics of the lower end of the PRS, including mapping its geography; and
- assessing whether and how far the bottom end of the PRS constitutes a sustainable part of the wider private rental market.

The study comprised a mixed-methods research programme including:

- secondary analysis of existing datasets relating to demand for rental accommodation from low-income tenants;
- secondary analysis of the MHCLG Private Landlord Survey (PLS);
- analysis of a small suite of questions added to Q1 of the BVA BDRC Landlord Panel survey;
- interviews with nineteen national, regional and local professional informants with expertise in supply at the bottom end of the market; and
- detailed qualitative interviews with 55 landlords.

Covid restrictions meant that it was difficult to secure a sufficient numbers interviews with letting agents to allow for detailed analysis of this issue from a letting agent perspective.

Secondary data analysis: tenants

Secondary analysis relating to tenants included the Family Resources Survey (FRS) and DWP administrative data relating to housing allowances accessed through the Stat X_Plore site. The FRS is a continuous survey of 19,000 households per annum providing information about household finances and circumstances for the DWP. The data were used to explore a number of ways of defining the lower end of the market by using the bottom third of regional household incomes (equivalised); the bottom third of regional private rents that were adjusted to reflect the property size; poverty before housing costs (using household incomes below 60 per cent equivalised household incomes) and indicators of receipt of HB.

This project used FRS to establish who lived in the lower end of the private rented sector, what resources they brought to the market and their geography, in comparison to the wider rental sector. The analysis was undertaken using the 2017/18 data, which was the latest available at the outset of the project. All household incomes were equivalised using the OECD equivalence scales.[8]

DWP Stat X_Plore data was extracted to provide administrative data about housing allowance claims made under the local authority-administered HB system and the jobcentre-processed UC system. The data related to August 2019, the latest data available at the outset of the project. These data provided counts at the local authority level. In places these DWP data were used in conjunction with ONS estimates of the size of the private rented sector. The ONS used the Annual Population Survey to update counts of the private rented sector provided in the 2011 Census.

Secondary data analysis: landlords

The report also includes findings from secondary analysis of the Private Landlord Survey (PLS) 2018. The PLS is based on findings from 7,823 landlords and letting agents who were registered with one of the three Tenancy Deposit Schemes. The survey covered between 56 and 71 per cent of the market, based on calculations derived from EHS data on tenants' reporting whether their deposit had been lodged with a scheme.[9]

Qualitative professional informant interviews

Nineteen qualitative interviews took place with a range of professional informants with working knowledge of the lower end of the private rented sector. These included:

- three landlord representatives, working at national and regional level;
- three letting agents, including two large chain agencies and one local agent;
- three mortgage providers specializing in buy-to-let mortgages and an institutional investor in the PRS;
- five local authority representatives, working in local authorities in the North East, Yorkshire & Humberside, East and South East regions and including environmental health professionals and housing options officers;
- two social lettings agencies; and
- one national and one local charity with expertise in help-to-rent schemes.

The interviews took place using a topic guides that were adjusted according to expertise area, and which included issues such as financial contexts; the characteristics of supply at the bottom end of the market; reflections on their particular local area, where appropriate; and market responses to a range of recent policy interventions including licensing and the introduction of Universal Credit. These interviews were analyzed together, and these respondents will be referred to in the report as 'professional informants'.

[8] http://www.oecd.org/economy/growth/OECD-Note-EquivalenceScales.pdf
[9] MHCLG (2019) *English Private Landlord Survey 2018 Main Report*, London: MHCLG, 5, fn. 8.

Quantitative landlord data

The project added a small group of questions to Q1 2021 Landlord Panel survey administered by BVA BDRC. The 985 respondents were current members of the National Residential Landlords Association (NRLA) who had opted in to marketing and research exercises via the Association. These questions were framed to examine the characteristics and letting intentions of individuals who were routinely letting at the bottom end of the market. These landlords were defined by their assenting to the question: 'my tenants included people in receipt of Universal Credit and I have changed my management practices for those tenants (e.g. accept delayed payments, rent in arrears etc.)'. A total of 92 respondents responded positively to the question. This low figure has restricted the undertaking of detailed statistical analysis, but the data have been used to quantify some highline characteristics.

Qualitative landlord interviews

Detailed qualitative face-to-face interviews also took place with 55 private landlords. These landlords were recruited through some localised snowballing via local authorities and local access schemes, and through a call-out issued on the Property II8 website.

The interviews took place with individuals who – for the most part – took a highly professional approach to letting and were fully conversant with their legal obligations. The mode of recruitment stressed that the research intent was to focus on the bottom of the market, and so the respondents discussed here have experience in that part of the sector. As might be anticipated, the research did not engage with individuals whose activities could be judged as being criminally exploitative or negligent. However, the group does represent a fair spread of landlord types, covering all English regions. Further information on the respondents is given in Appendix 1.

The landlords were interviewed as individuals or – occasionally – as couples, and used a detailed topic guide which explored:

- how the respondent came to be a landlord;
- their first purchasing decision and ongoing business model;
- rent setting strategies and experience of arrears;
- financing and the inter-relationship with personal finances;
- repairs and maintenance;
- letting preferences, experience of letting in the HB market including views on the operation of UC;
- intentions in the market;
- response to a range of policy interventions including taxation change, regulations impacting on management including the right to rent regulations, and the tenant fee ban, and regulations relating to property quality including selective licensing, electrical safety and energy efficiency; and
- experiences under Covid.

The recorded and transcribed interviews were subject to detailed subject and theme analysis in context, ensuring that all the topics explored in this report were entirely grounded. Analysis placed particular emphasis on understanding differences between landlord types, business models and markets.

As will be seen, this report presents a great deal of verbatim quotation from professional informants and particularly from landlords. All respondents have been given anonymised codes. Quotations have been chosen to represent what is typical rather than what is atypical amongst the respondents. The landlord commentary is challenging at times and is reproduced here in order to represent how landlords themselves construed their situation.

Ethics

The project's aims and method were reviewed by the University of York's Social Policy and Social Work Ethics Committee. In conducting the research, due regard was paid to securing fully informed consent and to respondent confidentiality. This report will make no reference to any individuals or agencies that were interviewed, and all quotations are anonymised. Each respondent is given a unique code and, in reporting, details were omitted that might enable the respondent to be identified. Fieldwork was undertaken remotely, using video conferencing or telephone interviewing.

Report summary

This report considers landlord supply of property to the lower end of the market and the prospects for continuation of that supply. This issue has been addressed largely through qualitative exploration of landlord behaviour, supplemented by secondary analysis of quantitative datasets. Chapter two begins with a definition of 'lower end' of the PRS, considered in terms of tenant income, poverty, HB receipt and rent levels. Landlords do not regard the bottom end of the sector as a homogenous market, and this chapter also considers certain elements of demand-side characteristics that contribute to landlords regarding this market favourably.

The remainder of the report reflects on detailed analysis of behaviours at the bottom end of the market, from the perspective of landlords. Chapter 3 begins with a dynamic typology of landlords, which provides the principal analytical frame for the following chapters. Chapter 4 outlines the main financial models used by landlords in funding their portfolio development, and indicates the nature of on-going business models. Chapter 5 considers the impact of place and property type on landlord letting decisions. Chapter 6 focuses on landlord management of tenancies that are supported by or dependent on HB and again highlights the variation in approaches to different parts of the HB market. Chapter 7 addresses the role of letting agents and other 'risk absorbing' intermediaries in the market, including local authorities and third sector access schemes. Chapter 8 considers the impact of Covid particularly in relation to rent arrears, the LHA increase and the moratorium on evictions. Chapter 9 reviews landlord portfolio intentions. The concluding chapter addresses the core question of the research, and considers the degree to which property supply to the lower end of the market can be regarded as sustainable.

Conclusion

This introductory chapter has set out some key contextual elements for understanding property supply to the bottom end of the market. PRS growth has slowed, and even reversed, but there is substantial variation across regions: opportunities available with regard to investment in the PRS are localised. Any attempt to review landlord sentiment is problematic given the range of landlord types in the market. Gauging sentiment is particularly problematic at present, not only because of the Covid pandemic, but also because a large swathe of policy interventions is currently working its way through the sector, impacting on landlord behaviours, finances and business models.

Landlord willingness to be in the market is often assessed in terms of rental yield and capital gain. The majority of respondent landlords were generally happy with the profits they derived from their holdings, and were in financial circumstances that could be regarded as stable. However, many viewed letting as an increasingly risky endeavour which threatened major losses through irrecoverable rent arrears and substantial damage to property. After some decades of relatively benign treatment in terms of taxation and regulation, many landlords perceived themselves to be in a much more challenging environment and were revising their letting behaviours accordingly.

2. CHARACTERISTICS OF TENANT DEMAND

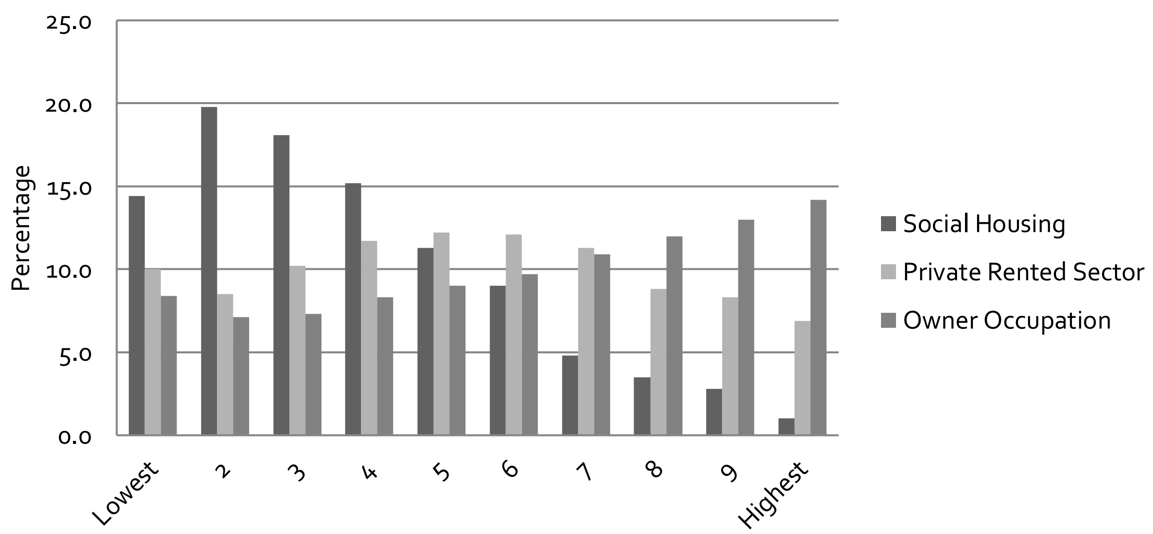
Introduction

This chapter looks at the tenant demand currently being met at the lower end of the market. Demand that is not being met is not identified by this analysis. The chapter first considers how it might be possible to define the 'lower end' of the private rental market and looks at the intersections between private tenant households in poverty, in receipt of HB, paying the lowest third of rents and those on the lowest third of household incomes. The chapter then moves on to consider household composition. Landlords do not view the lower end of the PRS as one homogenous whole, and so here demand is analysed in terms of distinguishable target markets. As will be seen in the following chapters, landlords at the bottom of the market are looking to achieve long-term, stable tenancies and often favour tenant types where stability is most likely. The chapter ends by reviewing data on tenancy length.

Defining 'the lower end' of the market

Households in the lowest income deciles tend to live in social housing and homeownership comprises more higher-income households but the private rented sector accommodates people across the income spectrum, especially those on middle incomes and a sizeable proportion of people on below-median incomes (Chart 2.1).

Chart 2.1: Household income deciles by tenure, 2017/18 (% tenure)



Source: Family Resources Survey 2017/18

The 'lower end' of the PRS can be defined in a number of different ways: it could mean the part of the rental market where the lowest rents are charged; private rentals to households with the lowest incomes; or rentals to households receiving assistance with housing costs. 'Lower end' could also refer simply to private renters who are in poverty. There are intersections between all these definitions: those in poverty may also claim housing benefit, have the lowest incomes and/or pay the lowest rents, but this does not always hold true, not least as various households may move between different categories relatively frequently.

Around a third of PRS households (31.6 per cent) have incomes in the lowest third of regional equivalised household earnings, and around a third of PRS households have rents in the bottom third of regional rents (34.5 per cent). Around a fifth of private tenant households receive housing benefit (19.3 per cent), and a similar proportion is in before housing costs poverty (18.8 per cent).[10]

Figure 2.1 illustrates the connections between these possible competing definitions of the lower end of the PRS across England.[11] Taken together, definitions of the lower end could encompass over half of the market (54.9 per cent) and illustrate that the attributes commonly used to define aspects of the PRS are not coterminous.[12] Many renting households are captured by only one element, notably the 14.7 per cent of PRS households whose rents are in the lowest third of rents in their region, but who are neither in the bottom third of incomes, on housing benefit or in poverty before housing costs (BHC). Similarly, 7.9 percent of PRS households claim housing benefit, but are not in poverty, in the bottom third lowest regional incomes or rents. Private rented households in poverty (BHC) are obviously in the bottom third of households, but not all claim housing benefit (13.1 per cent) or have the lowest rents (8.9 per cent). If these elements define the 'lower end', this part of the market comprises around a fifth of all PRS households on housing benefit (22.5 per cent unweighted) and a further third of all PRS households (32.4 per cent unweighted) of households that have low rents, fragile and/or low incomes but do not receive help with their housing costs. Excluding low rents, a quarter of PRS households (24.4 per cent unweighted) had low incomes, including being in poverty, but did not claim housing benefit.

[10] Poverty is defined as households below 60 per cent of household median incomes. Estimating poverty after housing costs (AHC) increases the rates of poverty in the sector much further, especially in high value areas.

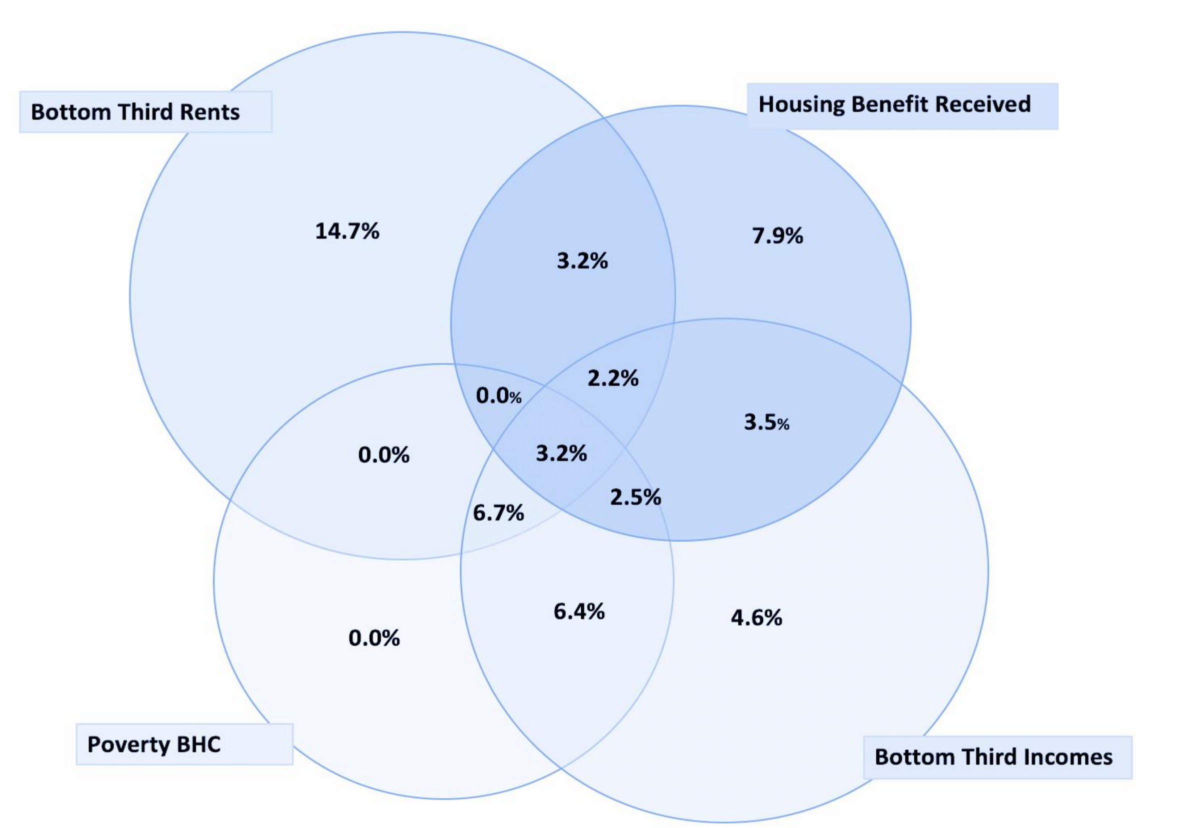
[11] The Venn diagram was constructed using raw counts of the survey data and as such is unweighted and the percentages vary slightly to the reported weighted proportions. For example, the FRS 2017/18 suggests that 19.3 per cent of PRS households claim housing benefit when the survey is weighted but 22.6 per cent when unweighted (the latter of which is reflected in the diagram). This is satisfactory for the purposes of depicting proportionate intersections between competing definitions of the 'lower end'. *BioVinci* software was used to generate the Venn diagram.

[12] Here lowest incomes have been defined as those in the bottom third of household incomes, adjusting for the size of the household to create equivalised incomes. An indicator was created for households within the bottom third of equivalised household incomes in each region. Similarly, household rents were calculated using the bottom third of regional rental values per the bedroom size of the home. Poverty rates before housing costs were calculated on a national basis using 60 per cent of all equivalised household incomes.

These findings reflect the choices that households make or rather may be compelled to make in terms of securing an affordable, decent and secure home, possibly opting for lower rents to avoid engagement with the social security system or claiming housing benefit in higher value areas because of moderate incomes, or to gain a better-quality property or location. Few households are covered by all these possible definitions of the 'lower end' of the private rented sector. An important point in terms of policy debate is that around of a fifth of the private rental market is occupied by tenants who receive housing benefit, but another quarter of private rented households may be considered 'at the lower end' because they are paying a low rent or are on a low income but are *not* claiming housing benefit.

For the purposes of this report, it is important to note the lower end of the PRS is not coterminous with all households receiving housing benefit. This report will distinguish between landlords' 'lower end' letting practices and 'HB market' practices.

Figure 2.1 Intersection of households in the lower end of the PRS (% of all households)



Source: Family Resources Survey 2017/18 (unweighted)

Demographic characteristics

It is rarely the case that the demographic characteristics of tenants at the bottom end of the market are analysed with the objective of quantifying target rental markets. Many of the characteristics comprise elements of vulnerability and precarity which provoke questions on the degree to which these tenants should be reliant on private sector provision.[13] However, landlords seeking to meet need at the bottom of the market often view particular characteristics as being more or less desirable.

Table 2.1: Household (HRP) characteristics of all private rented tenants by market subgroup, 2017/18 (%)				
	Lower end HB	*Lower end non-HB*	*Non–lower-end PRS*	*All PRS*
Age				
16-34 years	27.9	47.2	52.2	45.6
35-54 years	48.8	32.1	38.8	38.2
55 years or more	23.4	20.7	9.0	16.2
Gender				
Male	42.5	65.7	65.9	61.3
Female	57.5	34.3	34.1	38.7
Ethnicity				
BAME	19.0	18.6	14.3	16.8
Disability				
Disabled or life-limiting illness	52.2	26.6	18.5	28.1
Marital status				
Married/cohabiting/civil partnership	28.6	47.1	62.8	50.2
Single never married	43.0	35.6	28.2	33.8
Widowed/divorced/separated	28.4	17.3	9.1	16.0
Household composition				
Single over pension age	9.0	5.9	0.8	4.3
Single under pension age	22.1	33.8	21.4	26.2
Couple, one over pension age	5.6	5.6	2.3	4.2
Couple	5.8	21.9	33.7	23.8
Multiple adults	2.5	7.0	10.8	7.8
Lone parent	31.4	3.5	3.5	8.9
Couple, at least one child	20.2	20.0	22.4	21.1
Multi adults at least one child	3.4	2.2	5.0	3.7
Total	**19.4**	**37.9**	**42.7**	**100.0**
Source: Family Resources Survey 2017/18. Figures may not add to 100 due to rounding.				

Table 2.1 indicates the percentage of tenants in defined demographic categories, comparing tenants receiving HB and tenants also at the lower end of the market but not receiving HB. This table, essentially, compares low-income working tenant households with HB-supported households. For further comparative purposes, the table also indicates the proportion of these characteristics for tenants *not* at the lower end of the market, and all PRS tenants.

The table indicates a number of distinctive features of demand at the bottom end of the market.

[13] D. Rhodes and J. Rugg (2018) *Vulnerability amongst Low-Income Tenants in the PRS in England*, York: Centre for Housing Policy.

- A total of 27.9 per cent of households receiving benefit were aged 35 and under; this figure rose to 47.2 per cent for non-HB lower-end households. The under-representation of younger people in the lower-end HB group reflects the lower levels of LHA payable to under-35s, who – with some defined exceptions – are only eligible for the Shared Room Rate.
- Women are over-represented amongst HB households in the PRS, as are people who are widowed, divorced or separated. Single mothers are a principal demand group amongst lower-end HB renters. The dominance of this group can be explained by homelessness prevention practices which have focused on use of the PRS to relieve homelessness. In 2019/20, around a fifth of households presenting as homeless cite relationship breakdown or domestic violence as a reasons for the loss of their last settled home.[14] However, single mothers are also regarded as a desirable group by many landlords: where children are at pre-school age and there is no expectation that the mother will be seeking work opportunities, benefit payments tend not to fluctuate. More importantly to landlords, single parents generally seek long-term, settled tenancies.
- Similarly, households where the HRP has a disability or a limiting long-term illness are also over-represented amongst HB-recipient households at the bottom end of the market. This group can include individuals whose income is not likely to fluctuate because the tenant is in and out of work, and whose benefit receipt is augmented by additional disability-related payments. This group also includes individuals whose long-term sickness comprises mental health problems leading to drug and alcohol addictions and challenging behaviour. This category is a group where landlords are more likely to secure Alternative Payment Arrangements (APAs).
- Pensioner households are also over-represented amongst the lower-end HB households. Again, single older people are often a target group for many landlords, in being eligible for the over-35s LHA but also comprising a 'steadier' group whose benefit receipt is unlikely to change.
- Households not in receipt of HB, but at the lower end of the market, are more likely to be households who are single and able to engage fully with the labour market, or who are in couples or multi-adult households and so possibly receiving more than one earned income.

Landlords were generally attuned to this market segmentation as reflected in the specific nature of demand and degrees of residential stability.

Economic characteristics

Employment income is important to the lower end of the market, whether people receive housing benefit or not (Table 2.2). Almost half of private tenant households receiving some housing benefit have HRPs who were working in some capacity (45.2 per cent). There was comparable median household income between private tenant households receiving housing benefit (£334) and those at the lower end but not claiming (£326).

[14] Statutory Live Homelessness Tables, 2020 Q3 (July to September), A2R: Reason for loss of last settled home.

Table 2.2: Private rented sector and employment by market subgroup, 2017/18 (%)				
	Lower-end HB	*Lower-end non-HB*	*Non-lower-end PRS*	*All PRS*
Income				
Median weekly household income	£334	£326	£584	£454
Income-related benefit or tax credits	97.2	12.1	6.3	26.2
Economic Status				
Full-time employed	13.7	48.0	76.3	53.4
Part-time employed	24.7	9.5	4.2	10.2
Full-time self-employed	3.9	12.4	9.4	9.4
Part-time self-employed	2.9	4.0	1.5	2.7
Any employed	*45.2*	*73.9*	*91.4*	*75.7*
Unemployed	4.7	3.0	0.8	2.4
Retired	12.4	9.5	2.1	6.9
Student	0.8	6.9	3.5	4.3
Looking after the family/home	6.7	1.9	0.5	2.3
Sick/disabled	21.5	1.4	0.5	4.9
Other	8.6	3.4	1.3	3.5
Temporary work				
Work through an employment agency	20.4	24.1	14.3	19.2
Casual type of work	14.0	25.3	2.9	13.5
Seasonal work	20.5	4.1	1.9	6.4
Contract for fixed period or task	28.5	46.6	79.1	57.0
Other temporary way	16.6	0.0	1.7	4.0
Contract type				
Permanent job	83.9	83.2	90.9	86.8
Fixed term or temporary job	5.0	6.1	5.8	5.8
Working without contract	4.4	6.6	1.5	3.9
Other	6.7	4.1	1.7	3.5
Source: Family Resources Survey 2017/18				

For renters *not* at the bottom end of the PRS, 90.9 per cent were in a permanent job. For renters at the bottom end, compared with all renters, there was a similar level of likelihood that they would be in a permanent job (c.83 per cent). As might be anticipated, the non-HB group derived a much smaller proportion of income from benefit or tax credits (12.1 per cent) since this group was much more likely to be in work, and in full-time work. Some factors point towards a degree of precarity for the lower-end non-HB private renters compared with non-HB households not at the lower end. Lower-end non-HB households were more likely to be in part-time work and in full-or part-time self-employment. If in temporary work, that work was more likely to be casual and seasonal, with fluctuating income.

In addition, it was notable that one sixth of all households at the lower end but not receiving HB were unemployed, retired, looking after the family home or were sick or disabled. All these categories point towards eligibility for housing assistance.

For landlords making choices amongst tenants at the lower end of the market, it is increasingly difficult to define a prospective tenant's economic precarity by making a simple binary distinction between working/not working or benefit/no benefit. Furthermore, it is becoming increasingly difficult to define which households are supported by housing benefit specifically. The introduction of Universal Credit has bound up several income supplements into one single payment, which makes it difficult for landlords to identify exactly how much assistance with the rent a tenant may be receiving.

Tenants in financial difficulties

The fact that landlords make distinctions at the lower end of the market reflects their uncertainty about a tenants' ability to sustain the tenancy financially. Tenants in receipt of HB were much more likely to be in rent arrears, and to have difficulties in keeping up with other bills (Table 2.3).

Table 2.3: Payment commitments by market subgroup, 2017/18 (%)

	Lower-end HB	*Lower end non-HB*	*Non-lower-end PRS*	*All PRS*
Keeping up with bills and regular debt repayments	77.3	90.9	96.6	91.0
Not keeping up with bills and regular debt repayments	22.7	9.1	3.4	9.0
Behind with the gas bill	7.7	2.1	1.9	3.1
Behind with council tax	14.6	4.8	2.9	5.9
Behind with rent	4.8	1.5	0.3	1.6
Behind with rent in last 12 months	7.5	2.6	0.6	2.7

Source: Family Resources Survey 2017/18

Table 2.3 indicates that 22.7 per cent of lower-end HB tenants were not keeping up with bills and regular debt repayments, which was more than twice the proportion for lower-end non-HB tenants. Tenants receiving HB were also much more likely to be behind with their council tax and the gas bill. Just under five per cent said that they were behind with their rent, and a slightly higher figure – 7.5 per cent – said that they had been behind with the rent at some time in the past 12 months.

Landlords distinguishing between households receiving HB and those not receiving HB are likely to be reflecting on those tenants falling into problems with paying the rent. However, it is notable that the low proportion of HB tenants behind with their rent compared with tenants having problems with other routine bills indicates that tenants may well be prioritising the rent over other bills or have been able to access APAs to ensure direct payment to the landlord. Landlord commentary on these issues is included in Chapter 6.

Length of tenancy

The lower end of the PRS is often defined in terms of precarity, but it remains the case that this part of the private rented market is more stable in terms of tenant turnover. For all tenants not at the lower end of the market, 19.7 per cent had been in the same property for five years or more. At the lower end of the market, this figure was 34.6 per cent for non-HB claimant and 41 per cent for HB claimants.

This figure could be high for some groups. For example, 70.5 per cent of retired households receiving HB at the lower end of the market will have been in their tenancies for five years or more, compared with 27.2 per cent of retirees in the non-lower end PRS.

Table 2.4: Proportion of households in the same property for five years or more by market subgroup, 2017/18 (%)

	Lower-end HB	*Lower-end non-HB*	*Non-lower-end PRS*	*All PRS*
Full-time employee	35.0	30.0	19.1	23.6
Part-time employee	32.1	32.8	34.6	32.8
Full-time self-employed	42.9	41.6	19.6	32.4
Part-time self-employed	45.1	32.7	32.3	35.2
Unemployed	30.7	30.2	23.8	29.5
Retired	70.5	68.1	27.2	63.6
Student	19.2	1.6	3.6	2.9
Looking after family/home	24.6	54.5	48.7	36.7
Permanently sick/disabled	48.1	51.9	0.0	46.9
Other Inactive	34.5	39.3	16.3	33.4
Total	**41.0**	**34.6**	**19.7**	**29.5**

Source: Family Resources Survey 2017/18

One major exception to this general characterisation were households where the HRP was looking after the family home. In both categories of lower-end demand, the increased likelihood of that a move had taken place within the last five years reflects the probability that a move into the PRS had been provoked by a change of relationship status. This is particularly the case for households containing single parents, where there will be a longer-term trajectory into full- or part-time work as children move into school.

As will be seen in forthcoming chapters, landlords generally offset some of the financial risks at the bottom of the market through the cost savings of reduced tenancy turnover, often achieved through limiting the incidence of rent increases. This strategy carries the risk of tenants becoming 'trapped' in lower-rent properties, unable to afford movement to another property where the rental cost would be higher.

Conclusion

This chapter has introduced some competing definitions of 'lower end' of the PRS and underlined the complexity of this part of the market. The lower end of the PRS can be distinguished by a number of demographic and economic groupings that can be regarded as more or less desirable from the perspective of private landlords. The characteristics of lower-income tenants in receipt of benefit differ from lower-income tenants not receiving help with housing costs. The differences do not necessarily make the HB group less desirable as tenants: as will be seen in forthcoming chapters, landlords operating at the bottom of the market tend to favour more settled household types and types where it might be possible to make arrangements for direct payments of benefit to the landlord. However, some landlords also favour lower-income working tenants, in comprising a group less likely to develop problems with paying the rent. Length of tenancy is a primary attraction for landlords meeting need at the bottom of the market and – as will be seen – comprises a crucial method for containing costs.

3. LANDLORD CHARACTERISTICS

Introduction

The following chapters will draw on interviews with 55 landlords which took place over the summer of 2020. This and the following two chapters will define landlord characteristics and their attitude to housing benefit lettings, their financial models, and the role of place in defining letting practice. All these elements need to be taken into account in order to assess the characteristics and robustness of supply.

Landlords are by no means a homogenous group. This chapter will introduce a refined landlord classification and discuss the dynamics of letting practice. This process of categorisation is an important precursor to understanding the circumstances in which property is supplied to the lower end of the market, the degree of an individual landlords' exposure to the market, and the reasons why that supply might be changing. The chapter will then consider landlords' target markets. There are landlords whose principal target group are households supported by some form of housing benefit. However, lettings to lower-income households take place across all landlord types. Indeed, it is likely that the majority of housing benefit lettings take place in circumstances or where the landlord has chosen to tolerate benefit dependence without necessarily supporting it.

'Lower end' supply

This chapter reflects findings from interviews with landlords who actively opted in to the research, and so it is unlikely to be representative of all landlords currently letting in the market. Very large-scale institutional landlords were not contacted, although – as will be seen – the research does include a handful of business landlords operating at far above-average scale. In addition, this research has not captured letting behaviours of criminal landlords operating in the 'shadow' rental market.[15] A couple of landlords mentioned practices that could be defined as coercive or were less forthcoming about some aspects of their lettings but these were an exception. For the most part, the interviews took place with landlords who were fully-engaged professionally in the business of letting and demonstrated a good understanding of the appropriate legislation. Landlords who were less confident in their understanding of the law were generally using letting agents who they felt delivered the appropriate level of expertise.

Only a small number of the landlords who were interviewed could be defined as 'housing benefit landlords' with a strategic intention to meet need in that market. Universal Credit and an increase in the proportion of working benefit recipients has created a blurred line how exactly a 'benefit tenant' might be defined:

> There's a lot more people now on Universal Credit than there would be before because they're getting this top-up. Where before you were either on benefit or you

[15] R. Spencer, B. Reeve-Lewis, J. Rugg and E. Barata (2020) *Journeys in the Shadow Private Rented Sector*, London: Cambridge House.

> weren't, now you dip in and out of it. You might get a benefit of £10 a week to top up your wages as opposed to getting full benefit. Landlords can't make blanket choices of saying "I'm not having anyone on Universal Credit", not only because it's now illegal but also because a lot more people are on Universal Credit' [Regional landlord representative].

Many of the respondents had a mixed portfolio of properties with lettings in different parts of the market. Some properties were purchased on the understanding that their location dictated that they could only achieve a lower rent but others were purchased in more desirable areas and refurbished to a higher specification to attract and justify a middle-market rent. Landlords also often had, in their portfolios, properties they themselves had lived in at some juncture or inherited properties that could attract higher rents. Thus, landlords might have a 'mixed portfolio' and not necessarily be fully exposed to the risks associated with letting at the bottom of the market.

Landlords offering properties at lower-end rents did not always stay in that part of the market. As will be seen in chapter 9, some landlords were investing in refurbishment or adjusting their holdings in order to step away from the benefits market but continue letting.

Landlord typology

There are no straightforward routes to landlord classification. The number of properties held is not a reliable indicator of intent, landlord type or robustness. A landlord holding two or three properties might easily be regarded in some way amateur or sideline but in actuality they may have been a landlord for decades and have, at retirement, divested down to a small core of unmortgaged properties. Similarly, a landlord with – say – twenty properties may have accelerated through a rapid programme of tumble-through remortgaging and might carry a precarious level of debt without necessarily having accrued property management experience. The landlord respondents included examples of both these types.

This report uses a classification system which combines letting motivation and dynamic intent. The qualitative interviews asked landlords how they came to be letting, and analysis of the data indicated that there were four core landlord types. These will be defined as:

- accidental
- investment
- portfolio and
- business landlords.

Note that this landlord classification presents idealised types and some landlords may not fit exactly in a single category. This is particularly the case where letting activity is being undertaken by a couple, where one partner might be in work and the other manage a portfolio full-time.

Accidental

'Accidental landlords' are individuals who are letting property with no intention of being in the market over the medium or longer term. This category includes individuals who, for example, have chosen to let out a property which has proved to be difficult to sell or sell at the desired price, or who may have inherited property and be letting until a decision is made about sale. None of the landlords in the survey were accidental landlords at the time of the interview, but some began their lettings 'accidentally' and then had gone on to extend their lettings often because they enjoyed being a landlord.

Some landlords did describe less formal letting arrangements. A small number of landlords – each with only two or three properties – included lettings to family members amongst their holdings. These were lettings where the family member paid rent, but where it was uncertain whether the landlord would continue to hold on to that property once it became untenanted. For example, one respondent had purchased a property and was letting it to a niece who had fallen into difficulties, and another had inherited the property in which another family member was living. Neither landlord wanted to continue letting those particular properties after the current tenancies ended.

Investment landlords

The largest group of landlords (25) were 'investment' landlords. All these landlords had earnings in addition to rental income and these earnings tended to cross-subsidise their letting activity: for example, savings accrued from earnings were used as deposits, and landlords might pay for major repairs from their 'personal' rather than rental income. In many cases, the rental income was low relative to the mortgage and maintenance costs of the property: it was sufficient for a property to 'wash its face' so that rental income matched mortgage and other outgoings. These landlords had invested in property for three principal reasons.

First, some viewed letting as a means of augmenting the pension they were likely to receive on retirement from paid work. Others were investing because they were in work that had accrued no pension or had a partner who had no pension. The respondents included investment landlords throughout the age range, from the 30s through to the 70s and this spread of ages meant that it was possible to understand how 'investing for a pension' played out over time. The investment landlords were roughly split 50/50 in terms of those who were still in employment and those who were at or close to retirement.

On retirement, landlords took a number of different routes. Some had succeeded in paying down outstanding mortgages on their property and were indeed using their rental income to supplement a work pension. Older landlords – in their seventies and above – were giving active consideration as to how best to enjoy their equity and some were selling down to secure a better quality of life. Other landlords approaching retirement had decided, instead, to sell their holdings and purchase an annuity, which offered the advantage of their stepping back from active landlordism and its associated risks. Landlords who regarded their holdings 'as' their pension and had no other retirement income, might take a different route on retirement. Some took the opportunity to remortgage and augment their holdings and become full-time portfolio landlords. This was particularly the case where landlords retired earlier, perhaps in their 50s.

For a second group of landlords, investing in property was not tied to a pension specifically. Landlords in this group were often in well-paid employment which generated income beyond immediate household requirements. It was simply convenient to invest spare capital in property, which offered a better rate of return over the long term. Some respondents put all their capital in property, sometimes after adverse experiences in the stock market. Others sought to spread their investment risk, and put money in property, stocks and shares and other savings vehicles. One individual who had purchased two properties also regularly saved in stocks and shares. In his view, *'if you are looking for a diversified investment you have to go for property', and preferably rental property: 'buying a room in a hotel and stuff like that. These all sound very dodgy to me'* [LL24].

There was third group in the 'investment' category. A number of landlords said they had invested in property in order to accrue equity they would pass on to their children, to help them onto the property ladder at some time in the future. One respondent explained his rationale*: 'I never set out to be a landlord or anything like that. I know there are people who…that is an ambition. Me and my husband have got fairly decent jobs. The main reason, really, was to try and help our kids. That's the main reason'* [LL22]. This strategy might mean intending for adult children to move into those properties at some stage or – more likely – that those properties would be sold to finance other property purchase. Some of the landlords who were interviewed had small children and were nowhere near executing this plan. Others had adult children and were finding that it was not necessarily straightforward to disinvest. One woman had a house that she part owned with her son, who wanted to withdraw his equity share to buy a home for himself. The tenant did not want to leave, largely because the rent had been set at a level some way below the LHA rate. The landlord was pursuing possession through the courts.

These three motivations could be rather fluid. One respondent – in full-time work and with two properties – had purchased his first property in 2005 with the intention of augmenting his pension:

> I thought, right, well looking at the way things are in terms of general interest rates, investments. Property, it's solid. I know it sounds a cliché, but it really is. It's not going to go anywhere. I mean, yes, the values might go up and down over time, but over the long, long term, they only ever go one way and they always go up [LL25].

However, at the time of the interview his plan was to pass the properties to his children.

For this and for other landlords in the investment grouping, putting money into property was not regarded as a short-term undertaking. It was generally expected that, as the rental income paid the mortgage, equity would build and gradual gains would be realised over decades through uplift. The gains were not necessarily spectacular. For example, one couple mentioned that they had purchased a property in Lincolnshire in 1985 for £18,000 and this was now worth around £60,000, which was a rise in line with inflation. One woman who had retired with four properties indicated*: 'When you look at what we've gained in the properties, the actual rent isn't critical, because if it was invested in the banks we would have probably got less income than just the gain in the property value'* [LL73].

It was clear that, for all these landlords, low interest rates were a primary reason for finding property investment more attractive.

Portfolio landlords

Sixteen of the respondents were 'portfolio' landlords. For the purposes of this research, a distinguishing feature of portfolio landlords is the absence of earnings from an employer. A small handful in this group was self-employed – often freelance or as a consultant – and able to use the flexibility in their working hours to manage their holdings. Where self-employment accrued occasional capital gains, the money was invested into property. Conversely, where self-employment income fell, then it was possible to draw on rental income to meet personal outgoings.

For the remainder of landlords in this grouping, the principal income came solely from letting property. These landlords were actively involved in managing their properties and tended not to use letting agents. Many of them had experience across the building-related trades and minimised expenditure by themselves undertaking refurbishment and non-specialist repairs and maintenance.

Routes into full-time landlordism could be varied. Some landlords simply inherited a portfolio of properties that they continued to manage and others benefitted from inheritance which augmented the capital available to them for property investment. For example, one landlord had a fairly rocky start, purchasing his first property pre-Global Financial Crash and ending up in negative equity. He only regained equilibrium when he inherited around £100,000 and was able to purchase two further properties and 'restart' his expansion. Other landlords began by using capital accrued from the sale of businesses.

A number of landlords began with 'spare' property as they moved from one job to another, and over time decided that they enjoyed letting property and moved into that activity full-time. Others were propelled into full-time letting through the loss of paid employment which meant that it made sense to invest redundancy cash into holdings that had initially been purchased as a pension investment. These landlords moved from being 'investment' landlords to full-time portfolio landlords and often substantially increased their lettings activity. Indeed, at the time of interview one or two landlords were in the process of slowly transitioning from one state to the other, gradually reducing their working hours and increasing the resources they were dedicating to letting.

Other portfolio landlords had simply taken the decision to start investing in property and rode the waves of opportunity that have flowed with the housing market. This group included one early entrant to the market who had invested in the purchase of 'Tyneside flats' in the early 1980s, let at regulated rents. There was a period in the mid-2000s when property investment and buy-to-let mortgages were regarded as an easy-access, high-return endeavour: '*We had 'House Doctor' and all these programmes, and everybody was into property, and I could just see which way it was going, and I was like, I need to go get in on this and buy as many as I can as fast as I can'* [LL29].

Others simply took the lead of a friend: *'I saw somebody else who was doing it and it seemed like quite a nice way of making extra money'* [LL1]. More recent entrants to the market noted using property firms that specialised in locating buy-to-let opportunities although experience of these was not always positive.

As with the investment landlords, all the portfolio landlords in the sample were at different stages in their landlord career: some were in their 30s and looking to expand, and others were in their 60s or 70s and winding down or consolidating a large portfolio. Nevertheless, a key characteristic of all the portfolio landlords was the absence of earned income. They were all fully exposed to the rental market. In the majority of cases, lettings had to function as an enterprise that stacked up financially and created sufficient profit to constitute a liveable salary.

Business landlords

One final category that was evident in the interview selection was 'business landlords' (14 respondents). This type of landlord fell into one of two broad categories. First, there were property business landlords who had expanded their property dealings to develop ancillary companies that had full or part-time employees. Typical ancillary companies included:

- A separate letting agency to manage their own holdings and make money through offering tenant finding and management services to other landlords;
- property development companies which purchased, renovated and 'flipped' properties back into the market; and
- companies that sold property maintenance services to other landlords.

For example, one landlord specializing in HMOs managed his properties through his separate letting agency which employed his maintenance company. He had recently branched out into property development and purchased a country pub which he was going to refurbish into flats and sell the car park with planning permission for new housing. In expanding their dealings, these property business landlords aimed to reduce management and maintenance costs, increase tax efficiencies and bring additional income to the business. These enterprises were often 'family businesses', involving partners and adult children. Indeed, one business landlord who was interviewed was working for his father, who had begun to establish a portfolio in the 1980s.

Second, there were high net-worth business landlords whose property ownership was one element in a range of commercial and investment activities that in combination might have a turnover of millions of pounds. These landlords may have developed ancillary property businesses including letting agents, property development and maintenance companies and property consultancy. However, their other interests included business ventures entirely unrelated to property, but where profits from those operations could be diverted into portfolio expansion.

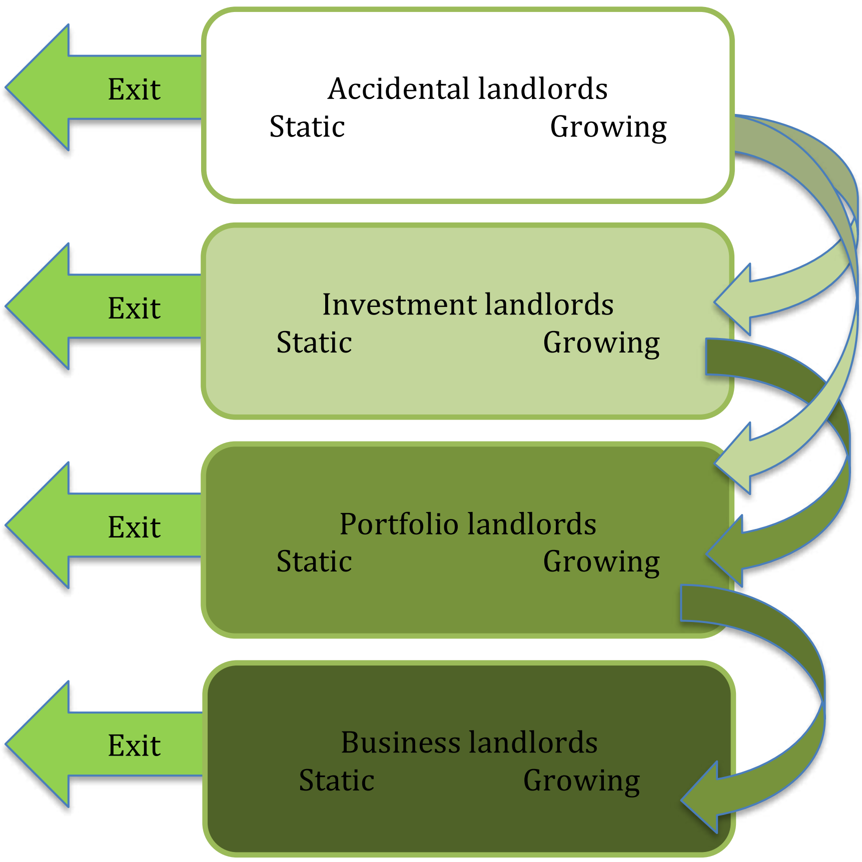
Business landlords were more likely than other landlords to act in a 'CEO' capacity and attend to strategic decision-making whilst leaving day-to-day management to other staff: *'my day involves sitting in front of a laptop staring at spreadsheets, working on the business rather than in it'* [LL31]. For both types of business landlords, it was common for property to have been accrued over a long period of time, in particular during a 'boom' period of intensive tumble-through remortgage activity. A couple of respondents had built portfolios through operating sale and rent back schemes, offering cash for properties far below their market value, realising the gain through immediate remortgaging. The operation of these schemes was paused after the financial crisis and they are now stringently regulated by the Financial Conduct Authority.

Again, all these landlords were at different life stages. Some were still expanding their holdings and balancing out the separate parts of their business to create tax efficiencies. Others were heading towards retirement and considering how best to consolidate or sell their holdings.

Dynamics

This classification indicates that landlords may well move from one type to another as their circumstances and intentions change (see Figure 3.1). A couple of landlords were, at the time of the interview, transitioning from one state to another: they had been investor landlords, but were increasing their holdings and withdrawing from paid employment in order to become portfolio landlords.

Figure 3:1 Dynamic landlord classification



NOTE: This figure demonstrates landlords' dynamic movement from one category to another as their intent changes.

Landlord classification also needs to integrate dynamic decision-making with regard to holdings. Landlords will be selling down, 'paused' or static, or seeking to expand. Landlords might also buy and sell to consolidate their portfolio, for example, to concentrate holdings geographically or move into or out of different markets. Disentangling typologies and dynamics is an important step in understanding the flow of property into and out of the PRS generally, and into and out of the lower end of the market more particularly. Landlord's future letting plans will be discussed in further detail in Chapter 9. This chapter will now consider current housing benefit lettings.

Tenant preferences

It was not the case that some categories of landlord were more likely than others to let to tenants in receipt of housing benefit. As will be seen in Chapter 5, geography played a greater role in determining whether the majority of a landlord's lettings were to tenants needing support with housing costs. In asking landlords about their target markets, many commented more often on a tenant's personal attributes than on their source of income. The strongest preference was for long-term tenants willing to settle and make the property their home. To this end, there could be a preference for families with children of school age. In instances where landlords had HMOs, there was – again – a tendency to let to more settled individuals: for example, retired single professionals or men who needed accommodation following relationship breakdown.

The nature of respondent recruitment meant that the landlords who were interviewed were more likely to be letting lower-value property. However, that did not mean that they were all willing to take tenants in receipt of housing benefit. Tolerance of this type of tenant was variable, and only a handful of landlords amongst the respondents set out deliberately to target the housing benefit market.

Landlords averse to letting to tenants receiving housing benefit

The English Private Landlord Survey (2018) found that 52 per cent of respondents were unwilling to let to people in receipt of housing benefit. Ten of the 55 respondents in the study also expressed this preference. Some landlords offered explanation by commenting that their properties were not affordable to lower-income families. There was an unwillingness to reduce their rent: one investment landlord letting in Leeds said: '*we'd have to look at taking a big hit'*, given their typical rent of £750, compared with a LHA of £550 [LL5]. Indeed, there could be a degree of exasperation that landlords should be expected to drop their rents to accommodate lower-income need: '*local authorities want to get landlords to charge a lower rent when as a business no-one else would charge anything but the market value'* [Regional Landlord Rep #3]. Another landlord, also operating largely in Leeds, was of the view that people in receipt of benefit carried too many disadvantages compared with other tenants: '*If I can get somebody who can pay on the day he walks into the house, pay a month in advance plus a month deposit, why would I bother taking someone who can't pay for five weeks and I can't get insurance on? It really doesn't make any sense'* [LL1].

In a couple of instances, landlords insisted that they had 'historic' mortgages which precluded their letting to people receiving benefits: '*My mortgages say I'm not allowed to an* *actually so does my insurance. I have to take working people because people who are not working, people who are supported by benefits, are deemed at greater risk of not paying their rent'* [LL19].

In addition to the heightened risk of rent arrears, there were deemed to be problems in reconciling rent accounts where there was more than one tenant on HB, and other additional management tasks. Some landlords said that they regarded HB tenants as personally problematic. A local authority homelessness officer mentioned that local landlords could be very resistant to taking referrals: *'instantly there's barriers placed because the general consensus across the country is if you're homeless, there's something wrong with you'* [Local statutory #4]. The landlords sometimes found it difficult to articulate their view on the matter, given recent judgments on a 'no DSS' policy: an investment landlord with three properties was adamant: *'I keep away from trouble, that's all. That's the bottom line. It's not…I didn't have anything… I keep away because I don't want in the end, these people will, you know that kind of people who…I don't want trouble'* [LL32]. For these landlords, receiving housing benefit translated to enhanced risk, and intolerance of risk was marked particularly amongst investment landlords with smaller portfolios who simply did not want gamble on their future pension income.

Within this group of landlords averse to housing benefit lettings there were a number who had let to benefit recipients in the past but had changed their letting practices. These will be discussed in further detail in Chapter 9.

Landlords tolerating tenants receiving housing benefit

The majority of landlords in the study – 45 out of 55 – were currently letting to tenants in receipt of either Local Housing Allowance or Universal Credit. The English Private Landlord Survey found that 48 per cent of landlords were not unwilling to let to benefit claimants. The respondent interviews indicate the many circumstances in which this kind of letting takes place. Across all categories there could be some appreciation that tenants in receipt of benefit were more likely to be settled households seeking a long-term tenancy. Further, it was thought to be more likely that a settled tenant in receipt of HB would deliver a steadier rental payment than someone in work. In the view of one small business landlord on Teesside:

> I won't discriminate. I'm from a pretty poor background myself. We always lived in rented accommodation when we were kids. If people aren't working it doesn't necessarily make them a bad person. […] In my mind, it's almost safer than letting to somebody who's employed [LL13].

Working investor landlords could be satisfied with a steady lower-than-market rent in return for a lower tenancy turnover. One woman, who worked as a front-line health provider and had four properties in and around an East Midlands city, said that if she operated in a more business-like way she would *'probably be looking at putting rents up more aggressively, in line with the current market of the area'*. However, she thought that might lead to higher tenant turnover and her preference was to achieve long-term stability [LL75]. Similarly, unmortgaged investor and portfolio landlords were also happier to accept a lower rent balanced against lower turnover and reduced re-letting costs.

Many landlords had 'legacy' tenants where the length of the tenancy conferred special treatment. Landlords often mentioned tenants they had let to for ten years or more: the individual was well-known and trusted by the landlord and that could engender a degree of loyalty. The nature of this relationship meant that the landlord was quite willing to support the tenant through changes in circumstances including loss of work and relationship breakdown. In some instances the landlord was not necessarily aware of their tenants' benefit status and indeed did not feel that it was their business provided the rent was paid. One portfolio landlord, who had inherited a small number of properties from her father, still had some of the same tenants:

> What I don't know is those tenants who are paying me direct. I don't pry. So they might be on benefits and just paying me directly. They've been with me so long that it's predated a lot of the reference checking and all that sort of stuff...They pay their rent every month, so I've never asked, they've never said and it doesn't really matter [LL47].

Another retired portfolio landlord said that he, simply, did not ask about his tenants' finances: '*I've tried not to pry because I think it's a bit intrusive*' [LL74].

This kind of attitude was also typical of landlords who were – again – unconcerned with how the tenant paid the rent, providing the tenant passed the relevant reference checks and providing the tenant continued to pay the rent on time. Indeed, under Universal Credit it might not be clear that a working tenant was receiving the payment: '*I wouldn't be averse to taking somebody on Universal Credit but they might not tell us that they're on it anyway*' [LL84].

Landlords targeting tenants receiving housing benefit

The majority of landlords in the study were rather more firmly in the housing benefit market either intentionally or because of the location of their property. Here, being 'in the market' is defined in terms of letting at a rent below, at or slightly above the LHA rates, and operating with a good working knowledge of Local Housing Allowance and Universal Credit. The geography of the market will be discussed in chapter 5 and letting practices in chapter 6. But here it is worth noting that all landlord types were in the housing benefit market, which split roughly a third each between investor, portfolio and business landlords. However, even within the benefit market, landlord portfolios, preferences and tolerances were variable.

Many of the landlords had decided to target families since they had spotted this need was not being met locally and purchased two- or three-bedroomed properties. The purchases were often ex-council properties in established neighbourhoods, let to households with a local link. Some larger landlords who were targeting family lettings mentioned that they often offered tenants the option to move from a smaller to bigger property as their household changed in size, or conversely to downsize as appropriate.

Another group was specialising in single, self-contained lettings which were either one-beds or studios. This part of the market was deemed to be preferable to HMOs, which were thought to carry a heavier management burden. It was also possible to take advantage of the studio LHA rate which is generally higher than the shared room rate. However, some landlords were of the view that smaller flatted properties still turned over too frequently and one landlord was selling her flats to invest more in houses for that reason.

A small number of landlords were dealing exclusively with the lower and less stable end of the HMO market, often with highly vulnerable tenants. Portfolio and business landlords were more likely to be involved in HMO lettings, although one small investor landlord had successfully managed a 'professional share' for some years. However, for the most part dealing with HMOs generally meant dealing with the more vulnerable and economically excluded tenants. One landlord had over 30 rooms in a handful of HMOs, let to men who were – in his view – *'down on their uppers, to be honest'* [LL52]. Having HMO lettings did not preclude turnover being relatively steady. This particular landlord was managing his wife's inherited portfolio, and his longest-standing tenant had lived in the same room for over 40 years. Another property business landlord also specialised in this market: his combined personal holdings and managed properties amounted to hundreds of separate let rooms. He had developed this portfolio over many decades, working with a sleeping business partner who had substantial holdings.

Landlord survey

Further data on landlord preferences were secured from the BDRC survey. Respondents were asked about their current practices in letting to people in receipt of Universal Credit. Table 3.1 indicates that a large minority of landlords – close to a half – had never knowingly let to anyone in receipt of Universal Credit. A quarter had let to this group, but without changing their management practices to take benefit receipt into account. The figures indicate that the majority of tenants receiving Universal Credit will be renting from landlords who are likely to regard tenants as being wholly responsible for their housing benefit payment. These landlords would not necessarily be in a position to offer assistance if problems arose with a claim.

Ten per cent of landlords had tenants including people in receipt of UC, and where management practices has been changed to accommodate those tenants receiving benefit.

Table 3.1: Which of these statements best describes your current practice in letting to people in receipt of Universal Credit?

	Number	Percentage
My tenants include people in receipt of Universal Credit and I have changed my management practices for those tenants (e.g. accept delayed payments, rent in arrears etc.)	92	10.3
My tenants include people in receipt of Universal Credit, but I have not changed my management practices for those tenants	218	24.4
I have never knowingly let to anyone in receipt of Universal Credit	395	44.3
It varies	141	15.8
I don't know	46	5.2
Total	892	100.0

Conclusion

There is a high degree of variation in landlord motivations and personal dynamics which means that generalisation can be problematic. A static measure such as portfolio size is an extremely weak indicator of where a landlord 'sits' in the market: a more dynamic approach to motivation and trajectory is required. Amongst the respondent landlords, all categories routinely let to people in receipt of housing benefit but the circumstances of that letting varied. There were landlords who actively targeted different parts of the housing benefit market, and it is notable that, irrespective of that target, landlords were generally looking to secure a long-term tenant. Data from the respondent landlords indicates that it is likely that the lower end of the PRS contains a great deal of 'legacy' letting, with landlords continuing to honour long-standing benefit-supported tenancies irrespective of changes in tenant circumstances. The next chapter considers landlord financial decision-making.

4. FINANCIAL DECISION-MAKING

Introduction

The sustainability of supply to the bottom end of the PRS depends very much on landlords' financial capabilities and their ability to secure satisfactory returns. High levels of mortgage default and instability contribute to precarity for tenants. Very little research has been undertaken on landlords' financial decision-making, and as a consequence the first part of this chapter explores in detail the most common financial strategies for property purchase. The chapter indicates a generally thoughtful approach to portfolio development. The majority of landlords had holdings where the rental income was more than adequate to meet mortgage or loan commitments and other costs of doing business. The chapter considers the impact of the taxation changes introduced by the Finance Act 2015, and reviews landlord characteristics which contributed to stability and instability in financial terms.

The chapter then goes on to consider landlords' on-going business models. Landlords operating at the bottom of the market do not seek to maximise rent payments. The preferred approach is to minimise cost through driving down voids and tenancy turnover and securing tenant satisfaction through brisk response to repairs. The chapter concludes by asking whether supply of property to the bottom of the market is sustainable financially. The majority of landlords who were operating strategically were satisfied with their returns. However, a large minority of landlords who were inadvertently letting to HB tenants were not seeking to maximise their returns, and questions remain on the degree to which new entrants to the market might be satisfied with this approach.

The purchase status of rental properties

Rental properties are acquired in several ways, and one straightforward classification frame assesses the existence of outstanding debt on the property. A total of 895 landlords responded to the BDRC survey, and between them owned 1,635 properties. Table A4.1 indicates the purchase status of those properties. Forty per cent of properties were owned outright. Of the remainder, the majority – 35 per cent – were being purchased with a mortgage, and 13 per cent were being purchased using a commercial loan. This particular strategy was more prevalent amongst landlords with larger holdings. Amongst the landlords, 38 per cent had entirely unmortgaged holdings, and in 31 per cent of cases all their holdings had outstanding mortgages. A further 29 per cent held a mixture of mortgaged and unmortgaged properties.

Table 4.1 indicates purchase status according to landlord type. Landlords who were willing to accommodate tenants receiving UC were less likely to have entirely unmortgaged holdings, and a higher proportion had a property mix including mortgaged and unmortgaged properties.

Table 4.1: Purchase status and landlord type (%)		
	All respondents	*'UC landlords'‡*
All property owned outright	38.2	25.0
All property being purchased with a mortgage	31.2	26.1
All property owned fractionally	*	3.3
All property being purchased with a commercial loan	*	0
Property is mixed in terms of purchase status	29.1	45.7
May not total 100 due to rounding		
	n=891	n=92

*Less than 1 per cent.
‡Landlords indicating: 'My tenants include people in receipt of Universal Credit and I have changed my management practices for those tenants (e.g. accept delayed payments, rent in arrears etc.)'
Source: BDRC Q1 2020

Landlord finance strategies

Landlords were asked about how they came to be a landlord, about their earliest purchasing decisions and how their portfolios developed. The interviews did not collate forensically detailed financial accounts but aimed at defining landlords' overarching financial strategies. As indicated in the previous chapter, landlords' portfolios are dynamic, and some of the accounts comprised a historic narrative that covered decades of operation. This means that it is possible to add time depth to the analysis and examine the impact of wider economic trends on landlord portfolio development. As might be expected in this part of the market, the majority of landlords were taking a high yield/low value approach with a focus on rental income. Given the nature of the locations in which they were operating, few anticipated substantial capital uplift.

Most landlords, irrespective of their type as defined in the previous chapter, took one of two main approaches to financing their property purchase. A small handful adopted alternative financial models, and these are also discussed below.

The highly geared, 'tumble through' model

Landlords' financial strategies very much reflected their tolerance for debt. The most common financial model depended on landlords being highly geared and increasing their holdings through a process of remortgaging. Landlords often began portfolio development by remortgaging their own property: this was made possible where the landlord had paid down the mortgage substantially or house prices inflation had increased the equity. The property was remortgaged to release equity, and this equity would then be used as deposits on one or more additional properties.

It was also common that landlords sold existing businesses or used redundancy cash to enter the lettings market and – again – used that capital as deposits on multiple properties. Some landlords, simply, saved over a number of years and/or used their credit cards but purchased in low-value areas. One landlord said that his earliest purchase cost just £7,000, and he paid no more than £15,000 for subsequent properties. A handful of landlords had built their portfolios in the 1980s before the availability of BTL mortgages and using standard mortgage finance. When the new style of mortgages became available, many such landlords refinanced their holdings.

For many of the larger portfolio and investment landlords, initial investments happened during the 'buy-to-let boom' in the late 1990s/early 2000s, when deposit requirements could be relatively low. Indeed, there was a sense in which some landlords were urged to invest. One working investor landlord had approached her bank to ask whether she could borrow money for a kitchen extension. She was told that she could, instead, remortgage and purchase another property with a buy-to-let mortgage. Using the 'tumble through' model she quickly acquired four properties. Landlords also took the opportunities provided by a fall in house prices following the Global Financial Crisis.

A key element in this business model is the type of property that landlords targeted. Landlords who were operating to a highly-geared model tended to focus on below-market-value properties where it might be possible to bring the loan to value (LTV) ratio down by adding value through refurbishment, and then remortgaging back up to the maximum LTV. In the view of one retired portfolio landlord: *'I can't afford to buy a house at market value and rent it out because the figures don't stack up. It's got to be a house that leaves me with some margin by spending, by investing in it, otherwise the figures won't stack up for me'* [LL11].

Landlords tended to purchase at auction, look for properties that had been repossessed, were 'tired' or had been on the market for some time. One property business landlord, operating in the North East mentioned a recent purchase: he had bought a house for £15,000, in a near-derelict state with an unsound roof and smashed windows. His team worked on the refurbishment, which cost him £9,000, and the property was remortgaged for £55,000. Many landlords invested considerable time in locating this kind of opportunity property.

Smaller portfolio landlords often invested 'sweat equity', in terms of skilled or unskilled labour, and this was often crucial in minimising refurbishment costs. Many of these kinds of landlords had a background in trades. Refurbishment took place quickly, in a matter of two or three weeks, at which stage the property was remortgaged to release its additional value. This value was then used as a deposit payment on another property. Several landlords had built their portfolios by 'tumbling through' mortgage finance from one property to another. Landlords who were reliant on the 'tumble through' method tended to view capital sitting in properties as a wasted opportunity: *'if you're not borrowing money against the property, then what's the point?'* [LL58].

A small group of portfolio landlords in the study were continuing their expansion at the time of interview. There was heavy reliance on interest-only mortgages since repayments were lower, which would increase profit margins and more quickly accrue capital for further reinvestment. There were examples amongst the respondents of portfolio landlords who had, over a relatively short period of time, accumulated 30 or more properties using this method. Many of the longer-term landlords had gained substantially from a drop in interest rate after the financial crisis, since this reduced their mortgage costs, increased profitability and sped up the rate of expansion.

Working investor landlords sometimes used a similar model, but also drew on earned income, bonuses and promotions to provide mortgage deposits and fund refurbishment. One investor landlord, who worked in IT, had purchased 13 properties. He and his wife directing all their spare capital to the venture: they were, in his words '*quite frugal'* in their personal expenditure [LL5]. At the time of interview they had started the process of paying down the mortgages since they had arrived at portfolio size they were still able to self-manage.

Older landlords who had built their portfolios using this model were, in some instances, switching their financial model and had started to sell properties to recalibrate their holdings into a smaller number of unmortgaged properties. Where equity was released, this was used to augment their pension income or was simply spent. Business landlords were more likely to continue investing if they had structures in place to relieve them of the burden of day-to-day management.

Again it should be noted that geography played an essential role: the rapid acquisition of properties tended to be concentrated in specific locations where house prices made it feasible to purchase at a sufficiently low price to achieve additional value through refurbishment. Long-term capital uplift was not always factored into this model, since purchase tended to take place in more stagnant housing markets that had seen little in the way of house price increase.

Many of the smaller portfolio and investment landlords in this grouping had arrived at a number close to their ideal portfolio size – which generally related to a number they felt comfortably able to manage personally – and were in a process of consolidation. This meant selling off 'outlier' properties that were too far away to manage, or properties that had proved difficult to let or more problematic to manage. The funding was then directed towards paying down the existing mortgages.

The debt-averse, 'pay down' model

Another group of landlords had built their holdings using a slightly different model. These landlords also targeted properties that were available at a price significantly below market value. However, the finance model differed: the intention was to aim for a low and rapidly-diminishing LTV ratio with the objective of securing an unmortgaged portfolio prior to retirement. In part, an unwillingness to use interest-only mortgage finance was equated with a distrust of this type of product: *'I would never do an interest-only mortgage. That construction strikes me as odd, because in the end you're just betting on property prices going up'* [LL24]. Landlords in this group tended to expand more slowly and use their own capital to cover deposit costs although they did periodically remortgage to secure the best deals. This kind of approach was also more likely to be taken by some working investor landlords who generated savings from their employment income and did not need the rental income to meet their own living expenses.

One working investor landlord had four properties, bought over 20 years ago and one of which was now mortgage-free. He had used repayment mortgages, and admitted that, financially, he could have been more '*aggressive…but then I would have been panicking that I'd got millions of pounds of mortgage there and if something went wrong I wouldn't be able to deal with that out of my day-to-day salary*'. However, in paying down the mortgages he felt that the taxation change had less of an impact since the taxable interest portion of his mortgage payment was continually reducing [LL16]. Another investor landlord with 14 properties in Yorkshire & Humberside also preferred to pay down her mortgage debt and at the time of the interview was unmortgaged: '*I just dislike debt, so it was the goal to pay off as soon as I can. I know I'd probably have got loads more if I'd gone for interest-only, and I could leverage, when we were buying when they were a lot cheaper*' [LL26].

Use of commercial loans

A small number of landlords had pursued or were pursuing a quite aggressive programme of expansion that had not relied on mortgage finance. One landlord who had built substantial holdings in the South West indicated that he and his partner had accessed commercial loans: '*that's for the average man in the street, isn't it, buy-to-let mortgages*' [LL94]. Another landlord had grown dissatisfied with his high-street mortgage provider and had transferred his business dealings to a European bank. This managed all his loans, and alerted him when he had built sufficient equity to expand. Another rapidly-expanding landlord had also found difficulties in securing high-street BTL finance. He had found an alternative lender willing to accept his model of bundling several low-cost house purchases into a single loan.

Alternative portfolio-building strategies

A small group of business landlords had rapidly grown their portfolios by operating sale and rent back schemes in the 2000s. In some instances, growth had been pursued quite aggressively through leafleting particular types of area. This scheme often added ex-right-to-buy council properties to landlord holdings.[16] One landlord who had expanded rapidly using this model said that, at the peak of operation between 2005 and 2008, his business was purchasing two properties a month. They would buy a property for £75,000, but the real value was nearer to £100,000. They would borrow money to purchase, and two weeks' later would remortgage it to full value, recovering £85,000 against the value of £100,000. That would release around £5 or £6k per house which was then funnelled back into property purchase. He had access to easy mortgage terms: '*it seems like if you had a good credit file and you had a pulse and you could sign your name, you could get a mortgage basically*' [LL95]. In his case, this plan collapsed during the Global Financial Crisis when Mortgage Express was bought by the government and he was unable to meet his mortgage debt [LL95]. Another landlord built his portfolio in a similar way, also working with Mortgage Express and using a sale and rent back model. He had built his portfolio to a peak of 100+ properties before the Crisis.

Another alternative strategy was being pursued by a landlord specialising in HMOs. She was using an 'exchange with delayed completion' approach since she was unable to access

[16] In 2010-12, this kind of scheme came under the scrutiny of the Financial Services Authority (then the Financial Conduct Authority) and is no longer in legal operation. See https://www.fca.org.uk/publication/finalised-guidance/fg12-18.pdf

standard mortgage finance because she had only just moved to the UK. She initially built her portfolio by talking to small landlords who she knew had problematic tenants in rent arrears, and who were finding it difficult to meet their mortgage commitments. She agreed a sale price with the seller and paid an advance but deferred purchasing the property for three years. In the meantime, she received the rental income and paid the mortgage. The purchaser met with the tenant, sorted out their benefit claim, arranged a repayment plan and put an Alternative Payment Arrangement in place. This model proved to be successful, and she was able to secure similar deals on four further properties. When she was able to secure standard BTL mortgage finance, she purchased and remortgaged all the properties and since that time has been gradually growing her portfolio through a cycle of purchase, pay-down and consolidation.

Inheritance

It is worth noting that some landlords were in the market largely as a consequence of inheritance. Some respondents had learned about lettings from a parent who had developed a portfolio and then handed it on. Indeed, one very elderly landlord couple were managing a small row of terraces that had been owned by their family since the 1930s. One landlord was married to a woman who had inherited her parents' holdings, which comprised several HMOs in a South Eastern seaside town. He had given up work to manage the portfolio and was clearly finding it problematic. Landlords working with inherited properties were often also 'gifted' sitting tenants who continued to live in those properties often at a rent well below market value.

A couple of landlords had been given or loaned deposits by family members or had invested large inherited sums in property. One man who let in the North East recalled that his first property had been purchased with cash in 1996, with a loan of £7,000 from his parents.

Mortgage-free portfolios

Seven of the landlords had holdings with no mortgage debt. This does not necessarily constitute a financial 'model' but is an important financial characteristic of an increasing proportion of properties in the sector. Table 4.1 indicates a high proportion of 'unmortgaged' landlords, and this figure is supported by PLS 2018 findings that 39 per cent of landlords had no debt or borrowings against their let properties, which this comprised an estimated 30 per cent of all tenancies. Landlords being mortgage free reduces their exposure to financial shocks that might include an increase in interest rates.

A landlord being mortgage-free sometimes reflected the successful pursuit of a debt-averse 'pay down' model. However, some mortgage-free landlords had never had a mortgage. There were instances of landlords inheriting sometimes substantial portfolios, and expanding their holdings via cash purchases using rental income. Some landlords also built their portfolios without recourse to mortgage finance, by investing profits from their other businesses.

One couple had had a business in a small Lincolnshire town, and had used earnings from the business to pay cash for houses let to the people who worked for them. When they retired from the business, the properties were gradually transferred to open market letting. The man who had started his portfolio with a loan from his parents made a second cash purchase of £43,000 by – in his words – 'squirrelling away' – all his spare income, augmented by a mortgage mis-selling compensation sum [LL74]. As might be anticipated, being mortgage-free was often associated with individuals who were retired or close to retirement.

Tax changes

The Finance Act 2015 introduced a tax change which directly affected landlords with buy-to-let mortgages and other types of loans and overdrafts relating to property. Under s24 of the Act, tax calculations were based on rental income which was not adjusted to take into account loan interest costs. Landlords whose principal costs had been interest-only mortgages were no longer able to offset those payments against their tax liability.

Changes in the ability to offset mortgage interest payment against tax had a range of impacts depending on landlords' financial strategies. A small number of newer business landlords had, from the outset, developed their portfolio within a company structure. Most of the older landlords were not so placed. The ability to offset interest against tax liability had proved to be highly attractive to many early investors. The s24 tax changes had a range of impacts across the landlord types, depending on their personal circumstances and business models. In many cases, the tax changes had no impact at all. This was the case where the landlord was unmortgaged, had their holdings in a company or had spread property ownership between themselves and their partner so that each had an income which kept them below the base tax rate. Many landlords used accountants to complete their year-end tax return so their affairs could be ordered to minimise tax liability.

Some landlords could be satisfied with a limited income from a small portfolio, which kept them sufficiently busy and in the right tax bracket. One landlord had calculated that he needed two further properties to reach that position: at the time of the interview he had seven. In a higher bracket, his portfolio would have to be substantially larger to see the difference: *'I don't need it, I'd just be earning money to put numbers on a bank statement'* [LL13].

Few landlords had taken the step of transferring their holdings into a company structure. Many had considered their options on this front. There was an unwillingness to incur capital gains tax and sales tax, and some mentioned tax consultants able to sidestep these requirements: *'I'm always sceptical of sexy schemes because Inland Revenue will put a stop to them if they feel they're not getting their due'* [LL4]. One large business landlord had indeed used a consultant to transfer his holdings but had carefully checked that the consultant had indemnity insurance in case his advice was flawed.

For many landlords, the tax changes were leading to disinvestment or contributed to an unwillingness to expand holdings. These landlords will be discussed in more detail in Chapter 9.

Stability and instability

Landlords were asked questions about the way they managed their rent account and how they funded repairs and maintenance. Most landlords were in a reasonably stable financial position: they had set aside contingency funds, had planned programmes of repairs and maintenance, had access to capital for larger-scale refurbishment and repair, and could absorb a degree of rent loss through arrears. However, a small number were in a more precarious position.

Landlords facing acute financial problems were often facing multiple issues. For example, one investor had purchased a property and was unable to pay renovation bills far above what they had originally anticipated. He was unable to sell and was meeting mortgage payments from fluctuating earned income. Another small investor landlord had two properties: one property had been let to an individual who was no longer paying the rent but could not be evicted and this was destabilising the landlords' personal finances. This group also contained an elderly couple unable to divest themselves of inherited properties they could not afford to bring up to required standard; and a larger HMO landlord who had also inherited a portfolio of highly problematic properties and was dealing with a cycle of problem tenants, criminal damage and rent arrears.

These stories often reflected very particular personal circumstances. However, it was clear that the more stable landlords:

- Brought additional capabilities to letting from other parts of their business/working careers including financial acumen, awareness of the legalities of housing and knowledge of the property market, familiarity with IT systems and working familiarity with the benefit system;
- Were able to fall back on building and trades skills to offset refurbish and maintenance costs;
- Had additional income streams to meet their own household expenses or have a portfolio of sufficient maturity to have built up a strong contingency fund;
- Had a portfolio mix with properties tending to longer-term tenancies (family houses rather than smaller flats);
- Had strong risk-mitigation strategies in place (see Chapter 9);
- Were spreading portfolio management and maintenance costs by setting up associated businesses;
- Had properties purchased at the right time and the right price and with appropriate rents for their target tenant (see Chapter 5); and
- Had unmortgaged properties with substantial accrued savings.

Less stable landlords tended to be:

- Reliant on third-party 'property investor' advice which might well prove to be flawed, leading them to make poor business decisions for example, on where to purchase and at what price;

- Letting a small portfolio of one or two properties with limited equity and insufficient contingency funds to cover loss through rent arrears, an unexpected high-cost repair or an anti-social tenant causing excess damage;
- Cross-subsidizing a small portfolio from fluctuating self-employment income.
- Extending too rapidly, paying greater attention to property acquisition rather than managing the accrued portfolio;
- Managing a small, still-mortgaged portfolio into retirement with insufficient funds to meet major repairs or accommodate voids/arrears.

Rent setting and minimising expenditure

For many landlords who were very firmly in the housing benefit market, rent-setting was closely tied to LHA rates, and these cases will be discussed in more detail in the next chapter. Other landlords operating largely without reference to LHA had a variety of approaches to setting the rent. Many simply set the rent through reference to locally advertised rents, or were guided by agent advice if they used agents for tenant finds or were not self-managing. In some instances, it was clear that the particular property or its location meant that the rent was perforce at or around the LHA rate. The landlords who were looking to achieve a slightly higher rent were generally following a strategy of up-marketing through higher specification refurbishment.

Many landlords were well aware of the market rents and set a rent slightly below that level. For most working investor landlords, yield was less important than the property simply washing its face. One such landlord, with two properties in Greater Manchester, had set his rents at £50 a month below the market price, despite a high level of investment in refurbishment. For him: *'As long as it pays off the mortgage, I'm not bothered'* [LL25]. Landlords in this group were not necessarily pursuing a profit-maximisation strategy, and – rather – wanted to seem ethical. One landlord stressed that he liked to be fair in setting the rent. He was self-managing and had decided to deduct from his rent the money he would have paid to the letting agent. His rents were around £200 a month below the market rate.

Portfolio and business landlords at the bottom end of the market generally sought to maximise profitability by minimising expenditure. Paradoxically, they often aimed to do this by setting a rent that was lower than the market rate. Many landlords saw voids and tenant turnover as a major expense. Tenancy turnover brought a period without rent plus the additional cost of advertising and re-letting. It also meant that property had to be refurbished to a standard that would attract a good tenant. Tenancy turnover could easily cost the equivalent of two months' rent, and this was regarded as an unwelcome expense where profit margins were tight.

It was preferable, then, to create tenancies and choose tenants who wanted a longer term tenancy. Setting a lower rent contributed to that strategy in two ways. First, most landlords recognised what they regarded as a downward spiral: poor-quality property that was priced above the market rent was more likely to limit the number of applicants, which decreased the prospective tenant pool and increase their risk of taking a poor-quality tenant. A better strategy was to offer property at a slightly higher specification than might be expected for a price slightly below the market rate. This would create stronger demand and so allow the landlord to cherry-pick amongst the applicants with a view to securing a more settled tenant.

Second, most landlords sought to retain tenants by simply not increasing the rent. Landlords were particularly unwilling to increase the rent where they had a long-standing tenant who paid the rent regularly and took care of the property. Tenants were more likely to stay in below-market value rental properties which they could more easily afford. One working investor landlord, letting in a depressed coastal resort, was satisfied with a relatively low rent: *'I was quite happy to make sure that people were happy with the rent, or that they could afford the rent, because again, that normally means they stay longer than if they pay the very upper limit of what they can afford'* [LL24]. In some instances, landlords admitted that setting a low rent meant that tenants simply could not afford to move*: 'I've sort of imprisoned them because they're used to such a low rent*' [LL27].

Other strategies to minimise expenditure meant that landlords again contributed their 'sweat equity' to on-going repairs and maintenance. Portfolio landlords commonly themselves undertook the work required to refresh a property between lettings, including fitting kitchens, carpets, and decorating. One landlord highlighted the saving: *'I can paint a whole house, coat of magnolia, in two days. If I've got to pay a painter to do that it's potentially costing me £600 to £1,000'* [LL19]. This strategy limited labour costs to the targeted use of essential trades such as electricians and gas engineers. Indeed, the property business landlords tended to undertake property purchase, refurbishment and sale projects as a way of keeping busy if they were not working directly on a refurbishment to let. One retired portfolio landlord joked: *'I'm Mr Silicon, I'm Mr Toilet Cistern, I am. I have at home a garage full of them, because I'm always going round doing something like that'* [LL81]. A couple who had built up a portfolio on Blackpool were typical in their approach. He had worked in the family plastering business before the couple became full-time landlords and picked up skills '*across everything really'*. He had retained local builder contacts and was able to source materials at the right price, and his wife spent a lot of time on the internet searching for deals on tiles and end-of-line kitchens [LL72].

Finally, many landlords sought to maximise profitability by not using a letting agent. This was particularly the case with business and portfolio landlords and the more experienced investor landlords who were conversant with tenancy law. As will be seen in Chapter 7, letting agents were not always viewed favourably. Many landlords mentioned web-based letting and rent-collection services which they regarded as more efficient and cost-effective than high-street agents.

Property quality

Landlords were asked about how they funded repairs and maintenance, but no direct questions were asked about the quality of their properties. It would have been difficult to establish an objective measure against which to judge landlords' own assessments. However, comments made by landlords about their refurbishment, maintenance and repair strategies were enlightening.

It has been noted that landlord investment in refurbishment reflected their target market. A greater attention to finish and the use of higher-quality fixtures and fittings justified a higher rental. Lettings lower down the market were not refurbished to that standard, but for a 'tumble through' model to work, the renovation still had to be of sufficient standard to add substantial value to the property. In addition, it was necessary for the property to suit the market: *'I wasn't looking for top-notch properties because people don't generally want to be paying top-notch prices for renting'* [LL77].

In seeking to secure long-term tenancies, the respondent landlords tended to be of the view that keeping a property up to standard was essential:

> I try not to have a high turnover of tenants. The way we control that, or at least try to, is by having good quality properties, maintained to a ridiculously high standard [...]. Decent kitchens, decent bathrooms, good boilers. Everything works. They're clean, they're tidy, they're fresh [LL31].

One regional letting agent stressed that landlords who saw their portfolio as a business would be unlikely to have *'cold, draughty unmaintained properties, because the tenant are going to want to move out, and that's not what the landlord wants. A well-maintained property means you've got a consistent tenant, which is consistent income'* [Regional Letting Agent#1]. Indeed, landlords commented on the reciprocal nature of the relationship:

> Personally, I'll take a good-as-gold tenant on benefits over probably like a normal tenant, because if you treat them right and make sure the house is all looked after and stuff, they stay a long time. They're happy. I've got plenty of DSS tenants that take pride in their houses and they're always asking me, 'Can I paint? I can do this? Can I change the carpet? [LL95].

Offering property of a slightly better quality was particularly important in areas where the rent was pegged at the LHA rate, since good tenants in some areas might well have a degree of choice amongst competing landlords. Overspending on refurbishment and expecting a top-up well above the LHA rate was simply regarded as poor business practice in some markets.

On-going expenditure on repairs and maintenance was – again – regarded as a primary strategy to minimise turnover. There could be a 'quid pro quo' understanding that a lower rent and no rent increases meant that the tenant would attend to minor repairs and replace fittings. A regional letting agent commented that *'If a landlord's got a tenant who rarely asks for anything, is willing to mend their own washers, and put a carpet strip down, then they're worth their weight in gold'* [Regional LA#3].

Landlords could be acutely aware of the need to ensure that property was fit for its particular purpose. Where landlords were letting to tenants at the very bottom of the market, then properties were refurbished to a minimum standard certainly in terms of decoration. A local authority housing options officer working with a landlord who accepted tenants with alcohol problems characterised the accommodation as '*old fashioned'*: *'I probably wouldn't want to live there, but it was good enough accommodation for some of our clients who had a lifestyle that they chose'* [Local Statutory #3]. Where the landlord expected the tenant to be chaotic, they considered that it made little sense to invest in higher-quality refurbishment.

A low level of investment in refurbishment, repairs and maintenance was regarded as a poor business model. Many landlords refurbished properties to good quality at the outset, to attract a better selection of tenants from which to choose, and to limit the incidence of repair issues in the first few years of the tenancy. However, the fact that many landlords viewed the end of long tenancies as a good opportunity to refurbish indicates that those tenancies may well have been 'tired' and in need of an upgrade. The EHS housing stock data indicate an association between length of residence and higher levels of non-decency for households in receipt of Housing Benefit or Universal Credit. A third of HB tenants who were resident for five years or more were living in non-decent homes; this compared with just under a quarter for tenants who had been in their property for four years or less (Table 4.2). Clearly, the exact relationship between poor property condition and tenancy length at the bottom of the market requires further exploration.

Table 4.2 HB/UC receipt and property conditions in private rented sector 2018 (%)

	Length of residence	*Non-decent home*
On Housing Benefit/Universal credit	Shorter term (0-4 years)	25.5
	Longer term (5 years or more)	33.0
Not on housing benefit/universal credit	Shorter term (0-4 years)	22.3
	Longer term (5 years or more)	25.2
Total HB/UC		28.8
Total non HB/UC		23.1
Total All PRS		27.9

Source: English Housing Survey Housing Stock Data 2018

Is supply financially sustainable?

Exploration of landlord financial dealings discloses important factors which address the degree to which supply might be regarded as financially sustainable. The landlord narratives indicated that a great deal of let property at the lower end of the market was accrued during a period of highly benign financial and taxation treatment. There is a clear cohort effect, of properties in the rental market that were purchased perhaps twenty or thirty years ago, now managed by individuals who are well into pension age. As this property slowly exits the market, it is unlikely to be replaced at the same rate. It should be noted that these landlords were tending to sell into the owner-occupied market rather than to other landlords.

Landlords were asked about whether it was advisable for new landlords to enter the market now. Few landlords made adverse comment on the *finances* of meeting need and letting at the bottom of the market. Some landlords indicated that it might take longer now to grow a portfolio, and it was necessary to start young. The sector could still be profitable for landlords with the right business model, but 'opportunity' properties were harder to locate.

Larger portfolio and business landlords who actively targeted the housing benefit market, were generally able to do so because of the characteristics of the local market as will be evident in the next chapter. Landlords serving this market were careful to purchase at the right price, and with expenditure minimisation strategies in place. For other landlords, letting at the bottom of the market took place at considerable personal cost. Smaller portfolio landlords did not always factor in their 'sweat equity', including time spent on repairs and maintenance and working outside standard office hours. Landlords often rationalised this burden as something that had to be done to support or build up their business. Purchasing these services 'commercially' would have meant that the portfolio was simply not economically viable since rental income would not have covered labour costs.

For landlords who were meeting lower-end need inadvertently, doing so did not necessarily make good business sense. The willingness to accept a lower-than-market rent often reflected the fact that these landlords were letting an unmortgaged property to a long-term tenant they did not want to evict. This is not a replicable model: another landlord purchasing the same property would not have found the rent economically viable. For many investor landlords, a property 'washing its face' meant that the rent need only meet the cost of servicing an interest-only mortgage payment plus additional for contingency. The landlord did not need to derive a 'salary' from the letting to meet their day-to-day expenses. In both cases, arguably, need was being met because the landlord was choosing – consciously or unconsciously – not to seek a market return.

For many landlords, taxation changes had often reduced the attraction of the market and as a consequence they were in a static holding position, unable to continue with planned expansion. Some had properties in private ownership but were unwilling to pay the capital gains tax required to move them into company ownership. Others had simply stopped expanding because to do so would propel them into a higher tax bracket. However, it was notable that many landlords did not foreground financial reasons for their dissatisfaction with being in the market. As will be seen in Chapter 9, landlords often expressed other types of concern that were leading them to reduce their holdings.

Conclusion

This chapter has presented qualitative data around landlord financial decision-making, and this information contributes to an understanding of sustainability of supply to the lower end of the market. The bottom of the market is heavily reliant on a cohort of landlords who expanded their holdings substantially over twenty years ago when the financial and regulatory environment was rather more benign.

The majority of respondent landlords who were letting in the HB market had a clear financial strategy in place, and most were satisfied with the level of return delivered by their lettings. At the bottom of the market, profitability relied on measures to minimise costs rather than maximise income through pushing rent levels upwards. To this end, tenancy sustainability and attention paid to repairs and maintenance were major factors in ensuring profitability and making the model work took a great deal of time commitment.

Many landlords were letting to HB tenants inadvertently and could be satisfied with a rent that was some way below the market rate. In part, this satisfaction rested on the fact that these were mostly investor landlords who had employment income to meet their daily needs, often had no mortgage commitment, had secured interest-only mortgage finance, and the lettings themselves were regarded as being long-term and relatively trouble-free. Many landlords expressed themselves satisfied with properties that made little profit, providing the rental payment covered the property outgoings. However, many smaller investor landlords reported that s24 had a major impact on profitability, and Chapter 9 further explores landlord decision-making in response to this change.

5. THE ROLE OF PLACE

Introduction

Housing benefit supports tenants in different kinds of housing markets. Debate often focuses on locations where high prices and limited property availability create affordability problems for tenants on lower incomes. However, HB recipients dominate demand for private rentals in some parts of England, and the characteristics of that demand shape supply opportunities. Almost half the respondent landlords were very firmly 'in' the HB market: the majority of their tenants received HB or UC, rents were set in relation to LHA rates and management practices were often adjusted accordingly. This chapter discusses the characteristics of those landlords and the way that place framed their portfolio strategies. The chapter concludes with reference to other non-HB factors that also shaped local markets.

The spatial dimensions of demand from lower-income households

The configuration of the lower end of the PRS varies by geography. There are broad differences between the north and south regionally and divergent patterns at the local authority level where there is a marked spatial variation in the HB tenants as a proportion of the PRS (see Appendix 2). DWP and uprated Census data indicates that the North East (42.4 per cent) and the North West (35.3 per cent) had the largest HB demand expressed as a proportion of the PRS, compared with the South West which had the lowest proportion of all regions (23.4 per cent) (Figure 5.1).[17]

DWP administrative data shows wide variation within as well as between regions. Table 5.1 shows the ten local authorities with the largest proportions of HB claimants in the private rented sector. Most local authorities on this list are from the North West and North East, but the other local authorities are drawn from the East Midlands and the East of England, showing that pockets of concentrated housing benefit demand often exist within otherwise balanced markets.

[17] Note there is some variation between housing benefit receipt as reported in the Family Resources Survey and the DWP data. The data are not collected over exactly same time frame and DWP data reflects administrative data where the FRS replies on participant recall of sometimes complex benefit claims.

Figure 5.1: Households receiving HB as proportion of all PRS households by region

Source: DWP Stat X-Plore data August 2019, ONS updated 2011 Census data estimates of the size of the local private rented sector.

Table 5.1: Top ten local authorities with largest proportions of housing benefit claims in local PRS, August 2019

Local authority	*Percentage*
Redcar and Cleveland	73.4
Blackpool	71.0
East Northamptonshire	69.2
Enfield	67.5
Tendring	58.2
Knowsley	54.7
South Tyneside	54.1
Burnley	52.6
Kettering	52.2
Great Yarmouth	51.4

Source: DWP Stat X-Plore, ONS updated 2011 Census estimates of size of the PRS

Furthermore, there is substantial regional difference in patterns within housing benefit claims. Almost all the local authorities with the highest proportion of working PRS HB claimants are in London. The lowest proportions are almost exclusively rural areas and towns in the Northern regions (Table 5.2).

Table 5.2: Local authorities with the highest and lowest proportion of housing benefit claims made by employed PRS tenants (%) (Aug 2019)			
Highest proportion	*Employed HB claimants*	*Lowest proportion*	*Employed HB claimants*
Tower Hamlets	68.8	Allerdale	10.1
Barking and Dagenham	68.6	North East Lincolnshire	10.1
Newham	68.6	Burnley	13.6
Slough	67.8	Barrow-in-Furness	14.1
Hackney	67.4	Bolsover	14.2
Redbridge	65.6	East Lindsey	14.3
Harrow	64.6	West Lindsey	14.6
Enfield	63.5	North Lincolnshire	14.8
Waltham Forest	63.0	Craven	15.2
Brent	62.9	Hyndburn	15.3
Source: DWP Stat Xplore			

Working status itself is variable. The incidence of HB PRS tenants working full-time is much greater in London and regions in the east and south compared with regions in the north (see Table A2.1). In the East region 61.1 per cent of HB tenants are working full-time compared to only 42.6 per cent in the North East. The rate of HB private tenants in part-time work is lower but varies in a similar way, with the lowest proportion of part-time employees among tenants in London (8.0 per cent) and the North West (12.4 per cent).

There are similar levels of difference in the proportions of PRS HB tenants who are accessing housing assistance via other 'passporting' benefits (see A2.3):

- Employment Support Allowance (ESA) is the most frequent reason for HB to be paid by people who are not working and is paid to people with long-term limiting illnesses or conditions. In London, 13.2 per cent of claims were made on the basis of ESA compared to 34.2 per cent of claims in the North West.
- Job Seekers Allowance is made to unemployed people and these claims were greatest in the North East (6.5 per cent) but accounted for only 2-3 per cent in regions in the south and east.
- There was a higher proportion of claims from those on Pension Credit in the South West (18.9 per cent) compared with the North East (12.2 per cent).
- Claims from people in receipt of Income Support were greatest in the North East (14.8 per cent) compared with the South West (5.6 per cent).

Tables A2.4 (a-d) further indicate the high level of variation in lower-end demand, demonstrating the highly localised nature of the mix in HB claims due to unemployment, care responsibilities, illness and disability and older age.

The lower end of the market can also be defined in terms of spatial concentrations of demand from tenants in receipt of housing benefit. 'HB-dominant' markets can be defined as those where more than 40 per cent of tenants are in receipt of benefit. By this calculation, 28 per cent of HB tenants are renting in a HB-dominated market (Table 5.3).

Table5.3 HB-dominated PRS markets: different calculations of 'dominant'			
	Number of local authorities	*Number of households*	*National percentage of LHA/UC households in a HB-dominated PRS*
Local authorities where *50 per cent or more* PRS tenants claim LHA/UC	17	122,896	9.1
Local authorities where *40 per cent or more* PRS tenants claim LHA/UC	47	377,315	28.0
Source: ONS and DWP Stat X_plore.			

This level of concentration and localised variations constitute patterns that shape landlord perceptions of opportunity in terms of the overall size and dimensions of the lower-end market, the kinds of property likely to be in greatest demand, and the ability to distinguish and choose between demand groups.

Landlords in the housing benefit market

Previous chapters have discussed landlords who tolerated tenants receiving some level of housing benefit. At times, tolerance reflected the fact that the property happened to be in a less desirable location where investment in upgrading the property was unlikely to attract a higher rent. These were also properties that the landlord might have inherited, or where the locality had taken an economic downturn. One landlord had invested in properties that he thought would suit nurses and other medical staff working at the nearby hospital, but over time the neighbourhood had declined. He had lived in one of his own properties for a time and had witnessed drug-dealing taking place in the street. He personally associated '*DSS areas'* with crime and regarded selling these properties and exiting the HB market as the same thing [LL6].

The majority of respondent landlords had actively targeted the HB market. These landlords had made a strategic decision to modify their business practices to align with benefit payments: they would accept a delay in the first housing benefit payment, accept a payment in arrears and generally set their rents at close to or slightly above the local housing allowance level. Chapter 6 will discuss landlord management practice in rather more detail. Here, the focus will be on the role of geography in deciding HB landlord purchasing strategies.

Almost all the landlords who were actively targeting the HB market were portfolio or business landlords. Landlords in this grouping tended to have larger holdings: indeed, all the landlords with 20 or more holdings had a substantial number of HB lettings in their portfolio. Where holdings were smaller, that tended to reflect a landlord who had previously held more property and was in the process of consolidating or exiting the market. The respondent landlords were operating in regions across England. Three had holdings across more than one region, and of the remainder, half had holdings that were very local to where they lived, and half had a portfolio that was spread across a single region.

Place played a particular role in framing opportunities for housing benefit landlords. The scale of concentrated demand could be important, and landlords targeted tightly defined areas where cost savings would follow management efficiencies. Many HB landlords were operating in locations where, by their calculations, low property prices and relatively high LHA rates resulted in satisfactory yields.[18] Further, many landlords were actively targeting areas where the LHA rates were higher than open-market rents. This disparity happened for one of two reasons. Broad Rental Market Area boundaries include a range of settlement types and neighbourhoods and can contain specific locations where the achievable LHA rate is actually higher than market rents because of the play of averages. Second, and more commonly mentioned by respondent landlords, LHA rates could be higher because of stagnation in local market rents. From April 2013, the LHA rates were increased not through reference to local rents, but in line with CPI and in the following two years were increased by one per cent: the LHA rates increased, but local rents had not.

Almost all the larger-scale HB landlords were operating in locations where the LHA was identical to or even slightly higher than the market rate, and this increased the yield providing the landlord let to tenants who were reliant on HB. The majority of landlords operating in 'LHA- inflated' locations were building large portfolios very quickly: indeed, the combination of low-priced property in a stagnant market that had slightly inflated LHA rates made the 'tumble-through' and remortgage model a particularly attractive proposition.

Strategic approaches

In staking out spatial opportunities, landlords fell into two types: those who were reaching into a market from the outside, and landlords who were local to a particular area. There was notable disdain for landlords who had simply failed to understand the importance of locality in defining their purchase strategy, as one Northern stakeholder commented:

> 'We've got a few London landlords who have… [property in Northern city], and they're shocked and horrified that they can't sell it at a profit two years later. The rent covers the mortgage, and then they might have to subsidize it if, say, there's a big electrical bill or something, you know, for electric works - but they're assuming that they'll get the money back on the capital investment, but they don't, because the prices just don't go up like that in [Northern city] [Regional Letting Agent #2].

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[18] In all instances where landlords mentioned rates of return, these were accepted as reported; the accounting models that landlords used to calculate returns would have varied substantially.

At the bottom of the market, strategic approaches were less likely to be guided by the generalized prospect of house price increase, and more likely to be based on sometimes intensive local market research to establish the level of opportunity and pinpoint particular lower-income groups.

Strategic 'incoming' housing benefit landlords

A small number of respondents were operating with the more specific intention to take advantage of an LHA payment that was slightly above market rates. The uplift did not apply across all categories of payment. For example, in some locations the single room rates and one-bed studios rates were high relative to open market rents, and the nature of building stock lent itself to subdivision. These landlords invested after closely reading the market to establish exactly where the gains might be made. One landlord began his portfolio by purchasing property around a North East city, where his girlfriend was a student. At the time of the interview, he was purchasing properties for between £15,000 and £25,000 with no expectation of capital uplift. He was looking to expand out of the North East into his 'home' area in a Yorkshire city in places where he knew the LHA rate was competitive, house prices were low and the tenants were fairly settled. A key element of his strategy was investment in settled communities where tenant turnover would be limited, maximizing return through minimizing voids. He reckoned that, across the board, his holdings were yielding 28 per cent.

Another business landlord with an established portfolio in the South East also decided that he could achieve good returns in Humberside. He researched the rental market to locate the ten cheapest towns in terms of property prices and then settled on a likely location. He researched that location for an extended period: *'Walked the streets for a good few months. Spoke to people. Spoke to plumbers, spoke to estate agents, people in corner shops. Really cheap houses, for what they are'* [LL31]. The location was readily accessible to his existing maintenance and lettings team, and by the time of the interview he had purchased over 30 properties which were a mix of different-sized family homes. His basic model was to purchase very poor quality property with cash from his rental income, refurbish and remortgage to a higher value. He was letting at the LHA rate and again relied on the expectation that tenancies would be retained for a long period. He gave the example of a three-bed property he was currently purchasing for £45,000: he was going to invest a further £20,000 in refurbishment and expected a revaluation at around £80,000. He was intending to charge the LHA rate, which was close to £500, and the repayment on his interest-only mortgage was £195 a month. He calculated a return of 16.5 per cent on that property.

There was some reliance on a 'densification' model. One property business landlord had also undertaken extensive research on markets across England to arrive finally at their target locations. The respondent ran their own portfolio alongside a scheme which looked to lease properties from existing landlords operating at the bottom of the market in two Yorkshire cities. Landlords were guaranteed a rent equivalent to the standard LHA rate for the property as a single letting, but then the respondent remodeled the property as a HMO to achieve multiple Shared Room Rate payments per property. The respondent cited the example of a four-bed property of around £600 a month; subdivided into four rooms the same property would achieve a rental of over £1,000 a month. Again, as with all landlords in this grouping, there was heavy investment of time in tenancy management to minimize voids and arrears.

All the 'incoming' landlords were building their portfolios on the understanding that there would be minimal or no capital uplift, and that rents would generally be stagnant. According to one letting agent with knowledge of HB markets in the North East, '*landlords are not greedy [in place]…they're not greedy because they have to be realistic'.* However, the returns that could be made in these key locations was common market knowledge. The same agent commented on buyers coming from outside the area, and '*spotting vans with "we buy any house" type thing sprayed on the side'* [Regional Letting Agent #2]. A couple of the investor landlords had worked with property investment firms that had secured properties in the same area. Landlords commented that there was increasing competition in these key locations. This was not necessarily driving up prices but was reducing opportunities to buy at the right price for the model to work.

Finally, these larger portfolio and business landlords operating from outside the location of their holdings often employed staff to manage their lettings. Business landlords who might themselves live some distance from their holdings employed lettings managers and maintenance teams that were located close by or within reasonable travel distance. One larger business landlord with two principal areas of operation had scouted possible locations along a particular motorway route. Another business landlord took an alternative approach and outsourced all the bureaucratic elements of the job to virtual assistants in Asia so they could spend more time visiting properties and meeting prospective tenants. Most landlords in this group felt that they were operating at the right scale, in the right location and with the right financial model. They all preferred concentrated growth in particular locations.

'Local' housing benefit landlords

Landlords who were letting to tenants receiving housing benefit were not necessarily doing so as a consequence of a broader strategic approach: being local was often intrinsic to a landlord's ability to serve the bottom end of the market. It was most common for portfolio housing benefit landlords to operating in their 'home' area. Indeed, it was sometimes regarded as risky to operate in other markets, without that local knowledge. Furthermore, operating locally minimized costs where landlords themselves could handle repairs and more effectively self-manage.

Local landlords who were letting at the bottom of the market benefitted substantially from having in-depth local knowledge of a particular location. This knowledge might well flow from having a business in the local area and being aware of which streets and neighbourhoods were more or less desirable to tenants; having word-of-mouth knowledge of purchase opportunities; and being keyed in to networks of local tradespeople who could be called on at short notice and could be trusted to deliver value for money. Indeed, access to reliable trades was noted by many landlords as an essential component of their working practices: one small investor 'out of area' landlord had floundered when renovations plans were entirely undermined by his inability to secure trades at a reasonable price. Expanding too far from a main base was deemed to be a struggle even for a larger mediation organization: *'finding a gas engineer in Cornwall is hard work!'* [National Mediation #1]. Market knowledge could include an understanding of some very specific local conditions. One local authority stakeholder respondent, working in the SE region, said that their local BRMA covered multiple settlements including one town that had seen a level of de-industrialisation. In that area, the BRMA rates were high: market rates for a one-bed studio property were generally around £550 pcm but the LHA rate was £693. There were opportunities there, but they were generally only known to local landlords: the stakeholder commented: *'a lot of investors I talk to in [place] are from [place]. They know it really well'. Even landlords operating in nearby towns had not extended into the area'* [Local Statutory #1].

Some of the 'local' housing benefit landlords were letting at the bottom of the market because they had little alternative. One North West portfolio landlord couple had built their portfolio with a substantial input of sweat equity and was in some ways trapped in that location. They were unable to purchase elsewhere because their business model relied on their labour: '*but because we do everything, so we do all the repairs and everything and source the tenants, it would involve using an estate agent or a letting agent elsewhere and then we'd have to pay for repairs and things'* [LL21].

There was a noticeable 'drift', particularly amongst the portfolio housing benefit landlords, to move out of that market where circumstances allowed. One larger property business landlord with 30+ properties had started letting in a South Eastern town in 1999. He stayed local*: 'I know all my streets in my area and where I was. So when something came up I networked with the agents. I knew my stuff, really, and it kind of built and built'* [LL18]. When he started, the LHA rates were slightly above the market rates for the area, but since that time have fallen back. His HB lettings have reduced from around 75 per cent of his holdings, down to 20 per cent. It was notable that that the 'local' portfolio housing benefit landlords were more likely to be selling down or consolidating their portfolios, and this trend will be discussed in more detail in Chapter 9.

Property type

Property type played a role in defining investment opportunity. Some professional informants commented on a trend towards densification, but property subdivision was only feasible in locations with the right kinds of property. One SE local authority said that they had a very limited number of HMOs in their area because many of the properties were newer-build and only suitable for single-household letting. It is notable that a handful of respondent landlords were located in seaside towns and were typically dealing in the purchase and refurbishment of small blocks of flats. One landlord operating in the North West indicated that they were able to purchase blocks of five flats for around £250,000 with each self-contained studio flat achieving a rent of around £100 a week. This was regarded as a preferable investment to a three-bedroomed house costing £90,000 and achieving a rent of £140 a week. Subdivision could create self-contained one-bed studios which attract a higher level of LHA than a room in a shared property. Individuals over the age of 35 are entitled to the one-bed rate and constitute a more settled demand group. One stakeholder commented on a trend for some landlords to seek the one-bed rate from all over-35s even if the room was shared [National Charity #1]. This strategy was not mentioned by any of the respondent landlords, although one did say that they were pushing at the boundaries of the regulations around allowable studio sizes.

Landlord respondents dealing with HMOs often commented on the higher level of management investment required in dealing with shared property. This was a part of the market where success rested on experience. One letting agent chain representative commented:

> 'You wouldn't want to be a first-time investor, ploughing all your hard-earned savings into your first property investment, into the HMO, unless you absolutely knew what that involved. There might be really good returns on it eventually, but the hoops you have to jump through in order to get yourself to that position takes a lot of work and takes a lot of money.' [Regional Letting Agent #1].

There are circumstances in which landlords might configure HMOs to meet demand for exempt accommodation and target groups of tenants where the LHA caps do not apply. One stakeholder mentioned a weekly rent differential of up to £150 a week. The limited nature of regulation in his particular part of the market has been subject to criticism.[19] It appears that this particular market is strongly spatially concentrated, but none of the respondent landlords mentioned it or the prospect of meeting this kind of demand.

Factors shaping local opportunities

The HB landlords mentioned other non-LHA factors that were shaping the local nature of opportunities.

Changing demand

Some landlords commented on changes in patterns of demand. A handful of landlords were living in locations where student demand for 'street' property had diminished due to rapid growth in purpose-built student accommodation. This meant that some landlords had seen their student lettings reduce, and a couple had increased their HB lettings in response. Reduced demand was, in some areas, releasing property onto the non-student market and this could lead to increased incidence of voids in HMOs.

Local authority intervention

Local authority intervention in the market could shape landlord behaviours in various ways. Market interventions could include the operation of mediation schemes, and these will be discussed in detail in Chapter 7. One further intervention that shaped the market was local authority licensing schemes. Recent research has indicated that local authorities are variable in their commitment to enforcement activity and implement approaches that have

[1919] See e.g. T. Raisbeck (2019) *Exempt from Responsibility? Ending Social Injustice in the Exempt Accommodation Sector*, Birmingham: Spring Housing Association.

been characterized as 'light-touch', 'hardline', 'compliance focused' and 'creative'.[20] The tone set by the local authority frames landlord willingness to be in a particular market. One local third sector access scheme mentioned that their work had been made easier by the conciliatory approach taken by the local authority on enforcement:

> 'Their general ethos is trying to work in partnership with landlords. So they don't tend to come down hard. They will try and work with the landlord or letting agent to improve, rather than going after money, and I don't know how that compares to other areas. I would imagine that some are very legalistic and are much harder line. Ours isn't like that.' [Local Third Sector Access #1].

Further research is needed on landlord responses to enforcement activity and licensing. Only a handful of the respondent landlords had HMOs, but many were in locations where selective licensing was mooted or was in operation at the time of the interview. There were variable responses to licensing, in terms of purchase or sale decisions. One business landlord who had expanded rapidly in the North East said that he welcomed any measure that would push up quality since that would also increase the value of his properties; another business landlord, with lettings across the country, had the opposite view, in considering that licensing tended to depress areas and prices. Landlords were not unhappy with the principle of an enhanced level of scrutiny, and indeed welcomed inspection visits. However, some landlords regarded such inspections as unnecessarily nit-picking given more egregious contraventions in other parts of the market. A couple of landlords said that the mooted introduction of selective licensing was a signal to them to sell their property in that location, which they did once the tenancy came to an end.

Short-term letting options

Some landlords had portfolios that contained holiday homes. These homes were generally regarded as self-contained and separate business enterprises that were managed quite separately from the longer-term lettings. Many landlord respondents were located in coastal areas where it might be expected that holiday letting or short-term rentals would be a preferred alternative. However, the location of lettings generally precluded this strategy. One local authority respondent commented that holiday lettings along their coast tended to be situated in the two smaller and more picturesque towns. Higher rents in those locations concentrated lower-rental demand in the area's bigger city where most landlords had their properties. The city looked more obviously deprived, less safe and attracted more day-trippers than longer term holiday makers. In the nicer areas of the city, it was admitted that a handful of landlords had reconfigured their lettings to meet the short-term letting market [Local Statutory #3].

Conclusion

The lower end of the PRS has characteristics that vary substantially across England. The creation of LHA rates based on Broad Rental Market Areas creates a 'guaranteed' rental return. There are locations where particular concentrations of demand create opportunities

[20] J. Harris, D. Cowan and A. Marsh (2020) *Improving Compliance with Private Rented Regulation*, UK Collaborative Centre for Housing Evidence: Edinburgh.

for larger portfolio and business landlords to expand into the HB market at scale and to operationalize management efficiencies. Opportunities were particularly attractive where the LHA rates had drifted above local market rents, in locations where house prices remained stagnant. There could be high levels of ‘incoming’ investment to particular BRMAs. ‘Local’ HB landlords were also using their local knowledge to ensure efficiencies and cost savings. Both sets of landlords were reliant on the existence of properties being available at the right price: as a consequence, growth was geographically bounded.

6. MANAGEMENT PRACTICES IN THE HOUSING BENEFIT MARKET

Introduction

This chapter focusses on landlord management practices in the housing benefit market. This is a part of the market deemed to be most precarious for tenants, who may well be negotiating income fluctuation and problems with benefit administration. Private tenants in receipt of assistance with housing costs will have been transitioning from LHA to Universal Credit which wraps housing assistance other benefits into a single payment, administered on-line and through interactions with Jobcentre Plus offices. This sector also accommodates highly vulnerable tenants with experience of homelessness and with problems relating to mental ill health and addictions. Landlords in the HB market balance multiple risks: of rent arrears and tenant default; of tenants causing anti-social behaviour and damage to property; and uncertainties around Universal Credit administration. This chapter considers how landlord management practices aim to ameliorate those risks. It begins by discussing landlord preferences *within* the HB market, and considers how landlords might be reviewing decision-making around those markets.

Target housing benefit markets

Investor landlords generally did not target the housing benefit market. This tended to be the realm of more experienced portfolio and business landlords. One stakeholder commented that landlords at the bottom end of the market '*will be more professional landlords, where they will have multiple units, because dealing with some of the issues that come out of that market would take somebody that knows what they're doing'* [Regional Letting Agent #2]. It was clearly the case that landlords who were in the HB market were fully conversant with the benefit system: this was a key competency in mitigating risk. Business landlords often employed people who had worked in social housing. One landlord said that their partner had worked in housing benefit administration. Enhanced knowledge of the benefit system meant that landlords did not necessarily view the benefit market as homogenous: distinctions were made between different types of tenant.

'Working' housing benefit

Landlords distinguished tenants who were working but receiving some level of benefit to top up their earned income: they were 'benefit supported' rather than wholly benefit dependent. Many of the landlords who were inadvertently letting to benefit claimants were generally letting to benefit-supported tenants. For the most part, landlords viewed this group favourably since being in work was a signal that a tenant's life was sufficiently stable to sustain a long-term tenancy; this kind of tenant required no support; and they could be relied on to resolve their own benefit issues. However, movement in and out of work and subsequent changes in benefit amount could contribute to the risk of the tenant falling into arrears. One national charity noted: *'We're seeing that all the time, that significant challenge* *of people trying to make sense of fluctuating amount of the housing element of their UC'* [National charity#1].

Benefit-dependent tenants

A second group was tenants who were wholly dependent on benefits for their income, but who were not working. This group might include single-parent families where the children were very young; households containing individuals with some kind of physical disability; and older households receiving pension credits. Many landlords favoured these groups, since combined UC, disability and child benefit income could be high compared with a lower-income working tenant, particularly in a low-wage areas. Here, predictability was regarded favourably. Further, this group generally comprised settled households seeking long-term tenancies, were largely independent, often had a strong local connection and needed little in the way of active support.

Vulnerable tenants

A third group was tenants who had some level of vulnerability. This might include experience of homelessness, problems with addictions and mental ill health. This group was regarded as being highly unstable, more likely to fall into arrears and more likely to cause anti-social behaviour and damage property. This kind of tenant required landlords to have appropriate management practices in place to support tenants and manage the associated risk. At the same time, it was thought appropriate that tenants in this group would be satisfied with quite basic and functional accommodation, which limited the costs of refurbishing at the end of each tenancy.

Nominated tenants

A final, cross-cutting group was tenants who were nominated by councils or by third sector access schemes either as a discharge of homelessness duty or through a temporary accommodation arrangement. In this latter case, the nomination might well be an out-of-borough placement. This kind of tenant may well present with multiple challenges and risks but those risks to the landlord were mediated by the nominating agency. Passing reference will be made to these kinds of arrangement here, but they will be discussed in more detail in Chapter 7.

Letting to housing benefit recipients

In discussing their HB lettings, landlords tended to comment on three areas of practice: setting the rent, the payment of shortfalls and arrears; managing claims; and tenant support. Practices varied according to the target tenant group within the housing benefit market. All these accounts indicated the play of a distinctive dynamic in the HB market: that is, the value placed by landlords on good tenants in areas where property might be in oversupply. Landlords with lower-value properties were not necessarily in a position to market those properties to alternative higher-paying renters, which meant there was a greater emphasis on creating tenancies that were sustainable and with limited turnover.

Rent setting, shortfalls and arrears

Universal Credit is paid after a period of delay, and always in arrears. Tenants are paid the LHA rate defined by their household size. Rates have been frozen since April 2016.[21] In areas where the landlord may be charging a rent above the LHA rate, tenants are required to pay the shortfall. These features of housing benefit mean that landlords who are routinely letting in the benefit market are obliged to modify their management practices accordingly.

Some landlords who were operating in less heavily benefit-dominated markets sometimes indicated that their rents for HB tenants had increased as – over time – the LHA rates fell some way behind market rents. These increases were generally pegged at a sum slightly above the LHA rate, leaving a shortfall of £10 or £20 a month.

Most of the respondent landlords were operating in locations where the market rents and the LHA levels were very close. In these circumstances landlords usually charged tenants the LHA rate with no requirement to pay any shortfall since there was little point*: 'it's a bit of a hiding to nothing, because they didn't have it'* [LL18]. Another portfolio landlord, operating in Humberside, was equally blunt: *'it's easier that the rent is the housing benefit because if you want an extra £5 a week, my god, you'd spent that in phone calls alone getting it. It's just easier not to, frankly'* [LL82]. Landlords operating in depressed areas had not experienced rent increases for many years: one portfolio landlord couple, operating in the North West said they had to be pragmatic:

> 'I think landlords are trying to push up the rent a little bit, maybe say £50 a month or something like that, or even £100 a month, but we have found that people just can't afford it. You can ask what you want, really, can't you? You can say it's, I don't know, a £700-a-month-house, but if somebody is only getting that £530, they can't afford £170 top up. So we're quite realistic and we haven't changed our rents, have we, for years?' [LL21].

There was also a reluctance to increase the rents because doing so might provoke a tenant having to reapply for UC: it was not worth jeopardising the tenancy for the sake of a small incremental gain.

For some landlords, matching the rent to the LHA payment could undermine tenants' understanding of their responsibility to pay the rent. One property business landlord arranged a payment schedule with tenants from the start of the tenancy, ensuring that the initial period of delay was repaid. This measure was rather more about setting a tone than achieving the payment: *'I'm not really bothered about them paying it off. It's more that there's that commitment that they accept that it's their responsibility to pay the rent'* [LL6]. Another landlord was similarly forthright, in offering shared rooms £10 a week above the LHA rate. In his view, this tactic helped to define the tenants who were more likely to take the property seriously since the payment constituted their investment in the tenancy.

Larger business landlords often directly employed lettings managers who dealt with rent payments and arrears in a proactive fashion. The approach tended to combine a limited

[21] The recent Covid-related revision to LHA rates is discussed in Chapter 8.

tolerance for unscheduled missed payments but a high degree of flexibility where tenants were upfront about difficulties they might be having. Landlords who had long-standing tenants were often very aware of a tenants' financial circumstances and the degree to which they might be trusted to make up arrears following a missed payment. One large property business landlord commented that he had a tenant who was short with her rent by £100 every December, and every year they agreed that she could make up the difference with an additional payment over the following four months. Where landlords were letting to vulnerable tenants, this degree of loyalty could extend to tolerance of inconsistent payments, again where the tenant was well-known to the landlord. One portfolio landlord, with several HMO lettings, said that his letting agent had been unhappy with his decision to let one of his more chaotic tenants fall four months behind with the rent:

> 'I said I know he's all right. He'll pay it. He'll pay it. I quite like [name]. He's a bit bonkers but, you know, I know what he's like, he's been there years. It'll be all right and it was, he's now back up to date. He's back up to being two weeks behind again' [LL52].

Landlord experience of arrears was variable, as was their attitude towards tenants falling behind with the rent. It was felt to be particularly difficult to resolve arrears issues satisfactorily where the tenant was in receipt of benefit. One letting agent characterised recovering arrears from a benefit tenant as '*a world of pain'* [Regional Letting Agent #1], since their income was so low. One small portfolio landlord commented: *'it was unlikely that costs in the thousands would ever be recouped from an ex-tenant paying £5 a week. You can't get blood out of a stone'* [LL11].

Where arrears did arise, the more experienced housing benefit landlords were likely to write them off. However, all landlords aimed to counter arrears building by putting prevention measures in place. It was felt that the most effective measure was to ensure that the tenant prioritised the rent payment because they knew they would be unlikely to find alternative accommodation that had a similarly sympathetic landlord or property in reasonable condition. Landlords and tenants both knew that '*the alternative is temporary accommodation or a B&B with lots of drunks and druggies*' [LL94]. Larger portfolio and business landlords instituted quite active tenancy management which included swift intervention when a tenant missed a rent payment, with the objective of resolving the problem before the arrears mounted.

Another risk-mitigating strategy in place across all landlord types was requiring tenants to provide a working and/or home-owning guarantor who would agree to repay any owed rent at the end of a tenancy. In one landlord's view, it was more effective to have a parent as a guarantor than to ask for a deposit even: '*It's much better to say, I'm going to ring your mum'* [LL31]. Some landlords mentioned taking guarantors to court, commenting that this offered a greater degree of certainty that arrears would be repaid and repaid more quickly.

Managing LHA/UC claims

Managing the transition from LHA to UC was deemed to be remarkably problematic. One experienced social lettings agency commented: '*We know the language and we know what we're doing, and it's still difficult'*. In their view, there were many landlords and tenants with '*no idea'*, and where the landlord had no understanding of how to support the tenant financially [Local Third Sector Access#1]. Most respondent landlords had rather more experience of dealing with this part of the market and had often been actively involved in LHA claims. The introduction of UC brought a change. Landlords generally agreed with the principle that tenants should take responsibility but also made the pragmatic assertion that some claimants were incapable of managing their own affairs, were confused by the fact that rental payments were included with other benefits, and powerless to deal with unexpected shortfalls in their payments which made it difficult to budget.

Many landlords had built close working relationships with local authority housing benefit staff and found it remarkably difficult forge new connections with their local Jobcentre. It had become impossible for landlords to offer their tenants any support with their benefit, even where the tenant actively wanted that support. Almost all the landlords in the housing benefit market cited cases of individuals who had found UC very difficult to understand and who were stressed by the transition. One landlord cited his recent experience with a tenant:

> 'He rang me up in a state and he said, "I can't manage it myself". I said to him, "Have you spoken to the council? Have you been to them and spoken to them and said you can't do this?" and he said, "Yes. I've been to the Jobcentre and they've turned round and said to me that I have to learn how to do it myself". He was just absolutely past himself' [LL97].

Many of the landlords discussed the transition from LHA to UC in a largely negative fashion, and this was particularly the case where landlords had been used to LHA. Landlords have recourse to Alternative Payment Arrangements (APAs) where tenants have fallen behind with their rent or were in some way incapable of managing their own financial affairs. APAs are payable where tenants are eight weeks in arrears. This extended period was, in itself, considered to be highly problematic. One landlord commented that, by the time the APA was put in place, tenants might be so far in arrears that they might feel overwhelmed by debt and simply abscond. Landlords were generally of the view that this level of arrears was unrecoverable.

Landlords could be positive about the possibility of arranging direct payments to themselves. In one landlord's view it was 'a little safety net' which was not available in the case of working tenants [LL13]. Where landlords had actually applied for APAs, their views were less positive. In one investor landlord's experience, the UC47 form had proved difficult to work through: *'nobody from Universal Credit will speak to you even if the tenants has just phoned up and said "Please speak to my landlord, it's too much for me". They just won't do it, it's just awful'* [LL26]. There was general agreement that there was little support available to landlords seeking APAs. Landlords who only occasionally let to a tenant receiving UC were unlikely to 'learn' the system: some who were tolerant of benefit claimants admitted that they simply did not understand how the benefit worked.

Larger portfolio and business landlords were more likely to see APAs as central to their business plan. One landlord made it a requirement for tenants themselves to set up APAs at the start of the tenancy. He would tell them: '*why complicate it? Send it direct to me. The accommodation is secure then, isn't it?'* [LL94]. Other landlords were rather less coercive and put support measures in place. One property business landlord, operating in the North East, had established relationships with job coaches at the Jobcentre Plus offices. Indeed, this measure was deemed central to success in working with more vulnerable tenants on UC: having job coaches 'on side' meant that it was possible to expedite claims and deal with queries relating to individual tenants. It might then also become possible to establish from the outset that a particular tenant had support needs or addictions that might justify a UC47 application to set up an APA. Where landlords had positive experiences of APAs, it was more likely that they would seek tenants where an APA was guaranteed. Here, a balance was being struck between the higher support need of the tenant and the certainty of a direct payment.

Other landlords distrusted APAs as a means of reducing risk associated with a problematic tenant. Some landlords mentioned that tenants were simply able to revert the payment back to themselves at any juncture and with no notice. One small portfolio landlord, with properties in Humberside, said that tenants found it easy to cancel an APA: *'It's dangerous for us now because if we do step on them [i.e. the tenant] firmly they can go straight to Universal Credit and say "I don't want it paid directly to the landlord any more"'* [LL82].

Tenant support

Landlord investment of time in tenant support depended very much on tenant need. One stakeholder commented that '*there are more buy-to-let landlords who are good social workers than there are rogue ones actually. But I don't have the numbers for that'* [Lender #4]. Landlords themselves often commented on the level of support they offered: *'I've been involved with the police, sorting out their benefit claims, helping them fill out the forms, putting them in, keeping them right on the payments, all that kind of stuff. The council doesn't help their tenants to that extent, but we do'* [LL74].

Another landlord concurred, saying that he took '*a social worker kind of role. You've got to look after them a bit more and do above and beyond what most landlords are prepared to do* [LL6]. Many landlords who were familiar with the benefit system helped their tenants with the initial application and in sorting out glitches that might arise as the tenancy progressed. There was often a conscious decision to draw a line regarding more vulnerable tenants with mental health problems. One property business landlord said they were simply '*not trained for that'*, and such tenants were likely to prove disruptive and difficult in a HMO context, which made up the bulk of their lettings.

Other landlords actively chose to work with tenants with more challenging behaviours. One investor landlord was a retired policeman who, at the time of the interview, had wound down his lettings to just two properties. Over his lettings career he had tended to work with tenants who had problems:

> 'I don't want to use the word 'lower', but their end of the rental scale, and they tend to be the ones with problems. They drink too much, they take drugs. You might not think so at the beginning, but you find out they do later. They had a job, they don't anymore. They have relationship problems more. They tend to be more problematic, more hands on, and these type of people, they're not skilled in the art of managing money, it seems to me. As a landlord, I spend a lot of my time doing budgets for people if they'll engage with me' [LL81].

A housing options officer in a Yorkshire & Humberside borough said that they routinely worked with a landlord who was tolerant of tenants who drank heavily: *'They'd drink maybe 20 cans of beer at day and at some point in the week, he'd have to go in and bail out all the rubbish, and he was quite prepared to do that'*. The landlord did not charge his tenants anything above the LHA rate, and would often sell them electric cards:

> 'He's often saying, 'Well, they haven't got the money this month, but they're giving me double next month" and they always do. He's never not had the money back. It's an absolutely different way of doing it with tenants, the trust, the relationship, the clients, all different' [Local Statutory #3].

Another business landlord, operating in the North East, also chose to target highly vulnerable tenants and worked with local authority homelessness teams. The landlord acknowledged that these tenants required intensive support: '*They've come through part of the care system, or they've just come out of prison, or some of them have, literally, just arrived in the country. It's full-time, it's not something you can just sit back on'* [LL6]. He placed tenants with addition problems in a 'probationary' HMO, which they could move out from if they took their methadone and caused no problems. This landlord employed a tenancy manager who had worked in social housing, whose role was very much angled towards tenant support rather than rent collection and whose approach to rent arrears was to seek a resolution:

> 'He's not a debt collector. He doesn't go banging on the door. He goes in to discuss it, and it's usually a mistake that Universal Credit have made. So he'll sit there for an hour or so, phone Universal Credit with them and see what the issue is to try and resolve it' [LL6].

Changing the target HB market

Many landlords with HB lettings were reviewing their target market within the wider group of claimants and altering their letting preferences accordingly. This movement within the HB market reflected landlords' early experiences of UC and their ability to negotiate the risks attached to letting to particular tenant groups. Some landlords were moving out of the housing benefit market altogether, and they will be discussed in Chapter 9. Other landlords had property in locations where it was difficult to identify an alternative demand group. In these cases, five strategies were in evidence.

Reducing lettings to unemployed tenants

One approach was to reduce lettings to tenants who might be benefit dependent but still accept benefit-supported applicants. In these cases, landlords continued to let at LHA rates, but only accept working tenants, those who could provide a landlord reference and/or a guarantor or insist on rent in advance and a deposit. It was felt that this strategy decreased the risk of letting to a tenant who might fall into rent arrears and being in work was generally taken as a signal that the tenant would not pose ASB problems. The strategy also very definitely transferred all benefit application responsibility to the tenant, with landlords expecting to treat the claiming tenant the same as any other tenant.

Reducing lets to vulnerable tenants

In some instances, landlords were reducing the number of lettings to tenants at the more vulnerable end of the spectrum. This might include a reduction in lettings to tenants with support needs who were nominated by local authorities or third sector agencies. These landlords also felt able to shift their preference to 'benefit supported' working tenants who were able to pay some deposit, a first month's rent and provide a guarantor. Often, this change in approach reflected a landlord's unwilling to risk losing other tenants in a shared property, where the addition of a more vulnerable tenant might prove to be disruptive.

Increasing lets to vulnerable tenants

By contrast, some of the larger landlords might more actively pursue letting to vulnerable tenants, given the guarantee of an APA. This measure was workable where the landlord was highly benefit-knowledgeable and operating at sufficient scale to employ support staff.

Seeking to work with intermediaries

Other landlords had taken the decision only to accept more vulnerable tenants where an intermediary agency has nominated the tenant and put a support package in place. This strategy will be discussed in detail in Chapter 7.

Conclusion

The respondent landlords who were letting to tenants in receipt of housing benefit were modifying their letting practices accordingly. Many were setting rents at or close to the LHA rate, assisting tenants with claims and giving tenant support depending on their level of vulnerability. This chapter underlines the time-intensive management challenges which can be associated with dealing with tenants in this part of the market. Many of the landlords had been fully conversant with the LHA system of HB delivery, and did not welcome the introduction of UC; further discussion of landlord portfolio decisions to leave the HB market in response to this change is included in Chapter 9. Where landlords were choosing to remain within the HB market, there could be a shift in letting preferences away from tenants who were deemed to carry the highest levels of risk. However, some landlords targeted the more vulnerable groups, as these tenants were more likely to be able to secure Alternative Payment Arrangements.

7. LETTING AGENTS AND OTHER RISK-ABSORBING INTERMEDIARIES

Introduction

Continued property supply to the bottom end of the PRS rests on landlords' ability to minimise risk. The preceding chapters have indicated that landlords tend to target different parts of the HB market, and adjust their risk mitigation strategies accordingly. This chapter focuses on the role of letting agents at the bottom end of the market. Agents play a largely unacknowledged role in framing letting behaviours, and either can operate in ways that absorb risk and facilitate supply to the bottom end of the market or – conversely – dissuade landlords from letting to households receiving benefit. The chapter also considers the operation of mediating agencies: statutory or third sector schemes that place tenants with landlords and offer varying degrees of tenant support. These schemes also carry the potential of ameliorating some of the risks associated with the HB market. Respondent landlord experiences of such schemes varied substantially. The development of a distinctive market in meeting Temporary Accommodation (TA) and exempt accommodation is also touched on this chapter. The chapter ends by considering one additional risk-absorbing strategy: landlord use of rent insurance products.

Letting agents in the HB market

All letting agents carry the potential to guide landlords towards or away from certain parts of the market. Many would argue that they would put information on all prospective tenants in front of a landlord and then – in one letting agent's view – '*it's up to them to make the decision*' [National Letting Agent #2], but most will have vetted all the applicants down to a handful from which the landlord would choose. The same letting agent argued that '*If we are acting in the landlord's best interests, we would want to find him* [sic] *a lower-risk tenant'* [National Letting Agent #2].

Limited statistical information is available on the overall shape of the letting agent market in the UK. The industry includes high-street operators including national and regional chains, businesses set up under franchise, independents and lettings undertaken as part of estate agency business; on-line agents and letting and management services, and less formal agency services that landlords themselves might sell to other landlords.[22] The PLS included data collected from letting agents but did not provide any information on the type of agents that responded. Nevertheless, the aggregated statistics are useful in highlighting some bigger trends.

The Private Landlord Survey (PLS) indicated that 44.9 per cent of landlords were currently using a letting agent to find tenants, and 13.1 per cent were using agents for a fuller management services. Given letting agents' reach in the rental market, it is appropriate to

[22] Covid restrictions severely compromised proposed interviews with letting agents, and so much of this chapter reflects on landlord use of letting agents.

consider their tenant preferences. Agents were rather less likely than landlords to indicate that they were not willing to let to people in receipt of HB or LHA: 31.9 per cent of agents expressed this preference compared with 51.1 per cent of landlords. The survey asked all respondents '*why are you not willing to let to people who are receiving HB, LHA or UC'*, directed at all those who indicated their reluctance in previous questions. Respondents were given a range of possible answers, to which they replied 'yes' or 'no' (Table 7.1). It is notable that many of the reasons were expressed by roughly the same proportion of landlords and agents, although there were two marked differences. Agents were much more likely to say that mortgage or insurance company restrictions were a reason for an unwillingness to let to benefit recipients (40.9 per cent of agents compared with 25.9 per cent of landlords). For agents, it might be presumed that insurance companies rather than mortgage providers were playing a greater role in defining tenant choice.

A second marked difference related to unwillingness to let to people receiving the named benefits because of lack of knowledge or experience of those benefits. This was the case for 18.7 per cent of landlords, but only 6.2 per cent of agents.

Table 7.1: Why are you not willing to let to people who are receiving Housing Benefit, Local Housing Allowance or Universal Credit?

	Respondents agreeing with the reason [more than one reason could be given] (%)	
	Agents	*Landlords*
Risk that these benefits will not cover all the rent/government cap on the maximum amount that people can receive from benefits	70.3	61.8
Greater risk of delays in payment or unpaid rent	75.8	69.2
Benefits are paid directly to the tenant and not to the landlord or agent	64.0	58.5
Greater risk of disturbance or anti-social behaviour or damage to property or furnishings	47.9	55.0
Too much paperwork or problems with administration	31.2	32.3
I have no knowledge or experience of these benefits	6.1	18.7
Mortgage or insurance company restrictions	40.9	25.9

Source: MHCLG English Private Landlord Survey 2018

Overall, 68.1 per cent of letting agents indicated that they were *willing* to let to people receiving Housing Benefit or Local Housing Allowance, compared with 51.1 per cent of landlords. At the time of the survey, a lower proportion was *actually* letting to Housing Benefit or Local Housing Allowance recipients (Table 7.2). A much smaller proportion were letting to people in receipt of Universal Credit, but this low figure reflects the limited roll-out of the benefit given the timing of the survey.

Table 7.2: Which of the following types of tenant do you currently let to?				
	Landlords		*Letting agents*	
	Yes	*No*	*Yes*	*No*
People in receipt of Housing Benefit or Local Housing Allowance	23.6	76.4	56.4	43.6
People in receipt of Universal Credit	9.7	90.3	36.0	64.0
Source: MHCLG English Private Landlord Survey 2018				

Letting agent experiences in the HB market

The stakeholder interviews included a small handful of agents operating at local, regional and national levels, and two social lettings agencies. Covid restrictions created difficulties in recruiting agents for this research, and so it has not been possible to frame a wider narrative account of this part of the market. Nevertheless, themes did emerge from this small group of respondents which indicated that further research would be fruitful and necessary in understanding how letting agent practices frame behaviours at the bottom of the market.

- All letting agents mentioned that their arrangements included some long-standing relationships with particular landlords. Arriving at a satisfactory working arrangement with a trusted agent could encourage some landlords to expand their holdings.
- Letting agents commented on the 'No DSS' regulations and criticized other agents who they knew operated restrictive policies. One national chain with branch offices where HB lettings were routine said that '*you have to look at each individual case, you have to look at the landlord, the property, the area and the person's income'* before making a judgment about a particular tenant's suitability [National Letting Agent #1].
- Agents were not necessarily proactive in seeking property improvement. One national agent mentioned 'disinstructing' landlords whose properties were below standard but said that other agents would be prepared to take those landlords. Another independent agent operating in a HB-dominated market admitted that they worked for landlords with '*grotty*' property, including one landlord who had been done for '*dodgy dealing'* [Local Letting Agent #2].
- Letting agents reported frustration in dealing with the Universal Credit system. Agents often had multiple tenants receiving Universal Credit, with multiple landlords. It was not always easy to match tenants to payments, and securing clarification was remarkably difficult:

  > 'I went on to the [web]site. You can't....it took me about 20 minutes to find the telephone number, because they don't want you to find it. I don't have access to the portal because I'm not a tenant, but I still have somebody's money here. Then when you ring through, there's no one - it's just a general number, so you don't really know who you're going to get, and there was like a three-hour wait on the phone, so obviously I gave up' [Regional Letting Agent#2].

These kinds of experience are likely to tip a letting agent against selecting a prospective tenant in receipt of Universal Credit, all other things being equal.

Landlord use of letting agents

The PLS indicated that letting agents are playing a substantial role in relation to benefit-supported tenancies. Recourse to an agent appears commonplace irrespective of the type of landlord although there was differential use depending on the required services. Landlords who defined their employment as being '*self-employed as landlords*' were more likely to use letting agents simply to find tenants and set up tenancies. However, landlords who were currently letting to people in receipt of HB were more likely to be using letting agents to manage property (Table 7.3).

This finding appears to run counter to a presumption that lettings at the bottom of the market make insufficient gain to be able to pay a percentage of the rent to an agent, and given the financial models outlined in Chapter 4. However, it is highly likely that this proportion reflects the practices of HB-tolerant small investor landlords, which was a big group amongst the qualitative respondents. Chapter 4 indicated that these landlords were not necessarily seeking to maximise their rental return by minimising cost and were happy to pay to shift the burden of active management. This was particularly necessary where holdings were some distance away from where they lived.

Table 7.3: Are you currently using an agent to let or manage any of your rental properties?

		All landlords	*All landlords currently letting to people in receipt of HB or LHA[1]*	*All landlords who are self-employed as landlords*
For letting services	Yes	44.9	42.0	48.3
	No	55.1	58.0	51.7
For management services	Yes	13.1	16.7	13.5
	No	86.9	83.3	86.5

[1] Lettings will not exclusively be to that group.
Source: MHCLG English Private Landlord Survey 2018.

The qualitative interviews also indicated that portfolio landlords with a background in building or other trades often relied on agents to deal with the bureaucracy of letting and management. One portfolio landlord who was expanding in the North East said that he was happy to pay the agent fees, so as to be sure of regulatory compliance: *'I can be a bit lackadaisical. I know they're just dotting the 'i's and crossing the 't's for me and it's money well spent'* [LL13]; another landlord expressed a similar sentiment: *'I'm not a gifted administrator to be honest. I can't be bothered to do all that stuff! I'm happy to pay an agent that I know who knows the market very well'* [LL4].

The landlords who were less likely to use agents were those whose personal competencies included an aptitude for or understanding of bureaucratic and legal processes. Some landlords started by using letting agents – indeed, one aspiring portfolio landlord worked for a letting agent for a short period, in order to understand the job – and then increasingly self-managed as their understanding increased. Some of the more experienced landlords commented that they generally knew more than the letting agents they had approached with property. Use of letting agent might also reflect stages in the life course: busy employed investor landlords might lack the time, even if they did have the knowledge, and some began to self-manage on retirement from paid work.

Letting agents clearly played a role in absorbing some of the management responsibility for landlords who might otherwise lack the time or capability. It is uncertain how far an individual landlord's tolerance for a household receiving benefits translated to their agent then letting to someone in that position. Landlords who were unsure about the benefit status of their tenants were generally using an agent. The PLS figures indicate that agents, as a group, are perhaps rather more attuned to HB processes and have more experience in this kind of letting than do landlords as a group. Furthermore, letting agents tended to operate at some distance from the core risks which frame landlord behaviour: the PLS indicates that just 6.8 per cent of letting agents were worried about financial issues related to letting, compared with 36.9 per cent of landlords, and 8.3 per cent were worried about legislative change, compared with 57 per cent of landlords. On balance, therefore, it seems likely that letting agents were generally facilitating the supply of properties to lower-income tenants.

Mediating agencies

In addition to letting agents, a range of mediating agencies and initiatives work to secure PRS tenancies for households on lower incomes and with variable levels of vulnerability and support need. 'Help to rent' or access schemes have been in operation since the early 1990s. Many third sector schemes are in operation across England, and range in scale from small, local homelessness charities offering help with deposits up to large-scale operators that run social lettings agencies and purchase properties in ways that are very similar to the operation of large-scale business property landlords.

In addition, councils often seek to place tenants in the private rented sector, working with a range of clients and in different circumstances. These circumstances reflect the level of immediate assistance and on-going support required by the tenant and the legal framework underpinning the placement. Arrangements include:

- Homelessness prevention strategies that include assistance given to tenants with the setting up of a tenancy, including help with rent in advance, deposit guarantees or loans;
- Placement of an individual or family with varying levels of support need, to relieve their homelessness under the Homelessness Reduction Act, which often includes some on-going tenancy support;
- Placement of an individual who has experience of street homelessness, and who may well have intensive support needs reflecting alcohol and drug addictions; and

- London boroughs seeking 'out of borough' Temporary Accommodation (TA) placements.

Size and reach of the mediated market

It is appropriate to consider the 'mediated market' at a distinctive segment within the bottom end of the PRS.[23] Data on the size of the mediated market and change over time is difficult to establish. The reporting of homelessness statistics changed in April 2018: the Homelessness Reduction Act replaced the P1E aggregated data return and introduced the new 'H-CLIC' (Homelessness Case Level Information Collection) system.[24] Recent H-CLIC returns indicate a heavy reliance on the PRS to provide temporary accommodation (TA) in a range of guises. Overall, 21 per cent of TA need in the quarter ending June 2019 was met by making direct use of LA or HA housing stock, but 26 per cent of need was met through use of 'nightly paid' self-contained accommodation which is generally regarded as the most lucrative option for private sector providers.

There is a high level of variability across regions: London dominates the TA market in terms of overall numbers: 66 per cent of all households in TA live in Greater London. London boroughs also make heavy use of the PRS in various forms: 85 per cent of TA households are in non-HA/LA stock. In the North East region, this figure is 46 per cent. London is also more likely to make heavier use of 'nightly paid' arrangements: 32 per cent of TA households were in this form of accommodation; in the North East, where reliance on the PRS was similarly high, just 3 per cent of households were in nightly paid accommodation. A relatively high level for TA in the North West largely reflects the dominating influence of the Manchester market. Overall, despite the proportion of TA households in the PRS being high and increasing over time, the numbers remain low relative to overall demand for accommodation at the bottom of the market. However, the uneven nature of TA demand creates 'hot spots', particularly in the capital.

The Localism Act permits local authorities to discharge their statutory duty to house with the offer of a 12-month PRS tenancy. Overall, the percentage of households helped in this way did not change over the five quarters Q3 2018 to Q3 2019 (around 40 per cent of households approaching the authority as homeless) but there is regional difference in this percentage. Taking the four quarters from Oct 2018 to Sep 2019, the North East region discharged its duty into the PRS for around 30 per cent of households; in London, this percentage was close to double, at 59 per cent. Indeed, there is a rough North/South regional split. The year Oct 2018 to Sep 2019 saw a total of 31,260 households moving into the PRS due to local authority intervention via the Localism Act.

Overall, a rough estimate might indicate that the statutory sector-related mediated market constitutes around 10-15 per cent of the HB market overall. This is likely to be an under-estimate. Statutory routes into a PRS facility are also arranged by social services and by the

[23] J. Rugg and D. Rhodes (2018) *The Evolving Private Rented Sector: Its Contribution and Potential*, York: Centre for Housing Policy, 132ff.
[24] The following paragraphs are based on analysis of H-CLIC data at: https://www.gov.uk/government/statistical-data-sets/live-tables-on-homelessness

probation services and are not recorded in the H-CLIC data. This data also excludes 'exempt accommodation', which comprises private sector supported HMOs for vulnerable tenants in receipt of housing benefit. The statutory data do not include the range of schemes operated by the voluntary sector also operates a range of 'help-to-rent' schemes, again with varying levels of coverage across the country.

In addition, there are substantial regional differences and big differences between local authorities. Some local authorities make heavier use of the PRS under the Localism Act, particularly if the local authority has no access to alternative lettings in the social sector. Stakeholder interviews indicated that some local authorities were beginning to bundle all their PRS procurement into single, large contracts. One commercial stakeholder worked for a company that fulfilled those contracts. The company tended to focus on locations with heavy mediated PRS demand and where meeting that demand would secure higher LHA rates from TA-related HB, possibly including an incentive with the contract, and also bundle together a level of 'exempt accommodation' provision. This company tended not to work with local landlords and instead met need through the direct purchase of existing and new properties, often using 'patient capital' provided by large-scale institutional funding.

A second stakeholder had also been part of a larger consortium that had secured a procurement contract for PRS tenancies from the local authority, but in this instance was working with a range of third-sector charities. Again, the consortium was benefitting from the higher LHA rates that were payable under the agreed procurement model although in this case the stakeholder was fulfilling the contract by working with local landlords.

Little research has been undertaken on the ways in which the mediated market is developing, and the ways in which this market might inflate rents and so trap tenants in benefit dependency.

Mediating agencies and the landlord 'offer'

Interviews with professional informants included two social letting agencies and two statutory access schemes. In all these cases, the schemes sought to nurture and develop their landlord relationships. Schemes mentioned long-standing arrangements lasting ten years or more. A good landlord was 'hoarded': one interviewee joked that they were unwilling to share landlord contact details even with colleagues*: 'I found one on Facebook and he's mine! I'm not going to tell anybody else about him, because it is like gold dust'* [Local third sector access #1].

Schemes were clearly of the view that they could serve two major functions for the landlord: a more 'bespoke' tenant-find service; and tenancy support that included setting up the Universal Credit application and arranging direct payments to the landlord. One SLA working in the south stressed that they worked much more carefully, particularly compared with TA providers *'who are just very keen to move people on without thinking about how sustainable it is or if they're ready and stuff, but we try and only move people on that are ready'* [Local third sector SLA #1]. In tenant matching, agencies felt for the landlord's tolerances and ensured that the tenant was entirely appropriate for the property that was available. There was a clear understanding that getting a placement wrong jeopardised not just the tenancy, but the agency's relationship with the landlord and all potential future lettings. There was some frustration that poorly-functioning mediating agencies were 'muddying the waters' for good mediation schemes, an observation which was borne out in the landlord interviews, below.

A second element of the mediating scheme offer is dealing with Universal Credit bureaucracy. In some locations, access schemes had been 'early adopters' in absorbing the niceties of the Universal Credit regulations to arrive at a point where they were fully conversant with the complexities of the benefit and its local administration. Schemes were able to offer verification that a tenant had a 'tier 1' reason for an APA which meant that direct payment could be arranged from the outset. Access schemes were also forging working protocols with local Vulnerable Customer Leads at their local Jobcentre Plus: one SLA mentioned that a colleague had gone down to the JobCentre Plus office to meet with work coaches and explain their service and how they were supporting tenant applications for APAs.

Mediating schemes were therefore able to sidestep some of the difficulties that landlords were encountering with Universal Credit. However, it was also the case that mediating agencies might – like letting agents – find themselves working with landlords who had less salubrious properties. Schemes that were placing tenants who had addiction difficulties sometimes used landlords whose properties were not in the best condition. This created opportunities for landlords with poorer quality HMOs and smaller studio flats. Two of the larger business landlords were working routinely with mediating schemes. They operated in different parts of the country and dealt principally with more vulnerable tenants placed in HMOs. These landlords were unusual in being reluctant to talk in detail about their letting practices and were rather more cynical about their HB tenants than was unusual across the landlords who were interviewed.[25]

It is not the purpose of this research to offer an independent evaluation of the role of mediating agencies in supporting tenancies at the bottom end of the market. Many local authorities were delivering this kind of scheme under acute budgetary pressure, which might well explain the tenor of some landlord experiences. The following section discusses those experiences and how this kind of arrangement influenced landlord letting decisions.

Landlord use of mediating agencies

Recourse to a mediating scheme is low across all landlords but higher for landlords with HB lettings. The PLA asked landlords who did not use an agent which method the used to secure their most recent letting, and just 0.9 per cent had contacted the local authority or council. However, in the case of landlords who had a HB/UC tenant, this figure was 8.6 per cent.

Landlord respondents were usually aware that it might be possible to secure tenants nominated by the local council, and a handful also mentioned a local homelessness charity. Landlords usually had strong opinions about such schemes. As might be expected, the

[25] An unwillingness to discuss finance, business and management practices is no indicator of illegality. However, these two landlords did express views indicating that tenant welfare was not a concern and were atypical in this regard.

landlords who were largely intolerant of lettings to tenants in receipt of housing benefit were also very firmly of the view that they would never use the council to source tenants:

> 'Oh God, no. Oh, Jesus no. Oh, my Lord, no. No, no, no [...] They have drug abuse problems, mental health issues, alcohol, just general issues [...]. They have genuine need, genuine emotional and mental health needs. The private sector is not the best place for them [...] I think that only landlord who would do it are either those at the bottom, where the properties are really dodgy and horrible, or they don't know any better' [LL25].

A great deal of adverse reaction was driven by hearsay and 'horror stories' even amongst the landlords who generally welcomed housing benefit tenants:

> 'There's awful stories about housing being trashed, because basically they put in the worst tenants they can't house into one of yours. It's because they act as a business they act, I'm not saying not in good faith but they see it as a number. "I've got to house such-and-such troubled families". The more someone troubles them, the more they want to house them and they'll just shove them into anything' [LL18].

Other landlords offered less extreme responses and mentioned that they had no need to approach the council since they had no difficulty in finding tenants. One landlord operating in the South East said that he had approached the council but in the end thought that the local authority seemed uninterested: *'There seemed to be so many obstacles to progressing that, just typical bureaucracy that, in the end, I didn't bother'* [LL4].

A small number of landlords who were 'anti-HB' said they would be persuaded if the incentive package was right. This was thought to be particularly appropriate where landlords felt there might be capital uplift over a long lease period and so would be happy to just walk away from the property for a spell. One landlord said that he would be willing to hand over all his properties if he could secure a long-term leasing agreement which delivered a steady rent – he would have been satisfied with a below-market rate – and where properties were returned in the same condition after the lease period. This investor landlord sought to achieve 'hands-off' portfolio management. Another landlord mentioned that they had had this kind of agreement but withdrew the property after the end of the lease term because he saw no real incentive to continue.

Engaging with the mediated market

There was stakeholder acknowledgment of the proliferation of landlords and letting agents responding to demand for property to meet need in the mediated market. Local stakeholder interviews included comment on the ways in which meeting that need had impacted on their local housing market. One SLA indicated that some local landlords had shifted their focus to provide TA, achieving a nightly rate rental of £28-30 and a higher TA local housing allowance, which could be up to four times the standard amount: *'people are buying specifically to get into this'* [Local third sector SLA #2].

The premiums that were available for landlords meeting TA need had certainly influenced one investor landlord. They were working in south east London and had started to develop a portfolio of single studio properties where the LHA rate was very close to the market rate.

At the time of the interview, the landlord was arranging their fifth tenancy with the council's TA scheme, which paid a substantial incentive. In the landlord's view it made more sense to use the council than to employ a letting agent. The arrangement was to provide a two-year tenancy in which cases it was '*a comparison of I need to pay an agent a four-figure sum, or [name] council pay me a four-figure sum, so that's the big incentive'.* The landlords were happy that the council was able to provide a tenant almost immediately, which reduced the void period to a matter of days, and the council also took responsibility for the Universal Credit application. This landlord was actively seeking properties to expand their dealing with the council [LL9].

Another business landlord who was expanding their portfolio across the Yorkshire & Humberside region said that they had started to work with a procurement agency which was sourcing accommodation for London boroughs.

There were examples of positive working experiences. One investor landlord in the Yorkshire & Humberside region regularly used the local council to source tenants for their lower-value properties. In this instance, the scheme helped with deposits and aimed to establish long-term tenancies in the PRS. The landlord said that she had three tenants under the scheme who had been in their properties for five years or more, and when properties became available she generally approached the council first. Landlords who had positive experiences tended to mention that the council did a good job of 'filtering' the tenants they nominated and offered continued support. Another business landlord also worked exclusively with their local homelessness charity to secure nominations for her HMOs, since the charity could guarantee arrangement of direct payments. It would seem that investor landlords who had *some* properties suitable for housing benefit lettings could be happy to use council schemes to help deal with some of the risks attached to letting to that group.

Larger business landlords that routinely worked with more vulnerable tenants could also have positive relationships with local mediating agencies. A North East business landlord who worked with people who had addiction difficulties said that he worked quite closely with the local homelessness charity: *'They're fantastic. They hold their hands for the first twelve months which is a real benefit to me'* [LL6]. A larger business landlord working in Humberside also had an arrangement with a local homelessness charity. He was charged 4 per cent of the LHA rent for the charity's services, which guaranteed for the rent for a year and also offered a first port of call for any problems with the tenant. He regarded this element of the service alone as good value for money. The charity withdrew after that time but in the landlord's view by then they had a good picture of the tenant and were happy to continue management themselves. These landlords were generally using schemes to offset problems with securing direct payments, and to augment the support resources that more vulnerable tenants might need. Landlords also valued the quality of the relationship they had with the mediating scheme.

Stepping away from the mediated market

The number of landlords who had negative experiences with mediating schemes was around the same as those with positive experiences. A dozen landlords who were generally willing to let to people in receipt of HB had stepped away from working with the council. In a couple of instances, the landlord had been unhappy with that they regarded as being over-rigorous compliance visits prior to any nominations taking place.

Issues other than property quality were rather more pressing. Landlords – from around the country – tended to tell very similar stories: the local authority had been very eager to work with the landlord and had placed a tenant. When problems arose with the tenant, the local authority had denied responsibility, leaving the landlord with – often – a tenant who caused damage and left owing rent arrears. One large business landlord operating in Humberside presented a typical experience:

> 'They [i.e. the council] used to ring us up, "oh yes, I've got an absolutely wonderful tenant for you, they're all singing, all dancing. Dump them on our door, there's a problem. The last one we did was actually via social services, into a one-bed. A very young girl. Trashed the place. Didn't pay the rent. We had to evict her. Social services were still involved. It cost us an absolute fortune. Never going to see the money back. I don't want that kind of hassle' [LL31].

Landlords quite willing to work with problematic tenants talked about councils who withdrew support almost immediately once the placement was made. The betrayal of trust clearly rankled. One landlord who had specialised in supporting addicted tenants said that the council had stood as guarantor for one individual with a heavy drinking problem. The arrangement did not work: there was '*literally, blood on the walls'*, and he was never paid the promised shortfall between the rent and the LHA. '*The council basically turned their back once they'd got him in there. They didn't want to know about guaranteeing anything, really'* [LL81].

Landlords were most aggrieved when problem tenants placed them in danger of prosecution by the environmental health departments of the same council. One landlord had accepted a nomination from the housing options team but when that tenant's children were taken into care and her boyfriend started to deal in drugs, the landlord was threatened with a fine of £15,000 for failure to deal with anti-social behaviour at his property. The tenant was advised by the housing options team that she should stay in the property until the bailiffs arrived. The landlord was stuck: *'So I went back to the council and I said, "Look, one branch of you is saying I've got to get her out, and the other department says she has to stay in"*. Following that, and other similar experiences, he said that he would not be accepting further nominations' [LL71]. Landlords in this group no longer trusted that councils would provide settled, long-term tenants or make good on promises of continued support.

For other landlords, working with the council simply did not make economic sense. One North West portfolio landlord said that he had dealt with his local council for many years. They had started by developing a deposit guarantee scheme, which was free to the landlord. The scheme evolved into a tenant-finding service which charged £350 for providing a tenant. The landlord has since withdrawn from the scheme: *'In all honesty, it was getting expensive, £350 a time, especially if [...] they're quite transient. This person might only stay six months and then you pay another £350 then to source another person. So we've tended to put our signs up and do all the checks [ourselves]'* [LL72].

Arguably, landlord withdrawal from accepting landlord nominations carried little impact where that landlord is already targeting the HB market. However, the common currency of 'horror stories' relating to nominations clearly augmented the views of the anti-HB landlords. These stories also affected the decisions made by landlords who might otherwise be tolerant of households receiving benefit. It is clearly the case that the mediated market is having a major impact on decision-making at the bottom of the market, where flows of inflated HB payments may well be creating perverse incentives for landlords to leave 'open market' HB lettings in favour of more lucrative mediated lets.

Rent insurance products

Rent insurance products were one further 'intermediary' which mediated risk as far as landlords were concerned. Portfolio and business property landlords might choose to mediate the risk of rent arrears through the purchase of rent insurance products which would guarantee payment of rent lost through arrears. Little research has been undertaken on the range of insurance products on offer. One landlord used an on-line rental management product which charged two per cent of the rent for collection, irrespective of whether the insurance company was paid by the tenant. In this landlord's view, this made him '*completely bomb-proof*', since his contract was now with the insurance company rather than with the tenants [LL30]. However, this meant that tenants had to pass the insurance company's rigorous assessment, and he thought it unlikely that tenants in receipt of Universal Credit would pass that assessment. Another landlord operated to a similar model. He commented that '*at the moment, the insurance companies aren't interested in the benefit money*' and was unwilling to pay the higher insurance premiums that were charged for tenants receiving benefit [LL1]. At present, the market penetration of rent insurance products is not clear. It is certainly the case that some landlords see this kind of product as a cost-effective risk-mediation strategy, but which carried the potential of introducing an algorithmic, computer-defined 'no DSS' to exclude such tenants from parts of the market.

Conclusion

Letting agents and mediation schemes were in many instances ameliorating the risk that landlords might see as being endemic to operating at the bottom end of the market. Letting agents were less likely to see housing benefit tenancies as problematic and were perhaps playing a role in facilitating investor landlords letting in this market. There is evidence of mediating agencies entering into close working relationships with portfolio landlords, often absorbing some responsibility for that landlord's lower-value lettings. The chapter indicates that landlord experience of mediating agencies could be remarkably poor, and many withdrew from arrangements where they felt that the agency had reneged on promised levels of support. 'Horror stories' clearly had currency amongst landlords and tended further to persuade anti-HB landlords that this strategy was right. Procurement activity to meet TA and exempt accommodation need was creating new dynamics in the lower end of the market, in offering enhanced incentives in certain markets. However, mediating agencies – in whatever guise – were not always able to enforce property condition standards. The development of the mediated market merits further scrutiny, as does the impact of rent insurance products which might well carry consequences for further excluding groups that are already marginalised in the market.

8. THE IMPACT OF COVID

Introduction

Soon after the Covid pandemic struck, the Government introduced measures to support private tenancies with the objective of reducing the incidence of evictions due to rent arrears and landlord mortgage default. Interventions included options for landlords to defer BTL mortgage payments and an increase in the LHA rate. The Government also announced a moratorium on evictions. This project was conceived and started before the onset of the pandemic, but professional informants and landlords were interviewed between April and September 2020 and those interviews touched on responses to the interim measures. These experiences comprised an unforeseen opportunity to test the resilience of the bottom end of the market to a shock which carried impacts on tenant and landlord incomes.

This short chapter also sets a context for Chapter 9 which relates to landlord intent in the market. The chapter demonstrates that landlord letting intentions have been shaped less by experience of rent arrears and other financial difficulties during Covid and more by restrictions in eviction procedures. Landlord responses to Covid were largely consumed by the prospect of the proposed Renters' Reform Bill curtailing the ability to use s21 grounds for possession.

Government measures

The Government has introduced a range of measures that are intended to offer immediate support tenants and landlords during the Covid pandemic.[26]

Welfare changes

Principal measures to offer financial support to tenants at the bottom end of the PRS – in addition to general income support measures through the furlough scheme – have included two major changes to Universal Credit. First, the basic element of Working Tax Credit and the standard allowance within UC have been increased by £20 a week.

The Government also announced a revision of the LHA rates. From March 2020, the rates were reviewed to realign with the 30th percentile of rents within their defined Broad Rental Market Areas. This measure was intended to relieve pressure at the bottom end of the market by reducing the incidence and/or severity of shortfalls between the rent charged by the landlord and the allowance rate.

[26] W. Wilson (2021) *Coronavirus: Support for Landlords and Tenants*, House of Commons Library, 08867;

Changes to possession proceedings

In addition, the Government introduced a small suite of changes to the possession proceedings. These include an extension of the notice for possession, to six months; a suspension (and then restart, in September 2020) of possessions proceedings; and a suspension of bailiff action which means that possession orders will not be immediately enforceable.

Deferred mortgage payments

On 20th March 2020 the government announced that 'repayment holidays' would be available to people unable to meet their mortgage payments. These holidays were in actuality a direction to lenders to exercise forbearance for fixed periods if borrowers were experiencing repayment difficulties. The sums had to be repaid within a plan agreed with the lender. The deferral period could extend over a period of three months, and applicants were given up to the end of October 2020 to apply. Deferred payments were also available to landlords with buy-to-let mortgages on the understanding that the landlord would pass the relief on to tenants.

The following discussion draws on landlord comments relating to their experiences under these Covid measures. As will be seen, not all landlords regarded the measures as relevant to their particular case.

Rent arrears

The growing incidence of tenant rent arrears under Covid has been a major cause for concern.[27] Respondent landlords were asked about their arrears experiences under Covid, but few reported levels of rent arrears that they found problematic. All the landlords who had tenants in receipt of LHA or Universal Credit indicated that these payments continued. Indeed, for some landlords, Covid underlined the value of continuity that might come with a long-standing claim:

> 'Various friends of ours have said "How are you doing during the Covid thing, I hope you're getting all your rents and things" and I say "You remember that two years ago and more I was cursing Universal Credit and absolutely not knowing how to handle it, not knowing how to get hold of people, not knowing how to cope with it all and spending hours, and I mean hours, on the telephone trying to find the right place? Now, because we now know and we've now got most of our tenants' money coming in, than you very much, the day comes round and ping, in it comes' [LL82].

Many landlords indicated that they had contacted their working tenants and told them to get in touch if they had any financial difficulties, signalling that the landlord was willing to discuss ways of dealing with the current crisis. Landlords often said that their working tenants were not affected. Many were letting to 'front line' service professionals who have

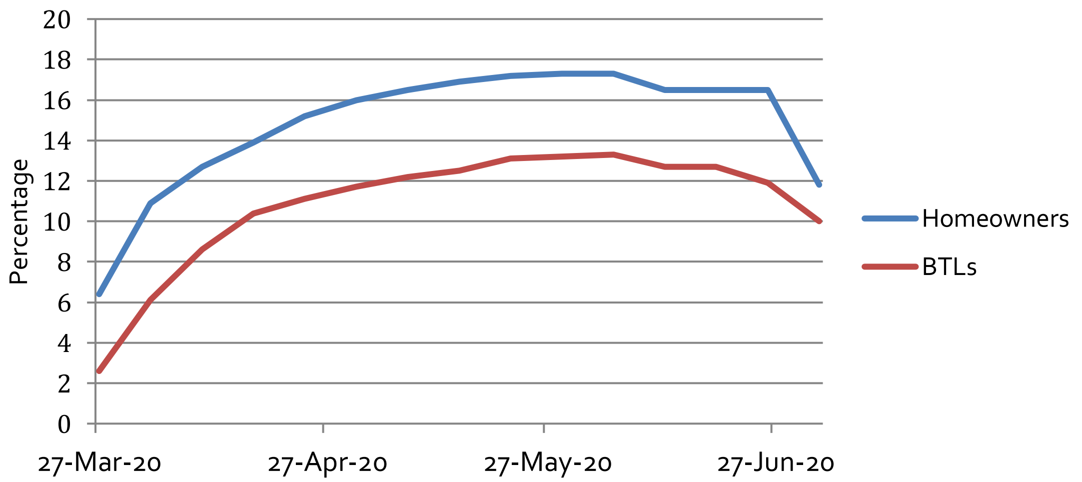
[27] See e.g. L. Judge (2021) *Getting Ahead on Falling Behind: Tackling the UK's Building Arrears Crisis*, London: Resolution Foundation; NRLA (2020) 'The Government needs to tackle the rent arrears crisis', file:///C:/Users/worklaptop/Downloads/Rent%20Arrears%20Dynata%20Research%20(2).pdf,

continued to work during the pandemic. Where tenants were affected, landlords reported a range of solutions. These included temporary rent reductions including reducing the rent proportionally, in line with the furlough payment; and negotiating a repayment plan. As might be expected, some landlords said that they preferred accepting a slightly reduced rent to the possibility of losing a long-standing tenant. One or two landlords related cases where they had agreed to let tenants leave without notice, so that arrears did not stack up. In these cases, people had moved to live with other family members.

Mortgage deferrals and other financial assistance

Figure 8.1 indicates that owner-occupiers and landlords availed themselves of mortgage deferrals although many came off the payment deferral schemes quite quickly during 2020. The proportion of deferral in place peaked at around the time of the first lockdown, possibly as business was able to resume more quickly with 17.3 per cent of owner-occupiers using the deferral scheme in late May 2020, and a peak of 13.3 per cent of landlords opting for mortgage payment deferrals by the beginning of June. While owner deferrals fell away sharply at the end of June, landlords' take up of the scheme fell more shallowly. At the end of the reporting period in July, 10.0 per cent of landlords had payment deferrals in place and 11.8 per cent of homeowners.

Figure 8.1: Mortgage deferrals by type of borrower, United Kingdom, 2020 (% of all loans)



Source: UK Finance AP13

Interviews with professional informants in the financial sector confirmed the limited take-up of the mortgage deferral scheme. One medium-sized lender indicated that around 10 per cent of their landlord borrowers took a payment holiday:

'70 per cent of those have already started repaying and 30 per cent have extended their payment holiday. [...] I think anecdotally, I think a lot of landlords took a payment holiday because they could. [...] We've heard stories of some landlords not really understanding what it was they were doing, and once they'd realised that it wasn't free money [laughter] they started paying us again very quickly' [Finance #3].

Other professional informants in the financial sector expressed a similar view: that landlords may have taken a holiday because it helped cash flow; that holidays were not necessarily passed on to tenants; and many landlords taking 'a holiday' had simply not understood that the measure was simply a deferral.

Given the relatively limited experience of problematic rent arrears amongst the respondent landlords, it was not surprising that application for a mortgage deferral was rare. Larger landlords tended simply to absorb losses. Long-standing landlords had built their portfolios on models that had benefited from the unexpected drop in interest rates following the GFC and expressed themselves capable, financially, of dealing with a period of reduced rental income. One full-time business landlord said that he had enjoyed a 20-year period of rising house prices and falling interest rates: *'I've got a good model, so I can take the hit'* [LL18]. Another large business landlord was similarly phlegmatic. He had recently reviewed an arrears case, and waived the arrears in that instance: *'She's paid me over £60,000 in rent for the years she's been there. I'm not going to worry about a few quid when they're paying that sort of money over a long period of time'* [LL31].

The landlords who fell into difficulties were those with smaller and less well-developed portfolios and whose characteristics for instability matched those outlined in Chapter 4. This included an investor landlord with just one property. She was a victim of timing: her tenant left just as the lockdown started. At the time of the interview she had had a void period stretching for five months and had had to pay the mortgage and council tax on the property [LL15]. Another small investor landlord was similarly vulnerable. His tenant was in stable employment, but the landlord himself was self-employed. Work had dried up and his rental income made him ineligible for Universal Credit. At the time of the interview he was largely reliant on his savings [LL63].

The inability to fill voids in a timely way was often regarded as rather more problematic than rent arrears. One larger, portfolio landlord with fifteen properties said that he had five voids at the time of the interview, with two further voids anticipated. These were properties where tenancies were abandoned, or where prospective tenants decided not to turn up. The voids left him with a substantial drop in income. He was wholly reliant on rental income to meet his mortgage costs and to provide a personal salary, and at the time of the interview the interview was arranging to sell a property. He was angry with the government advice relating to mortgage deferral, and said that the government '*don't have a clue how this business works, because it you do that, you know damn well next time you apply for a mortgage, they're going to be asking you, "Oh, have you taken any mortgage holidays?"*' [LL58].

The landlords who had taken deferrals, and many landlords besides, often expressed the view that a mortgage deferral would indeed be recorded and factored into the decisions that lenders make on remortgaging. It would be a 'black mark' against them. This view was held despite the fact that the UK Finance stressed that taking a mortgage deferral would not be recorded on an individual's credit file.[28] In one landlord's view:

> 'The government has said the mortgage companies cannot give you a bad credit rating for taking a mortgage holiday, you can't take a mortgage holiday because if you take a mortgage holiday, when you apply for a new mortgage there's a question on the mortgage that says "Have you taken any mortgage holidays?" Then that rules you out for quite a number of the buy-to-let and the new mortgages' [LL23].

One business landlord applied for a 'bounce back loan'. This landlord was in the early stages of developing their business model, which in part comprised a scheme leasing properties from landlords and offering a guaranteed rent. The pandemic created difficulties in filling their shared houses, and the level of voids meant that she could no longer honour her rent guarantees. The bounce back loan helped the landlord meet the shortfall.

Other business landlords mentioned Covid impacts on their commercial property trading, and this group included landlords with shops and restaurants that had to close. This reduction in earned income increased reliance on rental income, but none described impacts that had destabilised their finances or threatened their residential holdings.

LHA increases

Landlord responses to the change in LHA rates depended very much on the proportion of their lettings in the HB market and the relationship between the LHA and the local market rents. Smaller investment and portfolio landlords who had HB tenants but were not in the HB market tended to view the increase as the tenant's business and did not adjust the rent. This was largely because these landlords were not usually setting the rent in relation to the LHA rate. It was also the case that some larger landlords, operating in more depressed housing markets, also noted the change but did not alter their rents since the payment was made directly to the tenant: *'It doesn't come to us. That might have had an effect, but I wouldn't have seen that effect directly'* [LL31]. Another smaller investor landlord did not want to risk increasing her rents in response to what she regarded as a temporary measure. Also, '*there's an element of fairness as well [...] it just didn't seem the right thing to do, so we didn't'* [LL26]. In many of these cases it is likely that tenants did see a positive uplift in their income, since the LHA increase would have reduced any shortfall.

The measure had a mixed impact amongst HB landlords. One landlord, letting numerous studio flats and HMOs in a South West coastal town said that the measure had indeed removed the requirement for many of his tenants to pay a shortfall. He had set his rents at the LHA rate initially, but then over the years they had increased slightly: '*I could see LHA wasn't moving and I couldn't stay the same'*. A typical rent increase might be from £420 to £440 a month, and this level of increase was easily accommodated by the LHA change. Another landlord operating further along the south coast told a similar story: his rents had also been around £10 or £20 above the LHA rate.

[28] https://www.ukfinance.org.uk/covid-19/customer-support/support-mortgage-customers-during-covid-19

For many landlords operating almost entirely within the HB market, the LHA change provoked an immediate increase in the rent that was charged. One South West landlord referred to the change: '*let's call it a payday*'. He had been letting one-bedroomed flats for slightly above the LHA rate of £408, and the new rate had gone up to £445. One North East landlord generally charged £425 for his properties, but for HB tenants had accepted the LHA rate of £395 and tended not to look for a shortfall payment. The LHA was revised upwards, to £425 and he felt entitled to ask his tenants for this amount. In his view, it did not affect the tenants at all because they were personally not paying any extra [LL78]. One landlord who for many years had been charging around £450 a month for a three-bed property in a Midlands city increased the rent to the new rate of £670 a month.

The method used to increase the rent varied. Some landlords took the step of reviewing the rents on all their properties but only increasing the rent when the tenancy turned over. One landlord with 30+ properties in the North East and with a large proportion of tenants with APAs said that without his intervention, his monthly rental income had increased by £4,000 a month because his rents were all fixed at the LHA rate. In some economically disadvantaged areas, the LHA increase had no discernible effect. One landlord reported that shifting the LHA rate to the 30th percentile had effected no change at all in his area, '*because the rents haven't changed in ten years*' [LL21].

It would seem, therefore, that a fairly standard response to changes in the LHA rate – particularly amongst many portfolio and business landlords – was to increase the rent accordingly. Many of the respondent landlords benefitting from the LHA change were firmly established in the HB market with reasonably resilient business plans and limited problems with rent arrears. However, these landlords were generally located in HB-dominated markets. It is likely that the LHA rate change did have a more beneficial impact where shortfalls were endemic.

Change to possession proceedings

One further set of measures to protect tenants at risk from falling into rent arrears during the Covid crisis included an extension of the notice period to six months, a temporary suspension of possession proceedings and a suspension of bailiff action to enforce possession orders. Possession proceedings could only be brought in highly restricted circumstances including six months' arrears and serious anti-social behaviour. For many respondent landlords, the moratorium on evictions was simply referred to as 'suspending s21'.This style of notice - often termed a 'no fault' eviction – is preferred by many landlords who have experienced difficulties with courts progressing s8 orders that require the presentation of evidence regarded by the court as being sufficiently robust in demonstrating grounds for possession, or where tenants repaid some of the arrears to bring them just below the amount required for mandatory repossession .

Landlords were more vociferous about this element of the Covid-related restrictions than any other, and a number of themes emerged from their comments. First, some landlords highlighted the problems they were having with current tenants who were subject to eviction proceedings pre-Covid but where those proceedings had been suspended. A retired investment landlord with two properties said that one of his tenants had simply stopped paying the rent: '*He said "Well, the landlord doesn't have to pay his mortgage, so I don't have to pay the rent"'.* The tenant was claiming that he had lost his job although the landlord suspected that he was still working, and at the time of the interview the tenant was £3,200 in arrears. This tenant was also subject to an on-going police investigation and as a consequence the landlord was unable to evict on the grounds of ASB. This particular landlord was reliant on the rental income from the two properties he owned, and anticipated rental arrears totalling £10,000 once the issue was resolved: *'I feel as though it's unfair that I should be subsidising a tenant to live rent-free in my property when it's actually costing me money as well when I don't have an income'* [LL3].

Other landlords who had problem tenants said that the moratorium had sent a signal that it was permissible to stop paying the rent. One landlord who had also been pursuing an ASB case against a tenant, pre-Covid, said that the tenant had reversed the APA and bought a flat-screen television. He knew because the tenant had thrown the box out of the window [LL96]. Another landlord had also been seeking to evict a tenant and their partner: *'They were both working but they stopped paying just to take advantage of the government's ban on legal action'* [LL58].

Anecdotes about criminal tenants are common currency amongst landlords, who are often of the view that this kind of crime is generally unrecognised: *'If I went into Tesco's and I took a loaf of bread and a pint of milk and walked out, that is theft. But if you don't pay your rent that's not. Explain that to me. Why is that not theft?'* [LL19]. Another landlord made a similar point:

> 'They're allowed to stay there month after month after month and the government says, "Well, yes if they still haven't paid you any money after a year, then you could go through the process of trying to evict them" [...] If I could go into Sainsbury's and buy my shopping for the next year and not pay for it, I'd be quite happy, but I suspect I'd be prosecuted.' [LL77]

Landlords were of the view that Covid measures left them entirely unprotected against this kind of behaviour: *'Although it's a noble idea to say "Yes, nobody will be evicted during this process', we're talking about a section of the community that will totally take advantage of the situation'* [LL74]. Indeed, many landlords considered that eviction was their only defence against criminal ASB, which could often affect whole neighbourhoods.

One common strategy in response to tenants refusing to pay the rent or with ASB was for landlords to pay those tenants to leave. This strategy was clearly not unknown pre-Covid, but during the pandemic landlords were more likely to see this as a viable solution for problem tenants. One local letting agent said that a tenant had been given notice, pre-Covid, because she had caused a number of disturbances. Following the introduction of lockdown, the landlord agreed to pay her removal costs as cheaper than pursuing the issue through the courts [Regional Letting Agent #2]. In other instances, landlords mentioned simply paying the tenant a lump sum to go. Some professional informants expressed concern that landlords paying tenants off could easily slip into regular recourse to illegal eviction: '*landlords 'will pay people to go round in the night, because that's what goes on on a regular basis'* [Local third sector SLA #2].

The suspension of standard eviction procedures meant that landlords tightened their vetting procedures for prospective tenants and refused to take risks. *'Sometimes you do wish you could give people a chance but I don't see how you can when you can't get people out for 18 months* [LL1]. One larger portfolio landlord dealing principally with housing benefit tenants said that their view was that it was better to leave flats empty:

> 'When we do viewings, if we have a little niggle, if one of us has a niggle, then we tend not to take somebody, because it is, especially at the moment, if you were to give a Section 21 or a Section 8 now, you are looking a good 12/18 months, aren't you? With the current pandemic and nothing's going through. So we've got a couple of flats empty at the minute and my nerves are gone, I'm not going to lie to you' [LL72].

In these circumstances, landlords were also more likely to insist on the use of guarantors. Risk-avoidance was marked amongst the smaller landlords who were reliant on rental income and it was these respondents who expressed the most reluctance to stay in the market. One smaller investor landlord was very definitely of the view that the eviction moratorium presented tenants with an opportunity not to pay the rent. He felt he had lost control of his properties, and was facing the risk of having to pay the mortgage on three homes but with no income. He was looking to sell once the properties became untenanted [LL25].

Conclusion

This chapter has considered the impact of Covid from a landlord management perspective, and with a focus on the bottom end of the market. Rent arrears had not impacted on this part of the market to the degree that might have been anticipated, largely because households in receipt of benefit were often in a more stable position than tenants in work and subject to reduced hours, furlough or redundancy. Where landlords had working tenants, those landlords expressed openness to negotiation on reducing the rent and sought active dialogue with their tenants. Larger portfolio and business landlords were often in a position of financial stability, and able to accommodate some fluctuation in rental income. Smaller investor landlords were more vulnerable, particularly if they themselves were experiencing a reduction in their earned income. The increase in LHA rates benefitted some landlords materially, depending on the location of their holdings.

Landlords did not report 'across the board' rent arrears, but a number did mention the fact that they had one highly problematic tenant who they felt gamed the system. Landlords were particularly aggrieved by the suspension of standard eviction procedures which they felt left them vulnerable to bad tenants who had no intention of paying the rent and whose behaviours were highly disruptive: removing s21 left the landlord without effective defence. As Chapter 9 will demonstrate, the prospect of a permanent removal of s21 'no fault' evictions was a significant factor in decision-making around portfolio development.

9. LANDLORD INTENT

Introduction

This chapter draws together themes that have been touched on in earlier sections and considers landlords' portfolio intentions. Sustaining supply to the bottom end of the market requires landlords to bring properties to the market at the same or greater rate than properties are withdrawn. Much of this report has indicated that landlords have their own agendas and do not act in concert: *'Landlords don't move as a whole, it's a cottage industry and they've all got their own programme'* [Finance #1]. Landlords have a variety of reasons for their portfolio decisions. This chapter will explore those reasons, with a view to understanding how far property supply to the bottom end of the private rented sector is robust and sustainable. The chapter will begin with reference to mortgage market data and findings from the Private Landlord Survey. The chapter then considers the respondent landlord's portfolio intentions.

Reduction in mortgage activity

UK Finance data for the number of property purchase mortgages advanced between 2014 and 2020 indicate a steep decline in the number of loans to landlords to purchase homes, compared with a slight decline in the number of homeowners taking on new loans to buy a property, and a significant rise in the number of first-time buyers entering the market using mortgages. The combined volume of sales during 2014 and 2015 compared to combined sales across 2018 and 2019 shows a 30 per cent fall in the volume of BTL new purchase between these two time periods (Table 9.1).

Table 9:1 Change in the volume of new property purchase loans by borrower type between 2014/2015 and 2018/19, UK

	2014 and 2015	*2018 and 2019*	*% change*
Homeowners	598,180	584,800	-2.2
First-time buyers	503,210	586,340	16.5
Buy-to-let landlords	192,934	133,335	-30.9

Source: UK Finance BTL1, RL1R and RL2R

Portfolio intentions: the Private Landlord Survey

The Private Landlord Survey asked landlord about their plans over the next two years. Questions were asked in March and April 2018 and qualitative landlord responses – discussed below – indicate that some of the trends evident in the survey are likely to have hardened. Table 9.2 compares the responses across different landlord groups. These three groups have been selected as representing main landlord types, and do not represent all landlords. Analysis includes:

- all landlords who agreed that people in receipt of HB or LHA was a type of tenant they let to ('HB landlords');
- all landlords with 25+ freehold properties ('larger landlords'), irrespective of their views on letting to HB households; and
- smaller landlords (owning 1-4 properties) who did not agree that people in receipt of HB or LHA was a type of tenant they let to ('small non-HB landlords').

Table 9.2: Landlord letting intentions (% agreeing with proposition)			
	HB/LHA tenants are a group they would let to	*Landlords with 25+ properties, irrespective of HB letting preference*	*Landlords with 1-4 properties, not letting to HB/LHA tenants*
Over the next two years do you plan to…			
Increase the number of properties you let out	15.4	19.1	11.2
Decrease the number of properties you let out	22.8	27.9	11.0
Keep the number of rental properties the same	43.5	37.9	55.8
Sell all your rental properties and leave the business altogether	5.0	6.0	4.7
I have not made any plans	13.2	9.4	17.4
Source: MHCLG Private Landlord Survey 2018			

Amongst the small non-HB landlords, 55.8 per cent indicated that, over the next two years, their portfolio would remain the same, and a further 17.4 per cent said they had made no plans. Roughly equal numbers – around 11 per cent – said they would be increasing or decreasing their holdings.

The HB landlords and the larger landlords were more similar in intent although plans to make some sort of change to the number of holdings tended to be lower amongst HB landlords (43.3 per cent) compared with all larger landlords (52.7 per cent). The intention to increase the number of properties being let out was higher amongst the larger landlords compared with the HB landlords. However, the larger landlords were also more likely to be intending to decrease their holdings: 33.9 per cent were planning to decrease the number of properties they let out or sell their properties and leave the business altogether. Across all landlords, the proportion planning to increase was far outweighed by the proportion planning to decrease or exit the market, and this trend was particularly marked amongst the larger landlords and the HB landlords.

The remainder of this chapter will consider landlord portfolio decisions from the perspective of respondent landlords in the qualitative element of the study.

Portfolio intentions: respondent landlords

Respondent landlords discussed their portfolios as dynamic entities: current holdings were framed by an on-going strategic plan. Landlords were expanding their lettings, had no immediate plans to either sell or to purchase, or were selling down. Almost all the business landlords and a handful of investment and portfolio landlords were planning to expand their holdings (n=15). Of the remaining landlords, 22 were not intending to make any change to their holdings in the short or medium term, and eighteen were selling down. For the purposes of this report, it is necessary to distinguish between landlord intent in the market generally, and their intent with regard to lettings to tenants in receipt of housing benefit more specifically.

Landlords who were expanding

Across all respondent landlords, 15 were looking to expand their holdings. Indeed, some were in the process of purchasing property at the time of the interview. Of these landlords, five were expanding their holdings to meet need in the HB market. Four of these were business landlords: two were dealing in the North East, one was located in Leeds and one had property in the South East and in Humberside. These were all landlords whose business model was geared towards securing HB lettings in locations where the LHA for their target household was around or in excess of the market rate. One additional investor landlord, operating in SE London, was expanding their lettings in order to secure incentive payments by working with London boroughs to meet TA need.

Almost all the remaining landlords who were expanding their holdings tolerated households in receipt of housing benefit. Indeed, for some this group had been their principal market. However, none of these landlords were intending to let any of their newly acquired property to households receiving UC. One investor landlord with 14 properties said that she was likely to continue expanding in the broader market where opportunities arose but when her HB lettings became vacant, she would sell them. Reasons will be discussed below.

Landlords who were pausing or 'static'

Landlords who had no immediate plans to sell or to purchase fell into two broad categories. Around half of these landlords were happy with their holdings as they currently stood. This group tended to be characterised by smaller investor and portfolio landlords who had holdings that suited their purpose and had no pressing need either to expand or to divest. Some had arrived at a 'sweet spot' in terms of an income/tax balance, and others had arrived at a similarly pleasing position of having holdings which exactly suited their capacity for self-management. Landlords who were consolidating or divesting were often aiming to arrive at a similar sweet spot in retirement: holding a comfortable number of properties that were the least trouble to manage.

The remaining landlords had plans that were paused or stalled for a variety of reasons. Some investor and portfolio landlords had simply stopped purchasing due to taxation and other regulatory changes and again these will be discussed below. Others were stalled because of difficulties with finances. These included having long-standing mortgages with 'zombie banks' that did not permit landlords to remortgage and release equity for new purchase. There could also be difficulty in securing properties at the right price. Landlords in this category were often small investor or portfolio landlords who were tolerant of housing benefit lettings; five were actively targeting the HB market. It is notable that the Covid pandemic in itself played little role in landlord decision-making.

Landlords who were selling

Seventeen landlords were selling down their holdings. Some indicated that this was their intention but were waiting for properties to become vacant in order to put them on the market. Landlords were generally of the view that it made little sense to sell a property with a steady rental return. Others noted that they had already started selling down: one small landlord had sold three properties in the last few years and had just one property left; another larger business landlord had held in excess of 100 properties, and at the time of the interview was down to 38.

Professional informants were of the view that there had been no wholesale sell-off of buy-to-let properties following the introduction of the tax changes. However, landlord respondents evidenced a very slow process of disinvestment. Indeed, where landlords had more substantial holdings, the intention was generally to sell just one property a year to minimise losses through Capital Gains Tax. Landlords who had a small number of properties – fewer than five, say – were anticipating being out of the market altogether in the foreseeable future.

None of the landlords sold their properties tenanted. Where tenanted properties were mentioned, this reflected landlords purchasing or inheriting such property rather than selling a tenanted letting. There was little confidence that there was a sufficiently robust market for tenanted properties. Indeed, selling to other landlords was not necessarily viewed favourably since any landlord seeking to buy was looking to make a deal which meant a lower price than would be available in the owner-occupied market.

Landlords who were selling were more likely to divest themselves of property that they regarded as either difficult to manage or that offered the lowest level of return. Many noted the intention to sell their HB lettings because they were regarded as problematic. Many of the landlords who were currently intolerant of HB lettings had in the past let to people in receipt of benefit and had since sold those properties. One portfolio landlord had started their lettings by purchasing blocks of flats in a coastal resort and grew to a total of 32 tenants in four blocks, aimed at tenants in receipt of benefit. However, they regarded these lettings as hugely time consuming: *'It was like letting to children'.* They consolidated their holdings into five cottages which they targeted at retired households [LL64].

Factors underlying a reduction in holdings

Overall, the respondent interviews evidenced expansion amongst business landlords who were operating in largely HB-dominated markets; a reduction in HB lettings amongst landlords who were otherwise expanding their holdings; a reluctance to expand amongst many smaller investor and portfolio landlords; and a larger minority of landlords undertaking a strategy of steady selling down.

The PLS indicated some reasons for landlords wanting to reduce their lettings (Table 9.3). It is notable that smaller non-HB landlords were more likely to cite financial and personal reasons. Legislative change played a bigger role for all HB landlords and the larger landlords: amongst HB landlords, 72.1 per cent agreed that this was a reason; this figure rose to 82.6 per cent for all larger landlords.

Table 9.3: Reasons for a decrease in holdings (% respondents indicating 'yes' to stated reason)[1]

	HB/LHA tenants are a group they would let to	*Landlords with 25+ properties, irrespective of HB letting preference*	*Landlords with 1-4 properties, not letting to HB/LHA tenants*
Financial reasons e.g. house prices, poor yields, success in other investments	26.1	23.3	38.5
Personal reasons e.g. approaching retirement age, other commitments etc.	34.0	28.5	40.6
Legislative change e.g. to benefits, tax relief and stamp duty	72.1	82.6	59.9
Other	20.6	16.6	20.1

[1] Respondents could answer 'yes' to more than one reason
Source: MHCLG Private Landlord Survey

The qualitative interviews suggest that the factors offered by the Private Landlord survey questionnaire did not wholly reflect sentiment at the bottom end of the market. It is important to unpick and explore these reasons, which reflect six interconnected themes: demography; taxation; the introduction of Universal Credit; the 'regulatory burden'; hassle; and risk.

Demography

For many landlords, the decision to sell was a reflection of age. The respondent interviewees included several 'baby boomer' landlords who had built their portfolios during the prime 'buy to let' years and were now beyond retirement age. The oldest landlords who were interviewed were a couple in their 80s. Many older landlords found it difficult to know what to do with their holdings. One older couple who had inherited a portfolio of over 30 shared rooms said that were likely to sell: *'The idea is to arrive at our wooden box with nothing left'*. They had found it remarkably difficult to square all the tax implications of handing on the portfolio to another family member and saw no option but to '*fritter it away*' [LL52]. Other landlords who were well into retirement were also selling property to release capital that they used to improve their quality of life. One smaller portfolio landlord who self-managed with his wife said:

> 'We want to wash our hands of the whole thing and take the money out. It'll mean that we won't have an income but we think we might have enough capital to carry on to, well, the rest of our lives. We're 72 now so, being realistic, we might only have another few years left' [LL64].

Another landlord, also in his seventies, had started to sell his properties around ten years ago and had reduced down from eight houses to one last block of flats. He had also used the cash to improve his quality of life. Older landlords who were selling regarded capital held in property as too illiquid for immediate use and were aiming to transfer the money to premium bonds or stocks and shares.

Financial reasons

Another reason for withdrawing from the market was change in the ability to offset mortgage costs against tax. One working investor landlord who had bought two properties to pass on to his children said that, as a consequence of the tax change, he was going to sell the properties when they became untenanted and simply gift the money instead [LL25]. One retired investor, again owning just two properties, claimed that the profitability of his holdings had fallen by around £12,000 a year due to the tax change. In his view, the change had '*not just whittled away at the profitability of the sector, it's actually taken huge chunks out of it'* [LL3]. He was intending to sell his properties. Other landlords also cited reductions in profitability where the principal response had been to start selling, in some cases to arrive at a smaller number of unmortgaged holdings. Many had explored their options and concluded that this was the preferable route since it released capital that was more readily available as 'buffer' finance for higher-cost repairs.

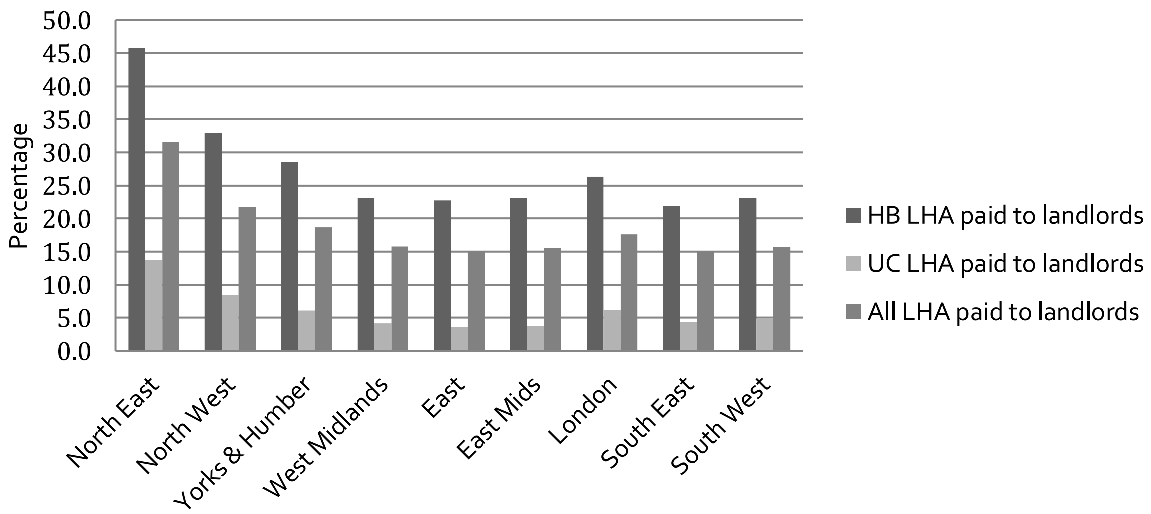
Other – generally younger – landlords felt that the tax change had halted their on-going expansion. Investment landlords in full-time employment were often in higher rate tax brackets and felt that further expansion in their existing holdings simply added to their tax burden. An investor couple who had purchased thirteen properties was now considering a programme of consolidation. Work placed them in a higher rate tax bracket: *'If it hadn't been for the tax, we'd have kept going and who knows, I may be even closer to retiring by now'* [LL5]. Others, in a lower tax bracket were, similarly, unwilling to expand because added rental income would tip them into the higher tax bracket. Many of the landlords who were 'hovering' felt that they had been forced into a static position and would otherwise have continued expanding.

Universal credit

Many of the landlords in the survey had extensive working experience of Local Housing Allowance and were generally dismayed by the introduction of Universal Credit. In one letting agent's view, the benefit '*was not working for anybody*' [Regional Letting Agent#1], and was the principal reason why many landlords were withdrawing from the HB market. The principal issue was the loss of direct payments under LHA, difficulties in securing APAs and subsequent problems with arrears.

DWP data indicate that the proportion of payments made directly to landlords has reduced substantially, from 29.4 per cent of all claims under LHA, to 6.8 per cent under UC. There was a notable level of regional difference. In the North East, 45.0 per cent of claimants under the previous LHA system had payments made directly to the landlord, and this had fallen to 13.7 per cent. However, the rate under UC was far higher than for other regions. The East and South West regions had the lowest rate of payment direct to landlord under UC (Figure 9.1).

Figure 9.1: Proportion of housing allowance claims made direct to landlords by region August 2019



Source: DWP Stat X Plore

Landlords had very firm views about direct payments under UC. There was appreciation of the principles underlying the regulations around payments, but the measure had removed tenants' ability to choose to have their landlord paid directly:

> 'You just get, 'Oh, it's for tenant budgeting skills', and all the rest of it. You're like, you just live in a different world, mate. This is not about it. You've taken a choice away. You're trying to treat tenants as consumers more, and therefore with rights, and you've taken a fundamental choice away that doesn't apply to any other industry anywhere, about how you get paid' [Local third sector SLA#2].

One landlord with 30 properties in Yorkshire and Humberside said that UC was entirely unsuitable for the tenant group he was dealing with:

> 'They've kept it. They've spent it on booze, fags, beer, TV, holiday, food, whatever. Then they move out because they get evicted, and then they move to the next house, and the council pays the LHA again. Well, that's theft. [...] I don't want to play by those rules' [LL29].

For landlords with just a part of their portfolio in the HB market, then the prospect of having to run two separate accounting systems was not palatable: one larger landlord in the South East region said that when UC tenants started work it became very complicated to administer. He cited the example of a tenant where almost all the rental payment came via a UC APA, but he had to recover a shortfall of £13 from the tenant: *'The admin just gets crazy [...] whereas if we've got a private tenant, let's say the rent is £1,000, the rent is £1,000. It's not complicated'* [LL44]. One landlord summarised his reason for exiting the HB market:

> 'I find it very hard to talk about Universal Credit without swearing. It's a ridiculous system in my opinion. It's ridiculous that they should pay the tenants and expect the tenants to pay me, and I can only force them to pay me once they get two months' arrears, which in effect is more than two months' arrears because you have to wait for the two months in arrears to tell Universal Credit. By the time Universal Credit get their act together, they'll be four or five months in arrears' [LL78].

Landlord dissatisfaction extended beyond problems with arrears, and often focused on the loss of a valued working relationship with the local authority and inability to forge similar links with a centralised UC system. Private landlords had, simply, been cut out of the loop. Landlords with difficult tenants were often dismayed that they had not been involved in a tenant's movement from LHA to UC. In one property business landlord's view, *'there's three people in this relationship: the tenant, the council or DWP, and me'*. He had a tenant who had been with him for a year under LHA and where payment was made directly to him because of the tenant's problems with alcohol. He was exasperated that her benefit had been changed without consulting him: '*Surely you want to pick up with me before you give an alcoholic £600?'* The tenancy ended:

> 'The tenant said to me, "Don't let them give me this money, [name], I don't want it". They didn't listen, and they gave it to her. She rang me up once and said, "I've just had my money in. You'd better come with me to the cashpoint, [name], I'm going to spend it". I said "Yes, I can't come today" and then she went to the cashpoint and spent it and ended up having her stomach pumped. I didn't get paid for three months, so she had to leave' [LL18].

Other landlords with vulnerable tenants had similar stories, where tenants had not understood that the UC payment included rent:

> 'They weren't reading what it was for. They didn't care, they were just getting - say they got the housing element of £340, oh, like Christmas, you went round, he was sloshed, loving life, obviously spent the whole lot' [LL72].

'Regulatory burden'

There have been several changes to regulation relating to the private rented sector, and landlords were asked their views on the right to rent, the tenant fees ban, electrical compliance, energy efficiency certification and licensing schemes. It is not the intention to explore each of these areas in detail. Rather, the requirement to comply with a swathe of new regulations added up to what landlords generally regarded as a heavier regulatory burden. This was not to say that landlords were unwilling to meet the statutory requirements: many regarded property safety as a priority. However, there was a sense in which the speed with which new regulations were being introduced was beginning to be unmanageable: landlords felt unable to plan future expenditure. For example, a change in deadlines relating to energy efficiency compliance created difficulties for smaller landlords who needed time to accrue the capital to make the required changes.

One small landlord, reflecting on the required upgrade to her houses to meet the energy performance rating, commented that it was the accumulation of requirements that she could not manage: *'It's everything else that keeps on coming to be honest'* [LL22]'; she was considering selling her two properties. Other landlords agreed: '*It's a cumulative drip, drip'* [LL16]; and *'All of it has an impact of one sort or another. It's plainly been accumulative as these things have come in one at a time, over a period of years, and yes, it all adds up'* [LL17].

In addition, there was general agreement with the view that penalties for non-compliance were disproportionate. More than one landlord mentioned the prospect of a fine for up to £30,000 and feared the cost of making a mistake inadvertently. One landlord mentioned problems with ensuring that tenants did not remove batteries from smoke alarms, which could leave him exposed in court: *'Who is at fault for that? I don't want to stand up in court and have to defend it, knowing that I've done everything right. It's my head on the block at the end of the day'* [LL31]. Another landlord said that he no longer asked the tenant for a deposit, '*because the potential penalty for getting that wrong is enormous'*. He preferred the potential loss of £400 or £500 against a fine of thousands, *'then you've got no-win, no-fee solicitors getting involved'* [LL27].

Hassle

For many landlords, issues relating to UC and to regulation were bound together to increase the level of 'hassle' attached to the job. Landlords often reflected on the time they spent managing their portfolios, but none attached a monetary cost. They were rather more likely to dwell on the circumstances which led to what they regarded as unnecessary calls on their time. One stakeholder characterised the landlord life:

> 'None of it's glamorous, I can assure you! It's hassle, and when the landlords are getting the sob stories, whether they're made up or genuine, because there's stuff that goes on in people's lives, then if you are treating that as a nine-to-five job, and that is encroaching on your personal time day in and day out, that's a drain. It is a drain, because you don't know how to process it, because it's not your profession. You're not in that world; it's just you're trying to have dinner with your family of a night and the phone's going again, and this is going. I mean, I have quite a lot of respect for the bigger landlords who are decent, by and large, because the amount of work they put in is...they made a decision in their 20s to go, "I'm going to graft for

> 20, 25 years. I'm going to graft here, I'm going to graft there, and I'm going to do this", but then they see the value of it dwindle, and the hassle of it increase four times' [Local third sector SLA#2].

In these circumstances, landlords were increasingly looking towards strategies that would reduce the likelihood of time-consuming problems. For example, one landlord reflected on the impact of right to rent regulations, which he regarded as '*just another unnecessary administrative burden'*, which carried '*a threat of, I don't know, a massive fine or imprisonment or some ridiculous thing like that, totally unnecessary'.* He had recently let a property and two Romanians had applied: *'They might have been ok as tenants, but I thought, "ah, it's just another load of blooming hassle"',* and he let to someone more local instead [LL58]. Older landlords in particular expressed dissatisfaction with the 24/7 'always on' quality of life associated with self-management. Stocks and shares or premium bonds offered lower rates of return but were generally problem-free.

Risk

Overall, respondents were of the view that the market had become a harsh environment for small landlords. Many landlords felt all the factors cited above in combination: the financial return on their investment was insufficient to compensate for increasing regulatory burden and heightened risk. As landlords aged, their appetite and energy for dealing with the hassles of letting diminished. One landlord said that UC was *'another nail in the coffin because the legislation's getting tighter, the mortgage interest rate change was a massive thing, the loss of Section 21 that's on its way. It's just, yes, we feel like we're being picked on and must be top of the list, someone doesn't like us sort of thing'* [LL72].

A moratorium on evictions signalled, for many landlords, an end to their ability to control their portfolios. There was widespread apprehension that new regulation was likely to introduce an end to s21 'no fault' evictions post-Covid, and many landlords expressed strong opinions: *'I don't remember the government paying for the house, so I don't understand how they are able to commandeer it to some extent and tell the private rented sector you can't evict anybody'* [LL1]. As a consequence, where landlords were staying in the market, there was evidence of the introduction of a more vigorous approach to tenant vetting which was – in itself – likely to exclude tenants in receipt of Universal Credit:

> 'Nobody's going to want to take a chance on somebody if they can't get them out within a reasonable period of time if things go wrong, so it means that landlords will just be very wary about taking on somebody who hasn't got…who can't tick all the boxes. So that person will end up being left out' [LL17].

Landlords were looking to the use of guarantors to mediate risk, particularly where tenants had low incomes and where the guarantor had sufficient assets to recompense the landlord for rent arrears.

New entrants

There was evidence that newer entrants to the market amongst the respondents were simply adapting to the new contexts: they were buying properties as a company and seeking to work with UC from the offset. One new landlord – in his 20s and operating in a North East Region HB-dominated market – said that he had been purchasing properties that were being sold by landlords who simply did not understand or want to work with the new system. Landlords exiting some parts of the market were creating opportunities for others.

However, there was general commentary across stakeholder interviews and landlords themselves that the nature of supply to the market was changing: in the view of one national letting agent, '*the individual buy-to-let landlords are not there like they were, and I know that the government is probably quite pleased about that*' [National Letting Agent #2]. Interviews with stakeholder respondents in the mortgage sector indicated that demand for purchase mortgages had dropped. Indeed, one major mortgage provider indicated that the ratio of remortgages to purchases in their business mix had shifted from 55/45 to 70/30 [Finance#3].

The PLS also demonstrates an overall reduction in the proportion of newer landlords. The 2010 PLS indicated that 22 per cent of landlords had been letting for three years or less; in 2018 the comparable figure was 9.5 per cent. Furthermore, newer entrants to the market were much less likely to agree that households in receipt of housing benefit were a group they routinely let to. Just over a quarter (27.6 per cent) of landlords letting for eleven years or more were letting to someone in receipt of housing benefit; for landlords who had been letting for three years or less, this figure was 8.9 per cent.

Table 9.4: Landlord experience and letting preferences

	Landlord letting experience		
	3 years or less	*4-10 years*	*11+ years*
The types of tenant I currently let to include… (%):			
People in receipt of Housing Benefit or Local Housing Allowance	8.9	18.1	27.6
People in receipt of Universal Credit	4.7	6.9	10.5
MHCLG: Private Landlord Survey 2018			

The market is seeing a reduction in newer entrants, and those newer entrants are much less likely to be letting to households receiving housing benefit.

Conclusion

This chapter has reviewed data around landlord letting intentions, and in particular their willingness to continue letting property and their willingness to let to households in receipt of housing benefit. It appears that landlords are withdrawing from the market, and age cohort effects are playing a substantial role. 'Baby boomer' landlords who built up their holdings during the prime 'buy to let' years are now beyond retirement age and many are simply selling down their holdings in lieu of more strategic decision-making around passing property on. Withdrawal from the market reflects broader dissatisfaction with an increasingly 'hostile environment' for private landlords: diminishing returns are not compensating for an increasing regulatory burden and higher level of risk.

There are multiple implications for supply to the bottom end of the market: landlords are withdrawing from the market generally, and where they are staying in the market they are reducing their HB lettings. Landlords were seeking to counter higher levels of risk by introducing vetting practices that were likely to exclude lower-income tenants. Expansion in the HB market often reflected the activity of business landlords in markets where housing benefit payments have inflated the yields and was geographically contained.

10. CONCLUSION

Introduction

This concluding chapter draws together the principal findings and themes of the research. In undertaking a detailed exploration of demand-side characteristics, market geography and landlords' financial decision making, management practices and portfolio intentions, the research contributes a fuller understanding of the bottom end of the PRS. The conclusion indicates supply-side features which are concerning, in relation to market configuration, supply and the use of risk-mitigation strategies. All these factors point towards a reduced supply of properties outside the HB-dominant markets and outside the mediated market.

Market reconfiguration

The PRS is the most complex sector of the housing market, and generalisation is rarely advisable. Narratives relating to housing benefit and the sector have focussed almost exclusively on affordability issues for tenants who need help with paying the rent. Very little attention has been given to way that the market has been shaped by housing, where due regard is given to both spatial difference and sectoral difference *within* the HB market. This research has contributed a better understanding of the dynamics of HB-dominated market, and to the way that the market is shifting – quite rapidly – in response to the fall-out of Welfare Reform and the introduction of Universal Credit.

The nature of HB-dominant markets

The research has concentrated attention at the lower end of the PRS, and has distinguished between households paying bottom third rents, with bottom third incomes, in poverty or receiving HB. These groups intersect but do not fully correlate. Much of the report has discussed practices relating to the HB market, which is distinguished by rents set in reference to the LHA and where landlord practices are aligned to tenants' benefit receipt. This market has strong degrees of spatial concentration.

A principal feature of these markets is the central role played by housing benefit in defining opportunities for landlords. The benefit itself is the key reason why landlords are in the HB market, and modes of HB delivery have framed a range of market responses. Landlords are attuned to sub-markets within the HB market, and there is particular interest in securing tenants whose benefit receipt is steady and uninterrupted, where local authority or charitable nomination arrangements augment the support available to more vulnerable tenants and/or where it is possible to organise an Alternative Payment Arrangement. Figure 9.1 indicated that the proportion of tenancies with APAs was much higher in the North East region, and this fact could be interpreted as an indicator of the expertise of HB landlords in this locality, where there is a long history of concentrated benefit dependence.

Business landlords within the study were particularly focussed on developing holdings in the HB market, and many were continuing to expand. Larger portfolios had sufficient rental income to be resilient to the micro-shocks of individual tenancies failing due to rent arrears or ASB: smaller landlords were more likely to exit the market following major tenancy failure. It is likely that, within HB markets, larger landlords will continue to grow and may well absorb the portfolios of exiting smaller portfolio and investment landlords as they are released back to the market.

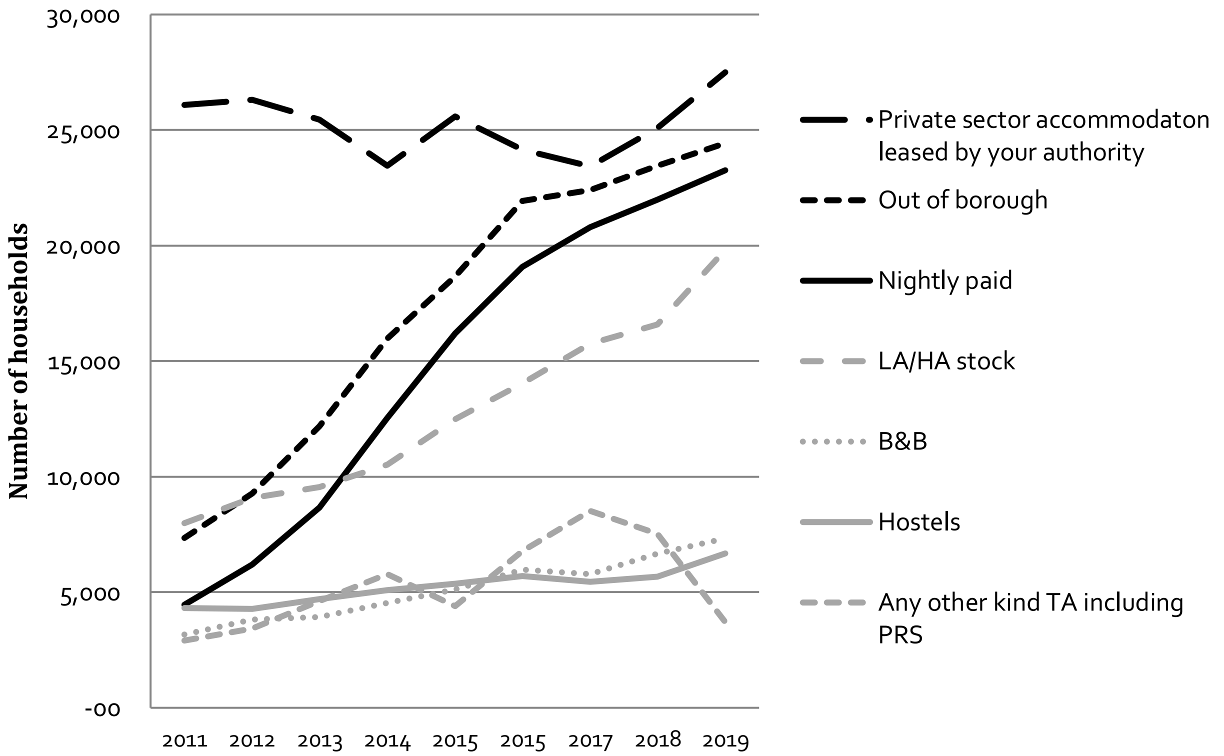
However, this market is geographically contained within the specific broad rental market area boundaries that define the LHA rates. Landlords were fully aware that their business models could not work outside the very particular configuration of relatively high LHA rates in a stagnant housing market. LHA is a species of rent control, which to a degree contains cost increases in the lower end of more buoyant markets. Conversely, in HB-dominant areas, LHA can set the rent at levels higher than would otherwise be achieved. Expansion is only taking place within these confines.

The mediated market

The research also explored how the mediated market is developing. Portfolio and investor landlords had variable experience of nomination agreements with local authorities, but some larger portfolio and business landlords were actively investing in strengthening relationships with nominating authorities and charities. From the landlord perspective, a good working relationship added considerable value where profit margins could be low since the agencies absorbed time-intensive elements of tenancy management including dealing with UC bureaucracy and offering active tenant support. These factors increased the likelihood of tenancy sustainability and reduced the incidence of tenancy turnover, which landlords regard as a major cost element. Growth in the mediated market is also taking place at other levels.

Outside the HB-dominant markets, the consequence of welfare reform and poor landlord response to UC has increased the incidence of tenancy breakdown and boosted demand for TA. Statutorily homeless statistics indicated that the absolute numbers of households in TA have increased, as has recourse to placements in the private sector (Chart 10.1). The Homelessness Reduction Act has also increased local authority recourse to the PRS to meet housing need, and in high-demand areas it is more often that case that landlords require incentives to let to HB recipients.

Chart 10.1: Number of households in TA, by type, at Q4 in stated year



Source: HMCLG Statutory Homeless Tables

Meeting demand in the mediated market is an activity that, in some locations of very high demand, requires procurement at scale which is more readily met through contractual arrangements with specialist providers who are 'volume managers'. Local authorities will be negotiating deals based on redeployment of various homelessness grants and TA funding to meet the overall scale of procurement demand irrespective of the route to the housing need. According to one national mediated market provider commented, with regard to their dealings with local authorities:

> 'You see more councils saying "We'd like what you do for temporary housing, but can we reconfigure it so it's discharge of duty?" That's where you, then, start playing games around the LHA level and subsidy levels. Whether it's money, Temporary Social Housing Grant that we can reuse or can we use exempt rules to say "This is a discharge of duty" and people can still afford it? It's more rearranging the deckchairs a little bit rather than changing the numbers' [Stakeholder Mediated Scheme #1].

This level of demand is – like the HB market – geographically concentrated in London boroughs and other areas where rental costs are high and the supply of social rented accommodation is low. The impact and economics of this part of the market requires a higher level of scrutiny than has been possible here, but there is evidence that a highly commercial mediated market is – again – skewing achievable rents upwards.

Reduced property supply

A second set of findings relate to a reduction in property supply to the sector overall, and to tenants in receipt of HB more particularly.

Dynamic cohort effects

The qualitative elements of this research have indicated the need to understand the dynamics of landlordism and the broader trajectories of portfolio development. Many respondent landlords were in their fifties or older. Larger portfolio and business landlords were able to reflect on rapid portfolio expansion in during a very particular period, when BTL mortgages were readily available and property prices were depressed in the years immediately following the Global Financial Crisis. This 'baby boom' cohort brought substantial property to the PRS in highly preferential circumstances with regard to tax and low interest rates. Landlords themselves often commented on the confluence of circumstances which made it remarkably easy to grow a portfolio very rapidly.

However, these landlords are now ageing. Many respondent landlords were in retirement and were winding down their holdings often through a very gradual release of properties back into the owner-occupied sector. Regulatory and taxation change has created a rather less benign context for letting, which will depress levels of new entry to the market. Diminished supply of property to the lower end of the market specifically will reflect the slow withdrawal of BTL 'bubble' properties across the sector more generally.

Non-strategic HB lettings

Table 5.3 indicates that the majority of HB lettings take place in markets that are not dominated by that kind of letting. This report has highlighted the contribution of 'non-HB' landlords to meeting need amongst lower-income tenants in areas where affordability and supply might be problematic. This kind of 'pepper-pot' supply reflects the fact that many landlords are quite happy to accept a tenant who is in some way reliant on housing benefit, depending on the circumstances. This toleration was often rooted in long-standing relationships between the landlord and the tenant which engendered a degree of trust. Landlords were generally unwilling to risk losing a good tenant whose circumstances changed but who could be trusted to make good on the rent over the medium and longer term.

The willingness to accept a lower-income tenant also reflected the fact that many small investor landlords amongst the respondents were setting rents that reflected the cost of meeting an interest-only mortgage payment, plus some additional contingency. They were not rent maximisers, did not need the rental income to augment their earned income and tended to use property as a location for 'parking' surplus capital. To that end, it was better to seek a tenant who wanted a long-term, settled home. However, for many of the smaller investment and portfolio landlords, the risks of letting had started to outweigh the achievable profits. Taxation changes, the increased regulatory burden and the prospect of an end to s21 eviction procedures had – in combination – persuaded many smaller landlords to pause any expansion in holdings and consider selling down. The exit of these smaller landlords from the market will reduce 'pepper pot' supply to lower-income households, particularly in areas with affordability issues.

Stepping back from HB lettings

One clear trend amongst the respondent landlords who were choosing to stay in the market was stepping back from letting to tenants in receipt of benefit, and in particular, Universal Credit. Amongst the respondents, some larger business landlords had quickly reconfigured their management practices to work with UC bureaucracy. Other landlords – particularly those with a long history of working with the previous system – regarded UC as too problematic. Landlords operating outside HB-dominant markets found it relatively straightforward to operationalize a preference for lower-income working tenants. This strategy reduces supply to HB-reliant households which – as Chapter 2 indicated – constitutes the more vulnerable sector of the lower-end market.

Risk mitigation

One final set of findings relates to landlord responses to risk. The PRS is regarded as part of the market that is intrinsically risky for tenants. Many landlords also regard letting property as a highly risky endeavour, and more so since the introduction of a raft of changes which have altered the regulatory framework. There were two principal elements: risks attached to regulatory infringements and to problem tenants.

None of the landlords who were interviewed disagreed with the need for property and management standards. However, it was felt that the pace of change made it difficult to plan where new requirements were introduced, and the penalties for infringement were high. To mitigate risk, landlords sometimes took steps to reduce the risk of inadvertent non-compliance. This included perhaps not charging a deposit, so that they would not be caught failing to comply with deposit protection regulations or using a letting agent who would take responsibility for ensuring that legal requirements were met.

A more pressing matter for all landlords was managing risks around problem tenants. These included tenants who entered into tenancy agreements with no intention of paying the rent; tenants who were incapable of managing their finances, and who fell into chronic arrears; tenant households that changed – the bad 'new boyfriend' was a staple in landlord horror stories – and where ASB and/or arrears started to occur; tenants who damaged property; and tenants who caused problems for neighbours. Almost all landlords had experienced one problem tenant, and many talked about problems in repossessing their property using s8 routes. Use of s21 was regarded a lifeline in these circumstances, and the prospect of losing that option had persuaded some landlords to begin selling down. Landlords who were intending to stay in the market were introducing a range of risk mitigation measures. These included:

- Not letting to tenants in receipt of HB, where receipt of the benefit was taken as a signal that arrears and problem behavior might well occur.

- Use of owner-occupied guarantors, and actively pursuing repayment from those guarantors where tenants defaulted.
- Use of rent insurance products, which in themselves might introduce higher premiums for lettings to tenants in receipt of benefit. Some landlords said that they routinely used on-line letting services where rent insurance was built into tenant referencing.
- Being prepared to pay a problem tenant to leave.

In addition, landlords were much less willing to give a marginal tenant 'the benefit of the doubt'. Covid restrictions had given landlords a strong indicator of the way in which permanent changes to possession procedures might play out: responses were overwhelmingly unfavourable.

Conclusion

This study has looked to achieve a more nuanced understanding of demand and supply-side characteristics of the bottom end of the PRS and identified sub-sectoral and spatial difference. It is possible to draw some conclusions about the stability of property supply to this part of the market, and which reflect the ways in which the sector is responding to policy interventions which have affected landlord finances, management practices and tenant choices. Housing benefit has created attractive opportunities for landlords in certain parts of the market which means that continued supply is likely to remain in HB-dominated markets and in the mediated market where premiums might be charged on top of HB payments: there is a 'HB+ market'. This part of the market is dominated by larger business and portfolio landlords, and – increasingly – by much larger investors operating at scale.

The research has also evidenced both a pause and a withdrawal from the market of smaller investor landlords and reduced holdings amongst some portfolio landlords operating outside the HB-dominant markets. There is a cohort effect, reflecting the aging of a generation of baby-boomer BTL investors. There is also a widespread understanding that the rental market has become less benign and innately riskier and stepping back from letting to lower-income tenants is a principal method for mitigating risk. Most landlords were of the view that new entrants to the market could make it 'stack up', if they bought the right property in the right place. However many more questioned whether – given what they regarded as a 'hostile environment' for landlords – it would be wise to take the risk.

Appendix 1: Respondent landlord characteristics

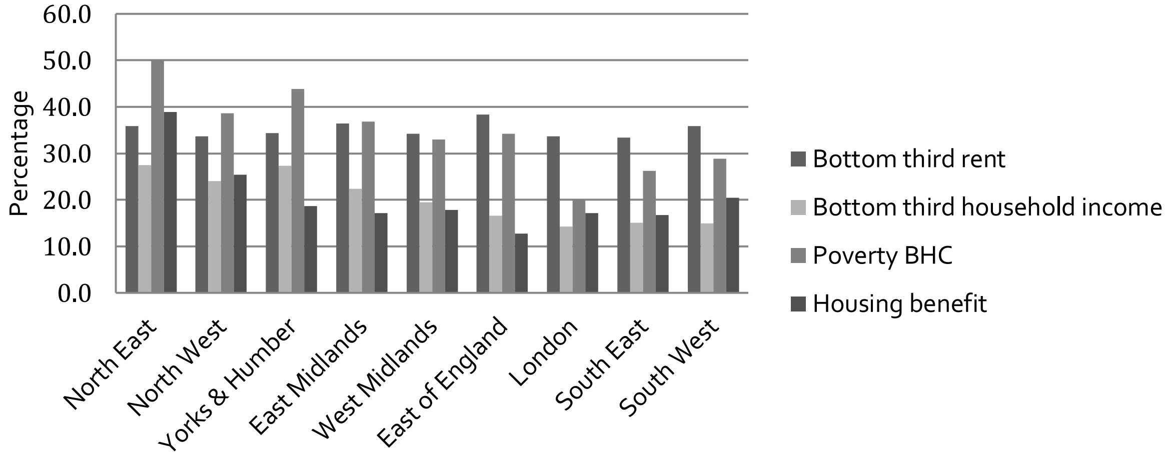
Table A1.1: Respondent landlord characteristics			
	Investment	*Portfolio*	*Business*
Landlord type	20	20	15
Demographics			
Male	12	14	10
Female	6	2	3
Couple	2	4	2
Age			
20s/30s	2	1	1
40s	2	3	4
50s	4	4	8
60s	5	7	2
70+	3	3	0
Not disclosed	4	2	0
Income mix			
Rental only	0	7	1
Rental and employment	7	2	2
Pension and rental	9	5	0
Rental and other business	2	5	12
Unclear	1	1	0

Table A1.2: Portfolio and management			
	Investment	*Portfolio*	*Business*
Properties held			
One property	1	0	0
2-4 properties	14	1	0
5-9 properties	3	9	2
10-24 properties	2	4	4
25-100 properties	0	5	8
100+ properties	0	0	1
Use of an agent			
Self-manage	6	6	7
Letting only	7	1	1
Letting and management	6	10	1
Depends on property	1	3	0
Landlord owns a letting agency	0	0	6

Table A1.3: Location of holdings and intent			
	Investment	*Portfolio*	*Business*
Reach of operation			
Local	13	12	6
Single region	5	5	6
Two or more regions	2	3	3
Principal holdings			
North East	1	2	2
North West	1	1	0
Yorkshire & Humberside	2	7	5
East Midlands	2	1	0
West Midlands	2	1	0
East	3	2	0
London	2	1	0
South East	2	1	2
South West	3	1	3
Spread across regions	2	3	3

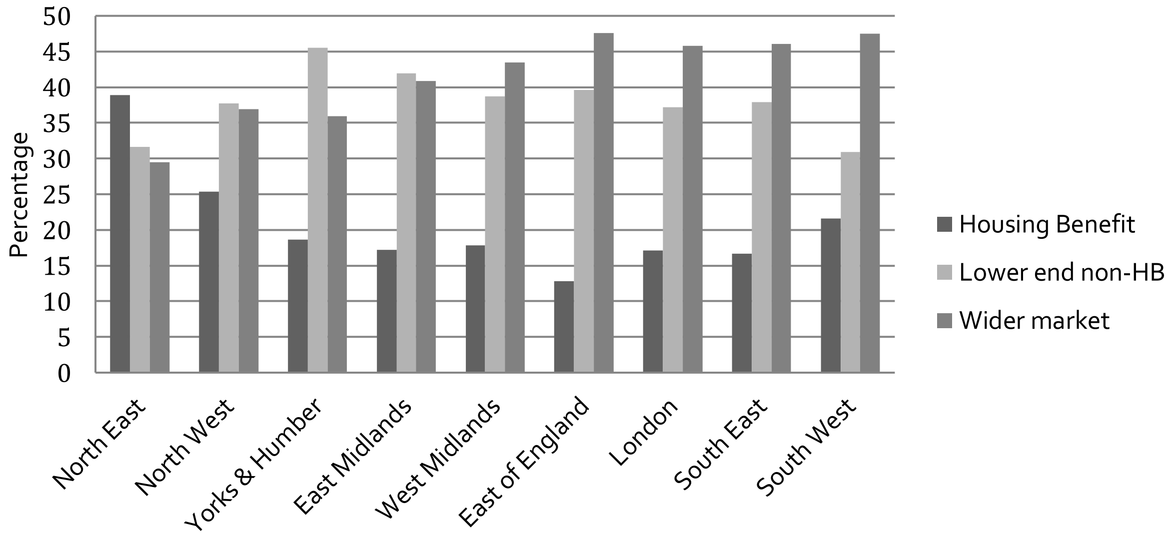
Appendix 2: Additional figures and tables

Chart A2.1: Separate definitions of the lower end of the PRS by region (%)



Source: Family Resources Survey 2017/18

Chart A2.2: Configuration of the lower end of the PRS, by region



Source: Family Resources Survey 2017/18 (weighted)

Table A2.1: All HB PRS tenant household employment status and region, 2017/18 (% of HB)										
	North East	*North West*	*Yorkshire & Humberside*	*West Midlands*	*East Midlands*	*East*	*London*	*South East*	*South West*	*All HB PRS*
Full-time employee	42.6	46.1	50.8	49.6	53.6	61.1	54.8	59.6	52.9	53.3
Part-time employee	12.1	12.4	11.6	11.2	12.1	7.6	8.0	10.0	10.3	10.2
Full-time self-employed	3.3	4.8	7.1	6.2	9.1	10.0	15.4	8.8	11.9	9.5
Part-time self-employed	1.5	3.8	0.4	2.1	2.7	1.5	3.3	3.7	3.5	2.8
Unemployed	4.3	2.7	5.4	2.5	1.5	1.6	1.9	1.2	2.7	2.4
Retired	11.6	8.8	11.7	7.5	7.3	9.7	2.1	4.8	9.2	7.0
Student	5.0	5.8	1.7	7.6	3.3	1.0	5.4	4.5	1.6	4.2
Looking after the family/home	2.3	3.1	3.2	2.1	2.7	0.3	3.0	1.9	0.8	2.2
Sick/disabled	9.30	9.10	4.10	5.20	4.20	4.90	3.30	3.00	4.60	4.90
Other	8.0	3.4	4.0	6.1	3.5	2.3	2.9	2.6	2.5	3.5
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Source: Family Resources Survey 2017/18										

Table A2.2: Type of housing benefit claims by region (%) (Aug 2019)							
	Passport						
	Income Support	*Pension Credit*	*Job Seekers Allowance*	*Employment Support Allowance*	*Other standard claims*	*Employed standard claims*	*Total*
North West	10.4	14.5	3.9	34.2	14.7	22.2	100.0
North East	14.8	12.2	6.5	32.0	14.3	20.3	100.0
Yorks & Humber	12.5	13.5	5.3	27.3	18.9	22.5	100.0
W. Midlands	10.6	16.6	4.5	24.6	19.5	27.2	100.0
E. Midlands	9.9	15.2	3.7	27.4	18.1	25.6	100.0
East	7.4	15.7	2.5	20.5	16.9	36.9	100.0
South West	5.6	18.9	2.0	27.1	18.5	27.9	100.0
London	4.5	12.6	2.7	13.6	14.1	52.6	100.0
South East	6.7	17.3	2.5	20.3	14.9	38.3	100.0
Total	8.3	14.7	3.5	23.7	17.6	32.2	100.0
Source: DWP Stat Xplore (NB: May not sum to 100 due to rounding)							

Tables A2.3 (a-d): Passported housing benefit claims: reasons, with highest and lowest ranking local authorities, Aug 2019 (%)

a) Employment Support Allowance			
Lowest	*%*	*Highest*	*%*
Cotswold	8.2	Hyndburn	44.7
Rushmoor	8.9	Barrow-in-Furness	43.4
Hounslow	9.4	Bolsover	43.1
Newham	9.5	Burnley	41.8
Basingstoke & Deane	10.0	St. Helens	41.4
Harrow	10.0	Liverpool	41.1
Barking & Dagenham	10.1	Halton	41.0
Redbridge	10.2	Chesterfield	40.7
Tower Hamlets	10.5	Blackburn with Darwen	40.4
Slough	10.7	Wirral	39.3

b) Pension credit			
Lowest	*%*	*Highest*	*%*
Telford & Wrekin	6.7	Rushmoor	54.5
Hackney	6.7	Craven	34.8
Barking & Dagenham	6.8	Richmond-shire	32.5
Milton Keynes	7.0	Rutland	32.4
Middlesbrough	7.4	Kensington & Chelsea	31.4
Tower Hamlets	7.4	Cotswold	31.4
Welwyn Hatfield	7.7	City of London	31.0
Slough	7.9	Ryedale	30.9
Enfield	8.1	Ashford	28.9
Nottingham	8.1	Eden	28.5

c) Income Support			
Lowest	*%*	*Highest*	*%*
Cotswold	1.0	Middlesbrough	19.0
Kensington & Chelsea	1.7	Rotherham	17.2
Cambridge	1.8	Knowsley	17.2
South Northamptonshire	1.9	Sunderland	16.9
Stratford-on-Avon	2.3	Ashfield	16.7
Uttlesford	2.4	County Durham	16.5
York	2.4	North East Lincolnshire	16.5
Richmond-shire	2.4	Doncaster	16.4
Winchester	2.7	Sheffield	15.9
Hackney	2.7	Sandwell	15.8

d) Job Seekers Allowance			
Lowest	*%*	*Highest*	*%*
South Somerset	0.3	City of London	20.7
Bracknell Forest	0.5	South Tyneside	11.0
Cherwell	0.5	Kingston upon Hull, City of	10.4
Sutton	0.6	Middlesbrough	9.4
Harrogate	0.6	Sunderland	8.5
South Oxfordshire	0.6	Nottingham	8.2
Somerset West & Taunton	0.6	Darlington	8.0
Stroud	0.6	Wolverhampton	7.9
Stratford-on-Avon	0.6	Northumberland	7.8
North Devon	0.7	Bolton	7.8

Source: DWP Stat_XPlore August 2019

Appendix 3: Quantitative landlord data

Table A3.1: Purchase status of rented properties		
	Number	*Percentage*
Owned outright	652	39.9
Being purchased with a mortgage	581	35.5
Owned fractionally	186	11.4
Purchased with a commercial loan	216	13.2
Total properties	1,635	100.0

n.=895 landlords
Source: BDRC Q1 2020

Table A3.2: Purchase status and landlord type (%)		
	All respondents	*'UC landlords'‡*
All property owned outright	38.2	25.0
All property being purchased with a mortgage	31.2	26.1
All property owned fractionally	*	3.3
All property being purchased with a commercial loan	*	0
Property is mixed in terms of purchase status	29.1	45.7
May not total 100 due to rounding		
	n=891	n=92

*Less than 1 per cent.
‡Landlords indicating: 'My tenants include people in receipt of Universal Credit and I have changed my management practices for those tenants (e.g. accept delayed payments, rent in arrears etc.)'
Source: BDRC Q1 2020