



## Labour's Policy Review

# Private Rented Housing

Providing stability and affordability  
for renters and families

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## Providing stability and affordability for renters and families

Labour's Policy Review is developing new thinking to create a housing market that works for all. Our first step has been to consider the role of the private rented sector and how we support the growing numbers of renters and families living in privately-rented accommodation.

Labour is determined that everyone should have a home at a price they can afford. A one nation housing policy means helping current and aspiring homeowners while also supporting renters. It also means that the majority who are responsible landlords are not undercut by the minority of rogues who damage the reputation of the entire sector.

Most people want to own their own home and Labour aims to help people to achieve their aspirations. However, Britain faces the biggest housing crisis in a generation and therefore many people will take longer to buy and will be renting for much longer periods than in the past. As a consequence, the private rented sector will continue to grow and play an important role in meeting housing need. But all too often, private renting is unaffordable, unstable and subject to poor conditions and bad management. That is why our first Policy Review paper on housing set out steps to tackle unscrupulous letting agents and to end rip-off charges. But more can and must be done.

Labour wants to see a sector based on long-termism and responsibility so that families can have the stability and security they deserve. That is why we have set out to identify and tackle the barriers that stand in the way of such a market developing.

The private rented sector allows a considerable amount of flexibility which some of the 8.5 million people who rent privately value. But nearly a third of private renting households are families with children, and almost half are aged over 35, and for many of them, the sector does not provide the stability that they need.

This way of operating is not only failing families, it is failing landlords. There is compelling evidence that landlords can make a better return through a model that encourages long-termism rather than the short-term market that currently operates.<sup>1</sup>

Labour believes we should take steps to give renters and families in particular private rented homes that are affordable and stable, providing the predictability and security they need to plan ahead. This kind of market will not just benefit renters but will benefit responsible landlords who invest for the long term and want to earn a decent return. Labour's Policy Review will continue to develop proposals to create a housing market that works for working people.

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<sup>1</sup>See [http://england.shelter.org.uk/\\_\\_data/assets/pdf\\_file/0004/569641/Jones\\_Lang\\_LaSalle\\_PRS\\_Shelter\\_report.pdf](http://england.shelter.org.uk/__data/assets/pdf_file/0004/569641/Jones_Lang_LaSalle_PRS_Shelter_report.pdf)

## Hilary Benn MP, Labour's Shadow Communities and Local Government Secretary:

"Labour has listened to the call for a housing market that meets the needs of people far better than the one we have now. Rather than insecurity, risk and uncertainty for families, the private rented sector must offer affordable and stable homes to those that want them. Longer-term tenancies and predictable rents are in the interests of both renters and landlords. That is why Labour will work with the sector to develop the housing market that families deserve."

## Jack Dromey MP, Labour's Shadow Housing Minister:

"Families need stability to plan where they send their kids to school and certainty to manage their household budgets. That's why Labour is committed to reforming the private rented sector so it works for Britain's families. With longer term tenancies and predictable rents, the private rented sector will offer the affordable and stable homes that renters need. Families will feel that their rented house is a home and it will help strengthen communities as people put down roots and get to know their neighbours. Labour's One Nation housing policy offers stability for families, certainty for landlords and strengthened communities."

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# A private rented market that isn't working for renters

## The rise of "generation rent"

The private rented sector is now a mainstream tenancy, making up 3.6 million households in England. Around 8.5 million people in England now rent privately and nearly a third of all private rented sector households are families with children.<sup>2</sup>

Many of the new generation of renters are not there through choice but because as a country we are simply not building enough homes. The gap between supply and need is ever widening and an increasing number of people are not able to buy a home or access social housing. The 2010/11 English Housing Survey suggests that around two thirds of all newly forming households enter the private rented sector.<sup>3</sup>

By 2025, if the economy remains weak, it has been predicted that 27 per cent of low to middle income families will be living in the private rented sector<sup>4</sup>. Many young people are losing hope of ever being able to buy a home - by 2020 one million young people could be locked out of home ownership.<sup>5</sup>

## Families in the private rented sector

Assumptions that those in the private rented sector are predominantly young professionals and students are misplaced. There are more private renters aged 35-44 than 16-24 and there are now 1.1 million families with children in the private rented sector<sup>6</sup>. The mix and number of households in the private rented sector mean that there is a need to re-assess whether the sector is fit for purpose and meets the needs of those within it.



**1.1 million  
families with  
children now  
rent privately**

Many landlords are responsible and seek to provide a decent home for renters while also trying to earn a decent return. Good landlords, after all, want to keep good, reliable tenants. But for too many renters private renting means short contracts and uncertainty over future rent levels, which are increasing rapidly in many parts of the country. Renters, particularly those with children, are likely to

<sup>2</sup> English Housing Survey: Headline Report 2010-11, 9 February 2012: <http://www.communities.gov.uk/publications/corporate/statistics/ehs201011headlinereport>

<sup>3</sup> A better deal - towards more stable private renting, Shelter, 2012 - [http://england.shelter.org.uk/professional\\_resources/policy\\_and\\_research/policy\\_library/policy\\_library\\_folder/report\\_a\\_better\\_deal\\_-\\_towards\\_more\\_stable\\_private\\_renting](http://england.shelter.org.uk/professional_resources/policy_and_research/policy_library/policy_library_folder/report_a_better_deal_-_towards_more_stable_private_renting)

<sup>4</sup> Housing in Transition, 2012, Shelter and the Resolution Foundation - [http://www.resolutionfoundation.org/media/media/downloads/Housing\\_in\\_Transition\\_Understanding\\_the\\_dynamics\\_of\\_tenure\\_change.pdf](http://www.resolutionfoundation.org/media/media/downloads/Housing_in_Transition_Understanding_the_dynamics_of_tenure_change.pdf)

<sup>5</sup> Housing Options and Solutions for Young People in 2020, Joseph Rowntree Foundation, 2012 - <http://www.jrf.org.uk/publications/housing-options-solutions-young-people>

<sup>6</sup> English Housing Survey 2010-2011, <http://www.communities.gov.uk/documents/statistics/xls/2084234.xls>

feel insecure if they know they could legally be forced to move within a matter of months. This uncertainty, combined with a minority of rogue landlords who prey on vulnerable renters, means the sector doesn't work for many of the millions of people who privately rent and its reputation is damaged.

### **A sector currently characterised by instability**

Three quarters of households in the private rented sector have either an assured or assured shorthold tenancy agreement with their landlord. The assured shorthold tenancy (AST) is the legal minimum which must be provided to renters, which gives an initial six-month period during which the landlord cannot evict the tenant except under limited circumstances but after this landlords can evict renters or raise the rent by any amount at two months' notice. In addition, some buy-to-let mortgages contain conditions which insist that tenancy lengths do not exceed one year, tying the hands of landlords.

There are clearly benefits, which some renters value, to the flexibility offered by this form of tenure. But with a greater number of families with children finding themselves either through choice or circumstance in the private rented sector there are real questions as to whether six months provides the certainty families need. Children want to know they won't be forced to move school and have their education disrupted. Parents don't want to have to move further away from their job and face a longer commute so they spend less time with their family. And both children and parents want the certainty that they won't be forced further from relatives and friends.

But Government figures show that more and more renters are moving. In 2009-10, 1.09 million households within the private rented sector had moved within the previous year. For 2010-11, that number had increased to 1.26 million, the biggest in decades.<sup>7</sup> Private renting families with children are eleven times more likely to have moved house in the last year than those with a mortgage.<sup>8</sup>

<sup>7</sup>English Housing Survey: Headline Report 2010-11, 9 February 2012: <http://www.communities.gov.uk/publications/corporate/statistics/ehs201011headlinereport>

<sup>8</sup>A better deal - towards more stable private renting, Shelter, 2012 - [http://england.shelter.org.uk/professional\\_resources/policy\\_and\\_research/policy\\_library/policy\\_library\\_folder/report\\_a\\_better\\_deal\\_-\\_towards\\_more\\_stable\\_private\\_renting](http://england.shelter.org.uk/professional_resources/policy_and_research/policy_library/policy_library_folder/report_a_better_deal_-_towards_more_stable_private_renting)

## Impacts of instability

**Instability means higher costs for renters:** This includes charges many have to pay when moving home in the private rented sector from fees to administration costs and deposits which can cost thousands of pounds. According to Government figures, renters who have been in their current privately rented home for less time pay considerably higher rents

<3 years	3 - 9 years	+9 years
<b>£168</b> per week	<b>£153</b> per week	<b>£110</b> per week

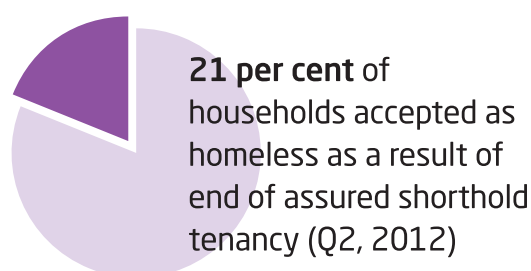
Rents are nearly 10 per cent higher for those who had been in their current accommodation for less than three years compared with those residing for three to nine years in their present home.<sup>9</sup>

**Instability unsettles families.** Surveys<sup>10</sup> have shown that simple things, like the inability to redecorate their home, mean private renters can often feel temporary and unsettled.

**Instability impacts educational attainment:** A DCLG report, *Moving On: Reconnecting Frequent Movers*<sup>11</sup>, shows a troubling gap in attainment between children from families who have faced the prospect of having to move home at short notice as opposed to those who have not.

**Instability reinforces poor standards:** A Citizens Advice Bureau report, in a survey of environmental health and tenancy officers, found that at some point, all private renters are put off seeking assistance with problems due to the fear of endangering their tenancy.<sup>12</sup>

**Instability and homelessness:** DCLG's Statutory Homelessness figures for the second quarter of 2012<sup>13</sup> show that for the first time amongst households accepted as homeless, the end of an assured shorthold tenancy is the most common reason cited for the loss of their last settled home.



<sup>9</sup> Ibid

<sup>10</sup> YouGov online survey for Shelter, December 2011

<sup>11</sup> DCLG report, *Moving On: Reconnecting Frequent Movers*: <http://www.communities.gov.uk/documents/housing/pdf/151870.pdf>

<sup>12</sup> Citizens Advice Bureau, 2007. *The tenant's dilemma*

<sup>13</sup> DCLG 2012. Statutory Homelessness Live Table 774

**Instability impacts on communities:** In wider terms, communities which are increasingly in flux due to more people moving are weaker, with less cohesion and involvement. Personal investment in their home and area is reduced. In some cases, people who have lived in a street for years find their community changed around them.

### **Increasingly unaffordable rents and little financial certainty**

Analysis by Shelter has shown that in over half (55 per cent) of local authority areas in England the median private rent for a two bedroom home which costs more than 35 per cent of median take home pay in that area, a level considered likely to be unaffordable in previous studies. Mean and median rents have remained at this unaffordable level for more than three years.<sup>14</sup>

And rents continue to rise - private renters paid on average 3 per cent more each week in 2010/2011 than in the previous year.<sup>15</sup> And most significantly they're rising compared to wages - in 2002/03 rent made up 20.9 per cent of weekly earnings but it now makes up 27.1 per cent of weekly earnings.<sup>16</sup>

As well as struggling to pay increasingly unaffordable rents, renters are also unable to plan financially. As a result of the most common form of tenancy, the "Assured Shorthold Tenancy", landlords are able to raise the rent by an unlimited amount at the end of the six month period. In fact, more than half (54 per cent) of the landlords responding to a survey by Shelter increased their rent in 2011 by an average of 5.4 per cent. In addition, in the last year, a third of landlords increasing the rent did so when renewing a fixed term contract to existing renters. This means that instead of being able to plan ahead, renters can be hit by rent increases at any time.

### **Rising rents combined with squeezed wages mean it is taking people longer and longer to save for a deposit**

In 2010, it would have taken the average low-to-middle income household 31 years to accumulate a deposit for the average first home if they saved 5 percent of their income each year and had no access to the 'bank of Mum and Dad'.<sup>17</sup> We are beginning to see a situation where older generation own houses and have paid off mortgages whilst the next generation can't get on the ladder.

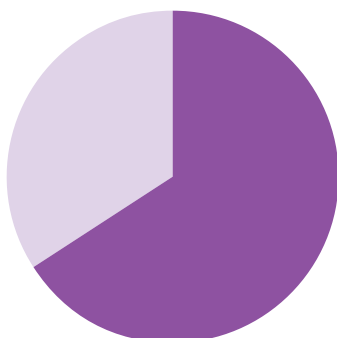
<sup>14</sup> Shelter, Private Rent Watch Report, [http://england.shelter.org.uk/professional\\_resources/policy\\_and\\_research/policy\\_library/policy\\_library\\_folder/private\\_rent\\_watch\\_report\\_1\\_-\\_analysis\\_of\\_local\\_rent\\_levels\\_and\\_affordability](http://england.shelter.org.uk/professional_resources/policy_and_research/policy_library/policy_library_folder/private_rent_watch_report_1_-_analysis_of_local_rent_levels_and_affordability)

<sup>15</sup> English Housing Survey: Headline Report 2010-11, 9 February 2012: <http://www.communities.gov.uk/publications/corporate/statistics/ehs201011headlinereport>

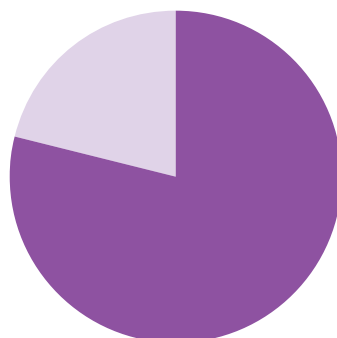
<sup>16</sup> Analysis provided by the House of Commons Library to Jack Dromey MP, 21/03/2010.

<sup>17</sup> Resolution Foundation: Making a Rented House a Home: Housing solutions for 'generation rent'[http://www.resolutionfoundation.org/media/media/downloads/Housing\\_Report\\_Final.pdf](http://www.resolutionfoundation.org/media/media/downloads/Housing_Report_Final.pdf)

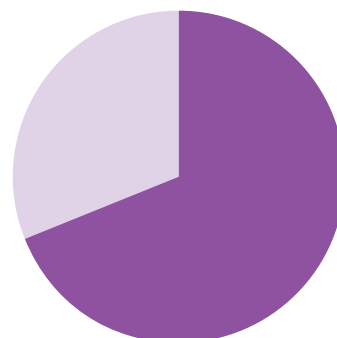
## The evidence shows that renters want change



**66%** of renters would like the option of longer term tenancies.<sup>18</sup>



**79%** of private renters want greater certainty on their rent.<sup>19</sup>



**69%** of private renters would like to be able to decorate their homes without worrying about what their landlords would do.<sup>20</sup>

## An ineffective business model

Evidence suggests that landlords' returns and business models are enhanced by longer tenancy terms and indexing.<sup>21</sup> Modelling shows that landlord returns would have been higher if they had adopted longer tenancies with indexed rents.<sup>22</sup> Rental indexing would enhance landlords' returns, by keeping rents in line with inflation, and the longer tenures would reduce void periods and cut out letting agents' fees.

There is nothing in law to stop landlords from offering longer tenancies. In most sectors, secure, indexed income streams would be actively preferred to more unpredictable ones. However, few private landlords offer longer tenancies. Reasons most often cited include the established practices among letting agents who encourage high turnover to accrue fees and because of landlord perceptions that removing problematic renters would be more difficult under longer tenancies.

Buy-to-let mortgage conditions also often insist that tenancy lengths do not exceed one year. As the Shelter report highlights, this may be related to the established practice that Vacant Possession Value (VPV) for single properties is higher than that of a similar property with an existing tenant. However, it is clear

<sup>18</sup>YouGov online survey for Shelter, December 2011

<sup>19</sup>YouGov online survey for Shelter, December 2011

<sup>20</sup>YouGov online survey for Shelter, December 2011

<sup>21</sup>[http://england.shelter.org.uk/\\_\\_data/assets/pdf\\_file/0004/569641/Jones\\_Lang\\_LaSalle\\_PRS\\_Shelter\\_report.pdf](http://england.shelter.org.uk/__data/assets/pdf_file/0004/569641/Jones_Lang_LaSalle_PRS_Shelter_report.pdf)

<sup>22</sup>ibid



that more generally landlords' business models could actually benefit from longer tenancies and the mortgage market currently doesn't reflect that.

Longer-term tenancies not only offer landlords a way of enhancing returns, they do so within a framework that allows renters to anticipate maximum increases and plan ahead financially. Crucially, this model would also remove actual and perceived instability for renters bringing particular benefits to families with children. And the renters would be more likely to improve the home in which they live if they had a longer term stake in it.

### Case Studies: A market that doesn't work for renters

**Karen and Darren** have lived in private rented accommodation with their four children for the last six years. They moved rental properties in summer 2011 but their landlord put the house on the market only a few months later, leaving them unsure how long they would be able to stay. They are very concerned about the upheaval of having to move their children again and the impact on their schooling, as well as the challenge of finding a property suitable for a large family at a price that they can afford. The delay in getting the deposit back on their previous home because £75 was being disputed by the landlord meant they had to take out a loan with a doorstep lender to cover the cost of the new deposit.

(Life On a Low Income, Resolution Foundation, April 2012)

**Jasmine Smith** is just nine years old but she has already moved schools three times because her family has been forced to live in insecure rented accommodation. The Smith family, parents Paul and Joanna, and their daughters Jasmine and Enya, spent four years living in short-term rented accommodation. Each time a tenancy ended and the landlord wanted the property back, Jasmine had to switch schools. Jasmine's father, an IT engineer, says the frequent changes have affected her more than her younger sister, who was at nursery during the moves: "Jasmine is traumatised. We're settled now and she's got a group of friends, but she is terrified of losing them."

(Families forced to rent whose children pay the price, The Observer, Jan 2012)<sup>23</sup>

<sup>23</sup> <http://www.guardian.co.uk/money/2012/jan/21/families-forced-to-rent>

## Calls for reform to private renting

### **Nick Pearce, Director of Institute for Public Policy Research:**

"As the demand for new homes exceeds the supply of what the country is building, more people, including rising numbers of young families, are being forced into the private rented sector where rents are rising and tenure is often insecure."

### **David Montague, Chief Executive of L and Q Housing Association:**

"At L&Q we believe housing associations have something unique to offer the market rented sector. We support any initiative which provides longer term tenancies, affordability and predictability in a way which is viable for the landlord and maintains the confidence of our investors. Only then can tenants in the market rented sector enjoy greater security and plan their household budgets. This is particularly important for the million plus families and rising in the market rented sector"

### **Campbell Robb, Chief Executive of Shelter:**

"With a generation priced out of home ownership, renting is the only choice for growing numbers of people. But with the possibility of eviction with just two months' notice, and constant worries about when the next rent rise will hit, the current rental market isn't giving people - particularly families - the stability they need to put down roots. Turning rented houses into homes should be a priority for everyone who cares about the wellbeing of families in this country, and the Government must now show the political will to make renting better for millions of people desperate for a stable home they can rely on."

(September 2012 - [http://england.shelter.org.uk/news/september\\_2012/Shelter\\_calls\\_for\\_stable\\_rentalcontracts](http://england.shelter.org.uk/news/september_2012/Shelter_calls_for_stable_rentalcontracts))

### **Andrew Baddeley-Chappell, Head of Specialist Lending & Divisional Policy & Governance, Nationwide Building Society:**

"The Buy-to-Let market has seen steady growth. This is important if the market is to meet the needs of the growing numbers who are choosing to rent. We would like to see increasingly high levels of customer satisfaction in the private rented sector. Regulation has a part to play in this and we would support well thought-out, proportionate regulatory changes that deliver these higher standards and so actively encourage investment into the market."

## A private rented sector that works for all

The private rented sector isn't working for working people and Labour is looking at how we could do things differently and change the way the market operates. That means removing the barriers that stand in the way of longer tenancies and incentivising landlords to offer families greater stability if they want it.

We need real change in the housing market so that private renters can, where they want to, gain access to longer tenancies and obtain greater financial certainty. When renters and landlords enter into these longer tenancies, rent could be indexed for the duration of that tenancy - we will consider the most appropriate type of indexation to allow the market to operate as freely as possible, while giving certainty over future rent levels for renters and landlords.

We will consult on a range of steps that could be taken to create a market that better meets the needs of people who work hard and do the right thing. The options suggested by others range from a voluntary, incentive based system to an approach that grants renters greater rights in law. A voluntary approach would encourage renters and landlords, at the start of a new tenancy or at the end of an existing tenancy, to ask for or offer a three to five year tenancy and indexed rent increase, if they wish. Shelter have proposed just such a scheme, and we will explore how best to encourage this to see if in the first instance it can bring about the changes needed, but we would welcome views.

If, however, incentives alone do not work, then an alternative would be to explore giving renters and families a right to longer-term tenancies and predictable rents. One approach would be to give local authorities the power to implement this, given that housing markets vary considerably across the country.

Not only is a market that offers greater stability for families in the interest of renters; it is in the interest of landlords. While it may be established practice to offer short-tenancies, there is compelling evidence that demonstrates that landlords benefit financially from longer-term tenancies.<sup>24</sup> That is why Labour will work with the mortgage industry to ensure, in future, buy-to-let mortgages are not structured in such a way that they prevent landlords from offering longer tenancies.

While the provision of longer-term tenancies and financial certainty for renters has demonstrable benefits for landlords, Labour wants to ensure that the many responsible landlords who do the right thing are not disadvantaged. That is why Labour will work with the sector to develop a range of possible incentives that will form part of a "something for something" deal for landlords.

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<sup>24</sup> [http://england.shelter.org.uk/\\_\\_data/assets/pdf\\_file/0004/569641/Jones\\_Lang\\_LaSalle\\_PRS\\_Shelter\\_report.pdf](http://england.shelter.org.uk/__data/assets/pdf_file/0004/569641/Jones_Lang_LaSalle_PRS_Shelter_report.pdf)

We will look at a range of potential measures, such as supply of renters from local housing registers to reduce the risk of voids, direct payment of housing benefit to private sector landlords and housing associations who provide longer tenancies and predictable rents, and an improved legal process for evicting renters who fail to pay rent and commit anti-social behaviour, including damage to the property. We will work with all stakeholders to assess how these potential measures, such as direct payment, might be best linked to the provision of longer tenancies and predictable rents where tenants consent, including the mechanisms for administration and delivery. We will also assess the circumstances through which landlords who have leased on longer tenancies might regain possession, such as a right to end the tenancy if they sell the property. We will reflect on how proposals like direct payments can work smoothly in a world where Housing Benefit is a part of Universal Credit.

In the past old-style rent controls, where initial rents and subsequent increases were tightly controlled, meant that many landlords were unable to make a return. Labour doesn't want to see any return to controls that make renting unviable for landlords and also greatly impact tenants, but we will learn lessons from abroad where a variety of regimes are in place that offer longer term tenancies and greater certainty on rents for both landlords and tenants. Labour will also consider whether there are lessons from abroad where tax incentives are in place to support landlords, such as depreciation allowances which allow investors to offset the costs of repairs and where rental losses can be offset against other types of income for tax purposes. This could include making any current benefits of the tax system contingent on landlords offering longer term stable tenancies. Tax incentives for landlords in the private rented market are commonplace in many other developed countries across the world, including Australia, Denmark, Finland, France, Germany Netherlands, Norway, Spain, Switzerland and the USA.

In our final Policy Review paper on the private rented sector we will turn our focus on how to drive up standards. In a sector where billions of pounds of taxpayers' money is spent every year through housing benefit, it cannot be right that some tenants are plagued by rogue and slum landlords. We will address how best to drive out the rogues and also how to drive standards up across a sector where 37 per cent of homes are non-decent.

## Case studies: learning from experience

In other developed countries, private sector tenants have greater certainty in their home but also retain flexibility if they want to move. In many of these countries, the private rented sector is larger and there is a greater amount of institutional investment. For example, in Germany, France and Spain, rents are determined by the market at the outset; renters have longer term contracts and, as long as renters are in these contracts, rent can only be increased by an inflationary index.

**In Germany:** Leases usually have no end point and landlords can only evict if there has been a serious breach of the contract. To reclaim the property for any other reason they would need to prove a 'legitimate interest', for example they would have to provide credible proof that they or a close family member wanted to move in. In Germany a landlord cannot increase the rent by more than 20 percent in a three-year period and renters have a high level of security. Where properties are sold, sitting renters retain their protection. Most private rented properties in Germany are owned by small landlords and they are charged a lower rate of tax on rental income. The German private rental sector comprises almost 50 percent of all housing stock, rising to 90 per cent in Berlin.

**In France:** In France an overwhelming 95.5 per cent of landlords are individuals or couples. French law has established the principle of a 3-year written lease between parties - 6 years if the tenant is an institution. An individual landlord cannot enter into a lease for a period of less than 3 years unless there are specific grounds justifying it. It also controls the grounds, on which a landlord can give notice to the tenant. There are no restrictions on the rent for a newly-let property or for a new tenant on an existing property. During the tenancy and for renewed leases, the rent increases cannot exceed the increase in the 'reference rent index'. However, when a lease is renewed, the landlord has the right to increase the rent if it is far below the levels for comparable units in the area. Both depreciation and the setting of rental losses against other income (often called 'negative gearing') are allowable in France albeit subject to some limits.