

# **An Assessment of the Future Prospects of the Private Rented Sector in Solihull**

**July 2010**

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## **1. Purpose**

1.1 The purpose of this study is to assess the future prospects of the private rented sector in Solihull.

1.2 The Housing sub-group of the Solihull Partnership Prosperous Strategic Group have identified this as an important issue because,

1. A healthy private rented sector has an important role in creating a successful housing market in Solihull
2. Increasing use is being made of the private rented sector to help meet housing needs through particular initiatives by Solihull Community Housing and the Solihull Care Trust
3. There is now an increasing national policy focus on the private rented sector. This is to be welcomed as the sector has been somewhat ignored with the focus of successive governments on
  - increasing owner-occupation
  - providing a larger quantity of affordable housing

The role that the private rented sector can play, however, has been largely overlooked. This situation is now starting to change and with the reductions in capital funding to support the delivery of affordable housing, the policy spotlight is more firmly on what the private rented sector can offer over the medium to long term.

## **2. Methodology**

2.1 This study has taken information from the following sources,

- Interviews with landlords
- Interviews with Lettings Agents, including members of the National Approved Lettings Scheme (NALS)
- Interview with a representative of the National Landlords Association (NLA)
- Property and rental prices from established sources (Land Registry and Local Housing Allowance rates) and advertisements in local Solihull newspapers
- Reports commissioned or produced by government (Communities and Local Government, HM Treasury, Homes and Communities Agency), West Midlands Leaders Board, Chartered Institute of Housing, Citizens Advice Bureau and others on the private rented sector

2.2 A meeting was held with people having an involvement in the private rented sector to discuss the final draft of the report. Attendees at the meeting were representatives of Solihull Council (Cabinet Member, Enforcement, Income and Awards and Housing Strategy), a lettings agent, National

Landlords Association, North Solihull Regeneration Partnership and Solihull Community Housing.

2.3 This has helped form a view on the future prospects of the sector in Solihull and resulted in the identification of a number of policy considerations, discussed in section 8 below.

2.4 It is intended to update this report in the light of changes in the external environment and the development of initiatives by the Council and Solihull Community Housing.

### **3. National and Regional Context**

#### **3.1 National**

3.1.1 The private rented sector was the dominant tenure in 1900 but experienced a sharp decline throughout most of the twentieth century with home ownership and social renting growing strongly.

3.1.2 The 1988 Housing Act completed the deregulation of the private rented sector and helped create the conditions for significant growth.

3.1.3 In the 1990's the private rental market began to increase, encouraged by rising property prices and low interest rates. The introduction of buy-to-let mortgage products in 1996 saw the sector mushrooming in size with the number of buy-to-let mortgages rising from almost none to 991,000 (National Housing and Planning Advice Unit, quoted in Smith Institute 2008; HM Treasury 2010).

3.1.4 Owner occupation is the most common housing tenure in England. In 2007 there were 14.7 million owner-occupier households, 3.8 million social renting and 2.7 million privately renting.

3.1.5 Against a rising housing stock the private rented sector increased from 10% of households in England in 1993/4 to 12% in 2006 and to 13% in 2007 (CLG Housing and Planning Key Facts). By contrast, the proportion renting from the social sector and owner occupation has remained relatively stable.

3.1.6 The Centre for Cities argues that demand for rented homes is high and likely to remain so until at least 2021 (Smith Institute, 2008). A recent study by the Building and Social Housing Foundation concludes there will be a big increase in private sector renting with one in five households becoming private renters in the next 10 years. The Foundation also says that the private rented sector could overtake the social rented sector in size by 2013.

3.1.7 Projections for household growth, together with the difficulty that newly (or reforming) households will have in accessing home ownership and social housing, mean that the basic supply and demand 'drivers' support the argument for continued growth of the private rented sector. Although the position on mortgage availability and the level of deposits required has started

to improve following the sharp economic downturn, market confidence and the overhang of high levels of personal debt will make home ownership a less attractive and difficult tenure to access for many.

3.1.8 Renting by contrast has become more attractive. In 2007 rents were around 24% to 40% lower than mortgage payments for the same property. Affordability has remained relatively constant, with average private rents having risen roughly in line with average earnings during the period 1999 to 2007, while house prices more than doubled over that period with a similar trend in mortgage payments (HM Treasury 2010).

3.1.9 At a national level, a number of key private rented sector characteristics have been identified,

- It is a very diverse sector in terms of tenant profile and income (the Rugg Review identified 10 private rented 'sub-markets', such as 'students', young professionals', 'high income', 'low income', 'tied to employment', 'immigrants and asylum seekers')
- The sector is dominated by small landlords. Over half of all landlords own fewer than five properties and only 3% of landlords own over 250. Just under three quarters of all landlords are private individuals or couples rather than companies. A 2009 Association of Residential Lettings Agents (ARLA) survey supported this finding that 82% of landlords held between 1 – 5 properties and 92% held between 1 and 10
- Tenant satisfaction levels with the sector are high and – in the context of six month fixed term assured shorthold agreements - tenancies last longer than might be expected
- Landlords have a long term commitment with over half expecting to stay in the sector for at least the next ten years

3.1.10 In recent years the severe shortages of social rented housing has seen a growing pressure on the private rented sector to meet a series of more explicitly "public" housing needs, and at the lower end it now faces competing claims from across the public sector. These include:

- Local authorities are increasingly encouraging and assisting households into the private rented sector, through tools such as rent deposit schemes, as part of their wider homelessness prevention agenda. The CLG paper 'Settled Housing Solutions in the Private Rented Sector' identifies existing good practice in helping people who need accommodation to access and sustain a settled home in the private rented sector. It is aimed at local authorities wishing to improve access to accommodation in this sector and offers practical advice and positive examples from authorities and their partners who are actively engaging with private landlords
- Properties leased by local authorities to provide temporary accommodation for homeless households – over half of temporary accommodation, housing nearly 42,000 households, are leased

through such private-sector leasing schemes, and an additional 4,000 households are placed directly with private landlords

- Properties leased to provide accommodation for asylum seekers, again through private sector leasing arrangements

3.1.11 The role of the letting agent is an important part of the private rental market. However a national report by the Citizens Advice Bureaux showed that renting through a letting agent can be risky for tenants. Many receive an unprofessional and unresponsive service, live on dangerous conditions and can lose significant amounts of money if the agent goes out of business. The report also highlights the tendency of many agents to impose additional charges on top of the rent and tenancy deposit.

3.1.12 An important theme in recent thinking about the private rented sector is ideas for its reform. The private rented sector is a multi-million-pound industry that profoundly affects the lives of millions of consumers, but it has no regulator, no ombudsman and no redress scheme.

3.1.13 In the light of this, CLG commissioned a review of private rented sector (Rugg Review). Key proposals arising from this were,

- Create a national register of landlords and their properties. Landlords would have to be on this to let properties. Where there is persistent complaints against landlords they could be taken off the register and banned from letting properties
- Mandatory regulation of lettings and management agents, to improve standards of properties, management and consumer protection
- More notice of possession proceedings for tenants whose landlords have defaulted on their mortgage
- Local authorities to set up 'local lettings agencies' to secure private rented tenancies for low income households
- Creating a private rented housing investment fund to attract large scale, long term investment from private investors. The HCA launched its Private Rental Sector Initiative in May 2009

3.1.14 In February 2010, CLG reported on its next steps following the Rugg Review and consultation responses. The previous Labour administration gave its support for measures to strengthen customer protections including,

- moves to professionalise the private rental housing market,
- introduction of a 'light touch' national register
- full independent regulation of private sector letting and managing agents
- improved complaints and redress procedures for tenants, including written tenancy agreements
- greater local authority support for good landlords through 'local lettings agencies'
- developing a basic accreditation scheme

3.1.15 However the change of government in May 2010 has seen a change of approach with the Housing Minister announcing on 10 June 2010 that plans to introduce new regulations on private landlords will be scrapped.

### 3.2 Rate of Return

3.2.1 An important issue in considering the relative attractiveness for individuals or companies to invest/divest in the private rented sector is the rate of return.

3.2.2 Appendix A shows 'crude' rates of return across a range of local markets and types of property and uses Land Registry data and advertised rental rates. The analysis assumes a landlord can purchase a property without borrowing and does not factor in an allowance for bad debts and the time a property might be empty. Rates of return are therefore likely to be considerably lower in practice.

3.2.3 Although different approaches to calculating the rate of return are used, available evidence suggests that a typical rate is between 3.5% and 5.5%.

3.2.4 The Association of Residential Lettings Agents (ARLA) report that the average weighted rental return on a rented house has fallen from 5.4% to 5.1% since December 2003 and the average on a rented flat has fallen from 5.6% to 5.4%. ARLA report that the net annual rental yields, after accounting for void periods, averaged 4.86% across the country.

3.2.5 In their study of rents and rates of return in the housing association and private sectors between 1998/99 and 2007/08, the Cambridge Centre for Housing and Planning Research indicated a private sector rate of 4.73% in West Midlands (Birmingham 4.93%) compared to 5.15% for England (the highest rate was in the North East at 5.33% and the lowest in the South West at 4.04%). This compared to a housing association sector rate of 2.96%. This study defined rate of return as the annual average rent as a percentage of lower quartile house price for the area.

3.2.6 The Investment Property Databank has assessed net income returns at a lower level of between 3.3 and 3.6%. This is below the level of commercial net returns and below the minimum level that investors have indicated they would expect to receive for an investment to be an attractive proposition - around 6-7%.

3.2.7 With rental yields varying at about 3.5-5% on cash purchases, and negative to very low return applying in some areas, landlords are often dependent upon the prospect of capital growth (ARLA 2007, quoted in Smith Institute).

3.2.8 Consultation with local landlords (section 6) indicated that most did not work on a set rate of return. Generally, landlords took a view on the prospects that a property had for long term capital growth. On a practical

level, landlords looked closely at the purchase price of a property and the level of discount that would be required to make a purchase financially attractive to them. In the search for discounted value properties, landlords closely scrutinise auction lists and mortgage company 'debtors lists' which is receivable as a weekly email.

### 3.3 Institutional investment

3.3.1 Another significant factor in considering the future of the private rented sector is the low level of institutional (e.g. pension and insurance funds) investment in the sector. It is significant to note that the United Kingdom has by far the lowest level of institutional investment in Europe in private rented housing. (Mark Long, Invista quoted in Smith Institute, 2008). Certainly other European countries have had incentives to encourage institutional investment in private renting (HM Treasury 2010).

3.3.2 There are a number of reasons for the apparent ambivalence of UK institutions towards residential investment. Historical experience of over-regulation, 'reputational risk' and, until fairly recently, a general trend in asset allocation away from property are all key factors in determining where institutional portfolios are today.

3.3.3 This trend is now beginning to change, with institutional investment in residential property having gradually risen over the last decade (Mark Long, Invista, quoted in Smith 2008)

3.3.4 Commentators have put forward ideas that government should consider how investment in the sector can be incentivised,

- It has been argued by the British Property Federation that one of the biggest barriers to increasing the supply of new homes is the onerous burden of social housing and section 106 costs. A key issue here is that the private rented sector is not differentiated from the owner-occupied sector when considering planning gain or the provision of social housing. The introduction of a separate 'use class' whereby a local authority could give permission only for homes rented for perhaps 15 years before they could be sold has been put forward as an idea that could encourage the growth of private renting by 'build to let'.

This general idea has been seen recently in Birmingham where the city council considered an application in the Handsworth Wood area. Under the proposed section 106 planning gain deal, the developer would retain ownership of all the homes and rent them privately, but would let 26 per cent at an "intermediate" rent of 80 per cent of market value for 21 years. The council considers that this idea would help meet the gap in provision for intermediate private rented housing in the city.

- There have also been arguments about creating a level playing field between the individual and the corporate investor, for example by changing rules on VAT and stamp duty. Stamp Duty Land Tax (SDLT) has been identified as a key impediment to investment in the private rented sector. Currently this is levied on a bulk basis. The Government has received representations that the rate of SDLT on bulk purchases of residential property should be determined by the individual value of the properties purchased, rather than on the total amount paid for the whole transaction (as the SDLT regulations currently operate). This means that the SDLT due would be the same as if each property had been purchased separately

3.3.5 More generally, the British Property Federation have made suggestions for tax reform. These include the idea that owners should be allowed 100% capital allowances on their tax bills to offset the cost of refurbishing or repairing homes for rent, and VAT for doing the work should be cut to 5%.

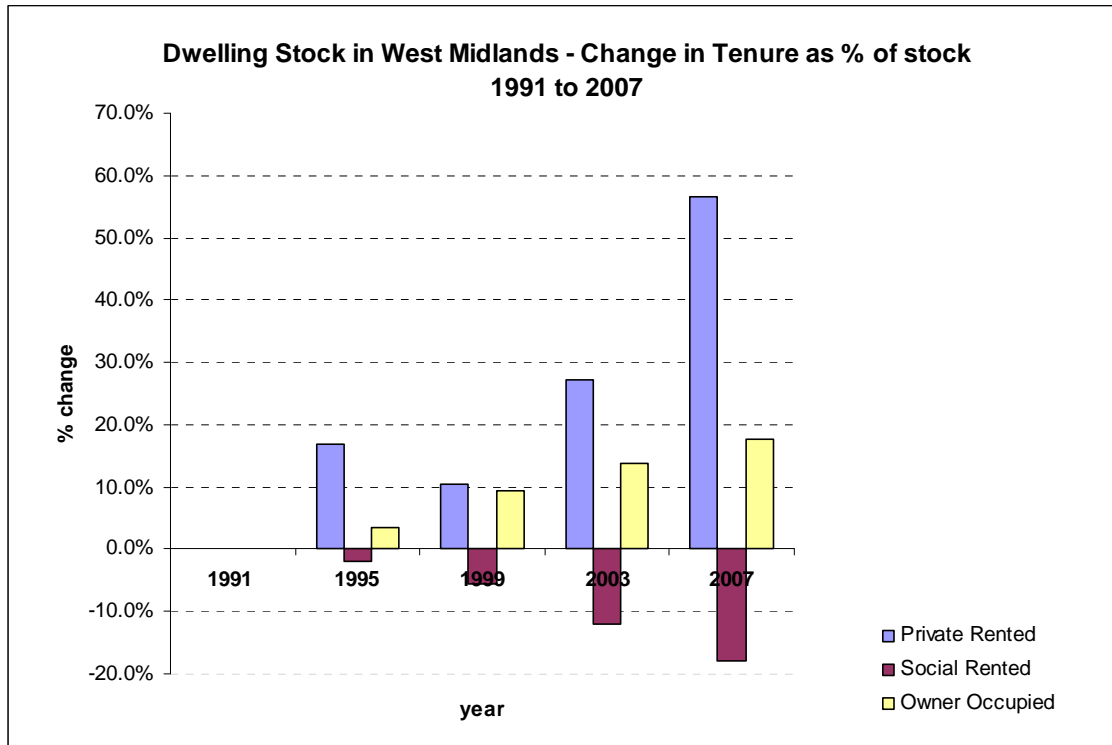
3.3.6 To capitalise on the growth of investment in the private rented sector, the Homes and Communities Agency (HCA) has launched a 'Private Rented Sector Initiative'. This is seeking to work with financial institutions and other investors to develop a long-term funding model for new private rental housing in England and has launched an 'expression of interest process' to take this forward. The HCA believes that institutional investment in the private rented sector in the UK is set to grow significantly in the short- to medium-term, albeit from a very low base.

3.3.7 In July 2009 Aviva Investors announced a proposed £1 billion private rental residential fund which will be focused on new purpose-built residential blocks of 100 units or more in London and the South East. The HCA, through its PRS initiative, is now assisting Aviva and its partners to identify suitable sites. The HCA is also working closely with several other prospective consortia looking to invest funds in the private rented sector.

### 3.4 Regional

3.4.1 Reflecting the national trend, the West Midlands region has seen strong growth in the private rented sector during the last ten years. This is shown in Figure 1.

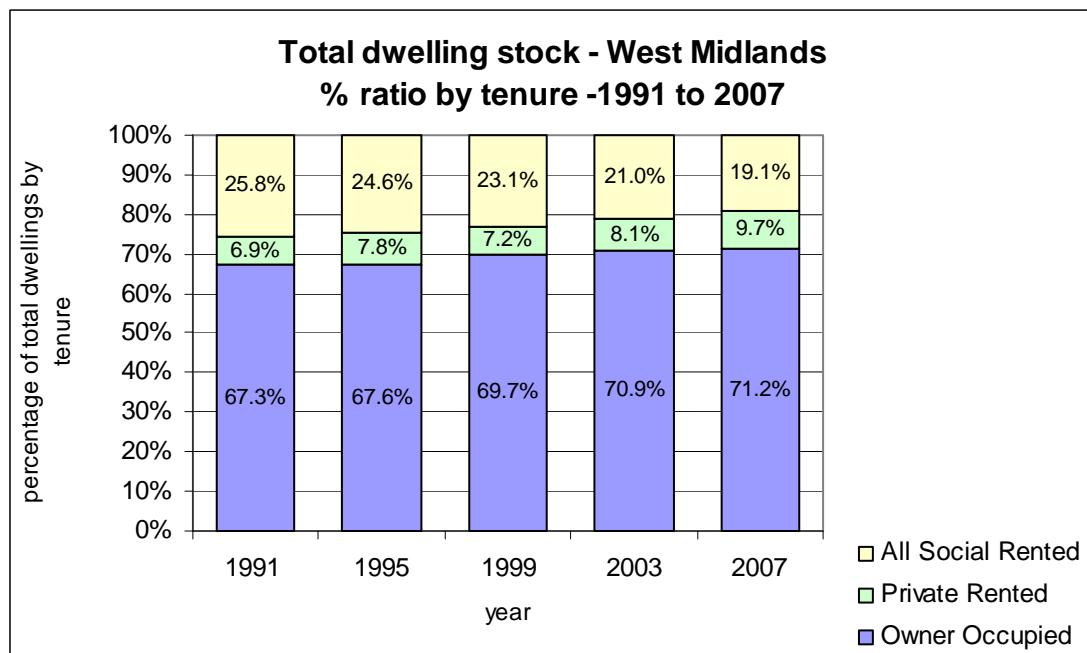
Figure 1 Percentage Change in Housing Tenure in the West Midlands 1991 - 2007



Source – Communities and Local Government Housing statistics  
<http://www.communities.gov.uk/documents/housing/xls/table-109.xls>

3.4.2 At 2007 the private rented sector was the tenure of 9.7% of West Midlands households, up from 6.9% in 1991 and 7.2% in 1999.

Figure 2 Tenure Ratio in West Midlands 1991 – 2007



Source – Communities and Local Government Housing statistics  
<http://www.communities.gov.uk/documents/housing/xls/table-109.xls>

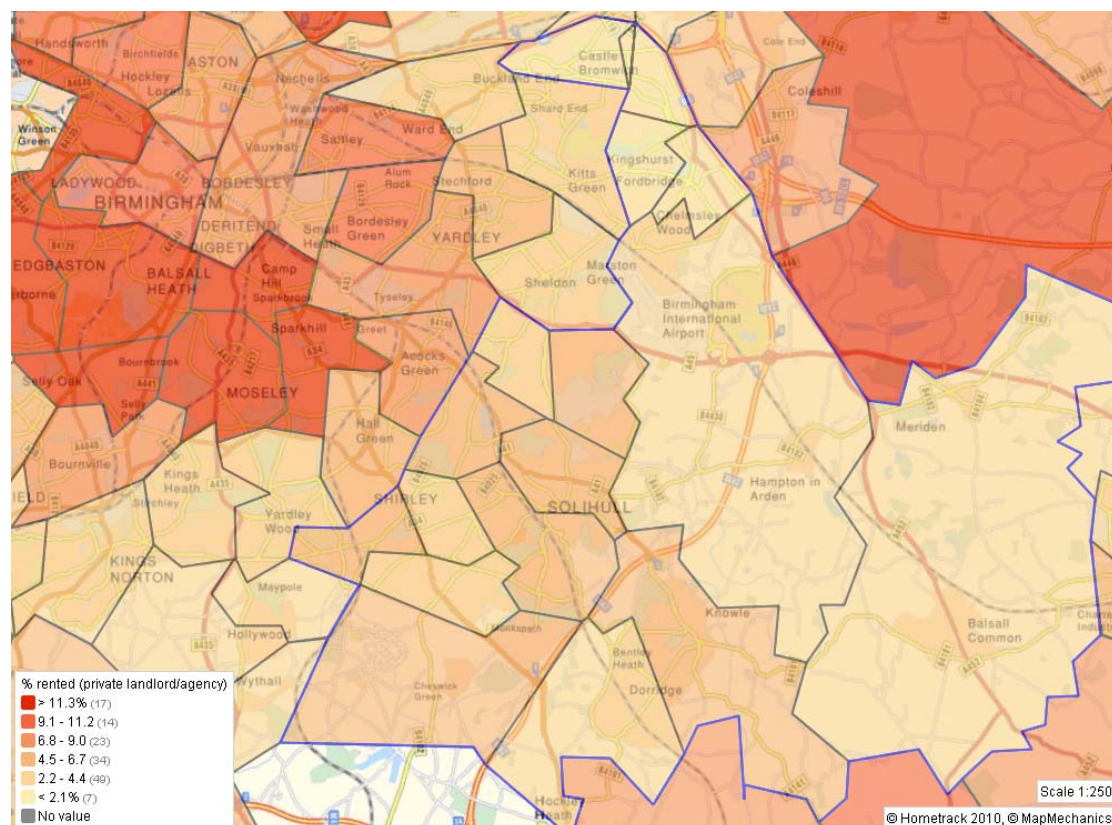
3.4.3 The West Midlands Leaders Board commissioned research into the role of the intermediate housing market, including the private rented sector. This reported in July 2010. The report draws attention to the potential of the private rented sector saying that it has the potential to offer a greater choice of quality accommodation, enabling mobility and access to a wider range of locations. In addition, there is potential for management and investment in the sector to contribute to other outcomes such as improved health, economic well-being and environmental outcomes from investment in affordable warmth and energy efficiency.

#### 4. Solihull Private Rented Sector: Background and Characteristics

4.1 The 2001 Census showed that 2,952 (3.65%) homes were rented from private landlords. A further 1,299 homes were classified as 'Rented Other'. Appendix B shows the distribution of this by the wards that existed at that time. This compares to a private rented sector of 5.11% in 1981 and 4.40% in 1991.

4.2 Figure 3 below shows this by ward across Solihull with the boundary of the borough shown in blue. This shows that the overall level of private renting in Solihull is low and that there are no concentrations. There are much higher concentrations of private rented accommodation in the neighbouring authority of Birmingham.

Figure 3 Percentage of Households Renting from a Private Landlord



4.3 Available evidence suggests that the private rented sector in Solihull has grown significantly since 2001. In addition to the national factors identified in section 2, landlords have purchased new build at the large scale developments at Dickens Heath and Wharf Lane and at 'windfall' apartment developments.

4.4 The traditional view of the private rented sector in Solihull has been that it is focussed on the 'high end' and for people requiring housing for up to twelve months, for example due to company relocations. While this remains a characteristic of the private rented sector in Solihull, available intelligence suggests that there has been considerable change,

- The emergence of 'professional landlords' taking advantage of Buy to Let mortgages. Investment in property is often seen as a form of pension provision
- 'Accidental landlords' who are in the sector short term and on a very small basis normally due to downturns in the houses for sale market

4.5 Solihull is an established and successful residential area and this is reflected in the West Midlands RSS Phase Two Revision Panel Report. The Borough does not have any higher education establishments and does not have a high 18 plus student population. The Council is aware of approximately 90 Houses in Multiple Occupation in the Borough although very few meet the requirements for mandatory licensing.

4.6 Solihull has a very constrained housing market where access to home ownership and affordable housing is very difficult for many newly forming (and reforming) households. There is also a difficulty for households needing to move to larger accommodation as their household size grows.

- House prices in Solihull are significantly higher than the average for the region and the type of housing shows a lower proportion of properties in Council Tax bands A-D and a higher proportion of terraced properties than the regional average
- There is a severe shortage of social rented housing. The Council's 2009 Strategic Housing Market Assessment sets out the shortage of affordable housing in detail. In addition to the overall shortage of social rented housing, there is also a marked geographical unevenness in its distribution with many areas of south Solihull having very little general needs social rented tenure. The effect of the Right to Buy has also resulted in flats forming a rising proportion of the Council's housing stock.

4.7 In response to significant housing need and emerging good practice Solihull Community Housing has developed a 'Housing Options' approach which includes helping low income households access housing in the private rented sector.

4.8 Another housing pressure in Solihull relates to the objective of the Solihull Care Trust to reduce the use of residential care and help more people live in their own independent accommodation.

4.9 The Council has a relatively high rate of empty homes in the private sector although these are not geographically concentrated in particular areas. The Council is developing a new Empty Homes Strategy to bring properties back into occupancy and this will be completed in Spring 2010.

4.10 The constrained nature of Solihull's housing market, alongside growing need, indicates an important and enduring role for the private rented sector in providing flexible and good quality accommodation for a wide range of people.

4.11 At a local level the concern about how some letting agents operate (section 3) is borne out. Research by the local Citizens Advice Bureaux found that 60% of private landlords choose to use a letting agent, making it difficult for tenants to avoid these additional costs, and that while only 12% of letting agents accept people on benefits, 23% refuse to accept benefit claimants and 65% will accept benefits claimants but with, often impossible, additional conditions.

4.12 Another recent report, carried out by the National Landlord's Association, found that 52% of their members who responded to a survey, said that changes to the way LHA is paid would make them less likely to let to new housing benefit claimants.

4.13 The three Citizens Advice Bureaux in Solihull decided to collect information from local letting agents to assess the costs of private rental and the availability of private tenancies to benefit claimants.

4.14 The findings supported the conclusions of the national research. Almost all letting agents asked, said they would not grant a new tenancy to someone in receipt of LHA unless they could meet additional conditions to the usual deposit and 1 months advance rental. Additional conditions imposed by some letting agents include:

- That LHA /HB claimants must pay between 3 and 6 months rent in advance as the local authority often takes this long to process a new claim
- That if an applicant could not satisfy the credit check, they would be asked for 6 months rent in advance
- An applicant should provide a guarantor who will guarantee the rent should the tenant default

4.15 These costs can add between £75 and £250 to the initial cost of the letting and make it virtually impossible for many households to enter the private rental market.

4.16 A common complaint from both landlords and advice agencies is the operation of the LHA system. This has resulted in calls for a review of,

- How LHA is paid – Many landlords expressed that they would be more likely to accept households on benefits if they were to receive direct payments
- Rates of LHA – to ensure that realistic housing costs are met in full with rates that reflect the true cost of renting from a private landlord in the borough. The introduction of a band rate rather than a flat rate may mean fewer households face a shortfall despite renting an appropriate sized property for their needs

## **5. The Future Prospects of the Private Rented Sector in Solihull**

5.1 In assessing this it is important to distinguish between two separate issues,

- The future prospects of the sector generally and
- The future prospects of the sector for assisting low income households

### 5.2 Landlord perspectives

To gain an insight into landlord perspectives on the future prospects of the private rented sector in Solihull, the Council met with a number of landlords on a one to one/one to two basis during January 2010.

- A 'flyer' circulated through the West Midlands representative of the National Landlords Association
- Direct contact with landlords involved in Solihull Community Housing's Bond Scheme

Time constraints and landlord response rates meant that this was not a representative sample but it does provide a useful insight into the views of Solihull landlords.

#### *1. How long have you been a landlord of properties in Solihull?*

Most had been for 10 years or more; only 1 was a 'new entrant' (in last year)

#### *2. How would you describe your primary business motivation for being a landlord?*

Three quarters cited long term capital growth; one identified the motivation of both income and growth. One identified social responsibility.

This view is consistent with national intelligence that shows the vast majority of existing landlords view their investments as long-term, with more than 7 in 10 expecting to hold their investment for more than 10 years, and an average overall life expectancy for PRS investments of nearly 17 years (HM Treasury)

3. *Are you looking to increase your property portfolio?*

All respondents said that they were.

4. *What factors do you take into account in deciding to,*

- *extend your portfolio?*
- *exit from the sector?*

The main 'Pull' factor identified was the ability to find the 'right' properties (valuation, size and type).

The main 'push' factors were,

- No reform of 'Direct Payments' and this becoming too big a business risk
- New regulation being too onerous or intrusive
- Rising interest rates
- Substantial increases in Capital Gains tax

5. *What are the prospects for the continued growth of private renting in Solihull?*

All respondents thought these were good.

6. *If expanding your portfolio, what type/size/location of property would you be looking to buy?*

In general landlords took a pragmatic view by saying that they would consider a potential investment on its own merits.

Most landlords had a preference for two and three bedroom houses in the urban area of Solihull. Area was governed by good connectivity to facilities (schools and work) and proximity to the landlords own address where they did their own management. Two and three bed houses were perceived as best for capital growth.

A number of landlords were wary of apartments. The reasons cited were difficulty in controlling costs (because of service charges) and a greater potential for neighbour nuisance.

One respondent had a particular interest in one bedroom flats, considering that they had the best revenue return, although acknowledging that prospects for capital growth were poorer.

7. *Where is the best area(s) in Solihull to maximise your rate of return?*

The main point made by landlords was the importance of avoiding areas of over supply – purchasing a two bed apartment at Wharf Lane for example.

8. *Where is the best area(s) in Solihull to minimise voids?*

No bad areas were identified. Landlords highlighted the importance of the location in relation to schools and the likelihood of a tenant being able to connect to friends and family.

9. *What are the issues for you relating to letting to low income households?*

Landlords raised two observations,

- timely processing of housing benefit (which Solihull Council does well)
- having as much information as possible on a prospective tenants background

Landlords did not generally think that there were any more issues in letting to low income households than a high income one that loses employment!

10. *Is there anything more that the Council could or should do to help you in your landlord role?*

A number of points were raised and these have been developed in section 8. The main points were around a single point of contact, grants, better landlord advice and familiarisation and awareness of Council and SCH services.

11. *What do you see as the main threats to the sector?*

In addition to the points raised in question four, landlords identified falling LHA rates and 'delinquent' tenants as threats.

12. *How do you see the role of the private rented sector developing in Solihull over the next 5 and 10 years?*

Landlords saw the sector growing in the medium and long term. The fundamental supply/demand 'drivers' were considered favourable together with Solihull's solid employment base and a perception that people are now less ambitious to get on the housing ladder.

This is consistent with a recent survey by ARLA, published in 2009. Of nearly six hundred landlords responding to a survey, more than 90% of Buy to Let investor landlords said that they would keep their investment properties should house prices fall. Most saw themselves as holding their investments for the long term. Nearly two thirds expect to maintain their property investments for more than ten years while more than a quarter (27%) expect to keep their properties for over 20 years.

### 5.3 Lettings Agent perspectives

To provide further local intelligence a selection of lettings agents were also consulted. The lettings agents selected were mainly those recommended by the West Midlands representative of the National Landlords Association.

1. *Where is the best area(s) in Solihull for landlords to maximise their rate of return?*

A range of views were expressed which –taken together – indicate that the market is generally strong across the Borough:

- All areas strong but if buy in Chelmsley Wood, Kingshurst and Smiths Wood then need to be willing to take benefit cases
- ‘Bottom of the market’; 2/3 bed houses best for long term capital growth ;
- ‘Always a demand for 1 bed flats – choice over high yield/low to moderate long term growth and lower yield and better long term growth (opinion that better returns may be made in Walsall, Coventry and Nuneaton)’
- ‘Close to Solihull Town Centre (e.g. Hillfield & Monkspath). Good schools and communications’
- ‘Best long term are areas in the Solihull ‘Broad Housing Market Area’

2. *Where is the best area(s) in Solihull to minimise voids?*

- All areas strong; ‘ambience’ of Solihull; Out migration from Birmingham; renters likely to prefer the urban area

3. *What trends have you seen in people wanting to access the private rented sector in the last 3 years?*

- No noticeable changes; some evidence of demand for short lets associated with short term work contracts. Demand from a wide cross section of people
- No significant changes (main age bracket is 20 – 45); main one is that more people are renewing agreements i.e. staying in tenancies longer. Market still has a role in housing people on short term work contracts
- No significant change – main one has been poorer circumstances for first time buyers resulting in increased demand for private rent
- Some indication of more people approaching who are unable to get on the housing ladder

4. *Do you see this trend continuing, or if it changes, how might it change?*

- Agents saw this as a continuing trend. The position of first time buyers will improve at some point but uncertain when.

5. *What are the issues for you relating to letting to low income households?*

- This question received a more mixed response. One agent said that they only take people in work but do have people on benefits (5%) where these people lose employment. The main issue of letting to low income households was their inclination to look after the property. Property neglect was seen as causing 'emotional harm' to the landlord, not just financial detriment. Another said that people are 'taken on their merits'.
- By contrast, another agent saw many positives of letting to tenants on benefit. Agents identified the issue of Direct Payments, but also identified the issue that were this to be solved, the landlord can still be vulnerable to clawback where a tenant has been found to be incorrectly receiving Housing Benefit.

6. *Is there anything more that the Council could or should do to help you in your work as a lettings agent?*

- A range of general and specific comments were made. One agent said there was a need for the Council to build more affordable housing and create mixed communities.

More specific comments were,

- Frustration of Data Protection Act making it impossible to speak to the Council about a tenants Housing Benefit claim
- The need for good inter departmental communication in the Council so that landlords can deal with tenants who are contravening their tenancy agreement
- Council should do more in help/advice in moving defaulting tenants on, provide more advice on grants and energy efficiency works and help with credit checks
- The view was expressed that SCH need to give accurate and balanced messages to tenants about their legal position. The main issue here is whether tenants are advised to use loop holes in the law and stay beyond the Possession Order. In addition tenants moving into the private rented sector need to be advised that,
  - if evicted for rent arrears a person will not be able to rent privately again in Solihull as agents speak to each other;
  - if a Money Attachment Order is put on a claim they will have a CCJ against them
  - where a tenant is evicted for rent arrears it is possible that they will be deemed intentionally homeless.

- Where agents are working with SCH there is a need for prompt call backs to agents' queries. This was mentioned as having been a problem but that SCH have improved considerably in this regard
- With regard to the operation of the bond scheme, one agent made the point that SCH need to say much earlier in the process that an electrical safety certificate is required
- One agent said that the value of the bond should be higher

7. *More widely, what can the Council do to help support and develop the private rented sector?*

No additional comments from those identified in 6. above.

8. *What do you see as the main threats to the private rented sector?*

The identified threats were,

- Rules on Direct Payments
- Other investment options becoming more attractive (falling property values and rising share values)
- Limited capital growth and poor rates of return – or would rising values take landlords out of the market?
- Macro-economic difficulties: base rates increasing; higher inflation, rising unemployment

9. *How do you see the role of the private rented sector developing in Solihull over the next 5 and 10 years?*

- The general consensus was that the private rented sector will continue to grow. It was noted that the relative circumstances for first time buyers will be important. On this theme, another agent saw growth possibly being uneven depending on the timing of the shake out of reluctant landlords and the re-emergence of Buy to Let.

5.4 To conclude, discussions with landlords, lettings agents and others indicates that the private rented sector in Solihull is well established, with a mature and professionalised core of landlord businesses which will continue to undergo a period of growth, despite (or potentially because of) the current economic climate in the housing market.

## **6. Opportunities for Growth**

6.1 Building on the national and regional trend of an increase in the private rental sector, a number of factors suggest that there are good opportunities for the continued growth of the private rented sector in Solihull.

6.2 A 2009 ARLA landlord survey found that the main reasons for tenants' renting was,

- Inability to buy (44%)
- Flexibility of private renting (22%)
- Do not want the responsibilities that go with home ownership (18%)
- Working away from home (17%)

6.3 Each of these reasons for renting can be seen as applicable to Solihull, in particular the problem of buying a property and the requirements of a growing and increasingly flexible labour market.

1. Demand. The underlying drivers of housing demand are strong,

- Solihull is a popular residential area with good schools and connectivity to services and employment centres. The regeneration of North Solihull, including new schools, will help to consolidate this
- Solihull's population is projected to grow to 229,600 by 2026 and the number of households to 100,000
- The number of workplace jobs in Solihull is projected to rise by 12,000 in the period to 2026 (SQW 2009)
- HM Treasury (2010) have noted that in recent decades there has been a shift in working patterns and expectations with people tending to have a much more varied career history than in the past. This lower level of employment stability feeds through to a requirement for greater mobility in order for individuals to be able to access new employment opportunities. Employment expectations for many households have thus changed, and with them housing preferences. This may indicate a reducing preference for owner occupation and/or the need to be able to rent a property for a period closer to the place of work
- Solihull is well situated with regard to travel to work. In 2006 54,000 households commuted out of Solihull for work and this trend can be expected to continue Analysis by the National Housing Planning and Advice Unit shows that within the urban area Solihull, 80% of people choose to both live and work within this urban area with Birmingham. This shows there are strong links with the major urban area both in terms of housing and employment
- Aside from employment mobility, commentators have queried whether there may be changing views on home ownership due to the difficulty of accessing the sector and rents being more steady than house prices
- The 2009 Strategic Housing Market Assessment identifies newly forming households in the borough and through assessing their income and the costs of buying and renting identifies those who cannot afford these tenures. As Table 1 shows, the private renting housing sector has the ability to meet the housing needs of 13% of newly forming households in the borough who cannot buy and it would be particularly beneficial to newly forming couples within the borough. It should also be said that others may choose to rent due to their circumstances

Table 1 Percentage of Households Unable to Buy or Rent in Solihull.

<b>Household Type</b>	<b>% who can't buy in Solihull</b>	<b>% who can't rent in Solihull without recourse to housing benefit (note 1)</b>	<b>% who can't buy but can rent</b>
<b>Single Person</b>	72%	68%	4%
<b>Couples no children</b>	57%	23%	34%
<b>Couples with children</b>	93%	77%	16%
<b>Single parent</b>	99%	97%	2%
<b>All households</b>	83%	70%	13%

*Solihull Strategic Housing Market Assessment, 2009, table 5.6*

*Note 1: Assumes that a household will be eligible for Housing Benefit*

- Given the extent of housing need there will remain a considerable potential to make use of the private rented sector to assist low income and vulnerable households. There are a number of elements to this demand,
  - Further development by SCH of the 'Housing Options' approach
  - The possible introduction of a 'private sector leasing' scheme to meet the needs for temporary accommodation thereby freeing up Council housing that is currently used for this purpose
  - Solihull is responsible for a large number of 'Unaccompanied Asylum Seeking Children' due to the Home Office centre being based in the borough. Currently use is made of out of borough placements using the private rented sector in Birmingham and Sandwell. An appropriate private leasing scheme would enable the Council to place these people more locally and improve services to them.
  - The Solihull Care Trust are seeking to use the private rented sector to help vulnerable people achieve independent living (for example those with Learning Difficulties)

If the Council, SCH and the SCT can create effective schemes the indication is that landlords aiming for long term capital growth will find these attractive in that they,

- Provide a guaranteed supply of tenants without recourse to incurring costs of Lettings Agents
- Can provide guarantees (depending on the nature of the scheme) on condition, financial loss and voids and remove the need for day to day management

2. Supply. Similarly, the possibility for continued supply is encouraging,

- The Panel Report proposes net additional housing in Solihull in the period 2006-2026 of 10,500. SQW (2009) argue that it is unlikely that owner occupation will continue to have such a large share of the market and there are likely to be limits on the growth of the affordable sector. Therefore it is likely that the private rented sector will see a greater rate of growth
- Although the rate of return is quite low, a number of landlords indicated that they held a longer term view and this is consistent with surveys of landlords nationally. This recognises that there is a capital growth element in landlord thinking. Another element here is the perception of bricks and mortar investment being seen as a more understandable and reliable form of investment than stocks and shares. This perception may have become more widespread in the period since 2007
- The broad market rental areas used to determine Local Housing Allowance (LHA) rates in Solihull are generally considered to be quite good by landlords (Appendix C)
- The development of 'Solihull Home Options' could include the advertising of private rented properties in addition to social rented and 'intermediate' tenure products. There is a need to consider the scope for such an expansion with regard to resources and the possibility of linking this more holistically to other areas of work such as grants and energy advice, thereby creating a 'local lettings agency'. Within this, consideration needs to be given as to what extent lettings agencies that work with SCH would be alienated by competition. However, an effective local lettings agency would clearly have the potential to encourage a continued and further supply of private rented properties to help low income households

6.4 SCH established a Private Landlords Forum in March 2010 and this has the potential to provide a good way for landlords and Council/SCH to jointly discuss and implement any new emerging requirements and initiatives that are considered beneficial.

## **7. Threats to the Private Rented Sector**

7.1 Against these opportunities it is important to reflect on potential threats to the sector. It is also necessary to distinguish between threats to the sector and threats to that part of the sector that helps low income households.

7.2 The main potential threats to the sector as a whole are,

- New legislation and greater regulation may deter people from becoming landlords or 'shake out' some existing landlords. Since the change of government in May 2010 this is now considered unlikely. Representative bodies will put forward their arguments to respond to any new legislation or regulatory changes that are proposed.

Any resulting legislation and regulation that comes into force will probably only deter the bad landlord

- A related issue is that of rising standards for fuel poverty and energy efficiency. ARLA predicts that throughout 2010 standards will become an even greater issue, as landlords (and homeowners) are encouraged to make their homes energy efficient. This could be a threat to landlords and it is to be hoped that government listens to the views of representative groups, such as ARLA, of the need for tax relief and other incentives. For example the boiler scrappage scheme could have been framed to include rental properties and be part of the Landlords Energy Saving Allowance (LESA)
- Another threat to the sector is the knowledge of landlords about their legal responsibilities. This is important for a range of reasons, particularly with regard to tenant rights and safety
- It is certainly the case that when the housing market improves that some landlords will want to sell their property. However a significant upturn in the market is not expected in the near future. For example the Council for Mortgage Lenders has said that it does not expect a dramatic upturn until the wider economic picture improves. It can also be argued that rising prices when they do occur may also create an incentive for those landlords who are able to invest further to add to their portfolios
- A local threat to the private rented sector in Solihull would be if investors consider there to be a better Rate of Return elsewhere, for example in city centre or student areas. This is considered to be a low level of risk. For example in Birmingham there has arguably been an over supply of apartments and the market for the private investor is less certain. In 'student areas' institutional investors have become providers and this constitutes a potential threat for a landlord considering purchasing property in such an area. By contrast, letting a property in an established and successful residential area of Solihull is likely to be seen as a more attractive proposition
- Mortgage finance remains a major problem for landlords who want to expand their portfolios. Research from LSL Property Services indicates that 49% of landlords believe the current market is attractive for investment but only 27% see themselves buying more properties in the year ahead, with the lack finance a fundamental barrier. The availability of Buy to Let or other finance will therefore have an important affect on the ability of landlords to grow their property portfolios. In recent months more Buy to Let products have been coming back to the market, indicating that this problem may be receding

7.3 Some commentators have identified falling house prices and the return to more normal mortgage availability as improving circumstances for first time

buyers. However prices in Solihull have not fallen so dramatically as to improve access to home ownership significantly. Employment insecurity and the need to provide larger deposits will also deter many households from being able or wanting to access owner occupation.

7.4 Therefore, there is good reason to think that the future prospects of the private rented sector in Solihull are good.

7.5 Turning to the second issue relating to the future prospects of the sector for helping low income households, there are some separate considerations.

7.6 Housing Benefit is a significant issue. Housing Benefit is vital in supporting people with their housing costs and in ensuring people's housing stability. The Emergency Budget on 22nd June announced £11 billion of cuts from the welfare budget, which was a third of all the cuts announced. Housing Benefit faces £1.8bn of cuts with the most significant impact on tenants in the PRS. These pose a significant challenge to low income households securing sustainable accommodation in the private rented sector.

7.7 The Budget changes have been discussed in detail since they were announced in June (Crisis 2010, for example). In summary the key points are,

- Caps on LHA. This will be an issue for London authorities and will not affect Solihull
- Setting LHA at the 30<sup>th</sup> percentile rather than the median (50<sup>th</sup>) percentile. This will be implemented in October 2011 and not phased in. Many tenants will suddenly find that their rent is unaffordable and will face shortfalls and/or find it very difficult to find and sustain a tenancy. This has very significant implications for homelessness. In the future local authorities will struggle to find properties that are affordable to benefit claimants and will find it harder to prevent or resolve people's homelessness. A rise in the use of temporary accommodation can be expected. Based on the LHA rates for the Solihull Broad Market Rental Area at June 2010, the reductions for Solihull would be,

Table 2 Reductions in LHA Rates

Size	Current Weekly LHA Rate	LHA Rate at 30 <sup>th</sup> Percentile	Difference	% Difference
1 Room	£69.08	£63.38	£5.70	8%
1 Bed	£115.07	£113.92	£1.15	1%
2 Bed	£149.48	£136.93	£12.55	8%
3 Bed	£166.85	£149.59	£17.26	10%
4 Bed	£253.15	£218.63	£34.52	14%

- Index linking of LHA. This will require primary legislation and is planned to be introduced in 2013/14. This change will mean that LHA rates are uprated on the basis of the Consumer Price Index (CPI), rather than on the basis of local rents. As rents generally rise faster than CPI, over time LHA rates will be eroded. Additionally, the link between housing benefit and rent will be broken and, as rents rise at different levels in different parts of the country (due to economic factors and the local housing market), benefit levels will cease to reflect local rent levels. This will mean that in many areas housing benefit will no longer meet people's housing costs. Expert commentators such as Crisis and the Chartered Institute of Housing are concerned at the impact these changes may have on people's ability to find and sustain accommodation in the private rented sector in the medium to long term
- Non-Dependant deductions (NDDs). A Non-Dependant is someone who normally lives with the Housing Benefit claimant (e.g. an adult son, daughter, relative or friend). NDDs are the deductions made to a household's housing benefit when it contains a non dependent. Non-dependants cannot claim Housing Benefit for any payments they make for their keep. NDDs will see staged increases between 2011 and 2014 to bring them up to the level they would have been had they been fully uprated since 2001. This will have implications for the social rented sector as well as the private rented sector, but together with the other changes will add to problems of rent arrears and household pressures
- Reducing to 90% a persons Housing Benefit after 12 months claiming Job Seekers Allowance. This needs primary legislation and it is intended to introduce in 2013/14. The concern of this proposal is that it will leave people facing real hardship and unable to cover their rent and could punish them at just the point when they are trying to find work.

7.8 Aside from the Budget changes there is the broader question of LHA rules. Direct payment of Housing Benefit to tenants raises landlords' business risk and LHA regulations have deterred many landlords from renting to low income households. Landlords have all said that they would be more likely to accept benefit dependent tenants if they could receive payments direct. Strategies to make the private rented sector a more effective solution for vulnerable and homeless people will need to include a review of how housing benefit rules interact with the sector.

7.9 The need for the Department for Work and Pensions (DWP) and Communities and Local Government (CLG) to improve the administration of housing benefit to increase the confidence of landlords in the housing benefit market was one of the main consultation responses to the government's 'professionalism and quality' consultation. This is a good point although Solihull Council has a strong track record of very good performance on timely and accurate Housing Benefit administration.

7.10 It is worth noting that the DWP are currently consulting on future Housing Benefit Reforms (Supporting People into Work: The Next Stage of Housing Benefit Reform, December 2009) with the main aims being to:

- Deliver a simpler and fairer system of housing support which supports work incentives
- Excludes the highest rents which are distorting the system and pays a fair rate of benefit to customers whilst protecting the taxpayer
- Sets out a long-term aspiration to move towards greater integration of housing benefit into the wider tax and benefits regimes

7.11 It is important that the Council and SCH tracks these changes and assesses any negative or positive impact that they may have in helping low income households in accessing the private rented sector.

7.12 SCHs Bond scheme offers bonds for the life of a tenancy meaning that financial liability increases as the scheme grows. Although the Council has increased the bond fund, growing financial liability and a limited financial capacity to increase the fund beyond 2011 means that 'bonds for life' should be reviewed otherwise the scheme will reach a point beyond which it cannot expand. In their report for SCH, Crisis advised time limiting bonds to between 12 and 24 months. As a part of this, clients would be encouraged to save (perhaps through the Credit Union) during the period of the bond so that savings can replace the bond. This would help recycle funds and promote further scheme growth. Freeing up financial liability in this way may also create the room to provide rent in advance in a small number of targeted cases. It is important that any such change is done in consultation with landlords and the benefits of it (for example further growth of the scheme and the benefits to the landlord of renting their property through the SCH scheme) effectively explained to them.

7.13 Another issue is the question of 'bad' tenants. The connection of bad tenants with low income tenants is arguably one of perception but there is no doubt that it is a real and understandable concern for landlords.

7.14 The experience of the majority of landlords letting their properties through the SCH scheme is that tenants have been reliable and conscientious. However the concern does raise the value of the Council and SCH supporting landlords in every possible way. This not only includes excellent housing benefit administration (where Solihull has a very good performance record) but also appropriate advice and assistance relating to matters such as dealing with neighbour nuisance and tackling anti-social behaviour. Another important consideration is the work that SCH and others can do to help prepare people to be tenants and this is discussed in section 8.3 point 4 below.

## **8. Policy Considerations**

8.1 This report has indicated a number of potential local policy initiatives that the Council should consider to help support the private rented sector. These

fall into two categories: those aimed at encouraging the sector generally and those that maximise the contribution of the sector to helping low income households.

## 8.2 Encouraging the sector generally.

1. Establish a Single Point of contact within the Council for private landlords. From the point of view of the landlord it can be difficult to know who to contact in the Local Authority across the range of issues that might arise in managing a letting (nuisance and anti-social behaviour, advice on energy efficiency, Housing and Council Tax benefit, for example). A single contact point would help signpost landlords to where they can receive the right advice.

Actions:

- (a) Provide suitable 'signposting' information on the Council web site and create a 'script' for Solihull Connect staff
- (b) Council officers discuss details of approach further with SCH and the National Landlords Association

2. Consultation with Landlords and Lettings Agents. As the private rented sector grows, it is vital that the Council and the Solihull Partnership recognises the important role that landlords and agents play in building successful communities. At one level, landlords can be represented in considering strategy and policy but there would be a benefit in engaging more systematically and practically with the landlord/agent community. For example there could be great benefit in being able to contact all landlords/agents regarding matters such as tenant income maximisation/anti-poverty, community safety and security measures to properties, neighbourhood management and so on. Landlords and agents will be well placed to advise the Council on what type of initiatives and use of resources is likely to be the most effective. Another important way by which the Council could improve its communication in this area would be through helping to facilitate meetings of the Midlands Landlords Accreditation Scheme and help contribute to meetings as appropriate by providing relevant officers to discuss issues raised by landlords.

Actions:

- (a) Establish a landlord forum. Consult with landlords and agree workplan for meetings. Also use these meetings as a way of ensuring more regular and systematic engagement to provide a basis for understanding and assisting private landlords as small businesses
- (b) Discuss further approach to accreditation. Ideally, accreditation needs to cover both landlord and property. The Council's Enforcement Team already have the Midland Landlord Accreditation Service which covers landlord accreditation which fulfils their needs. Where the Council is placing people in the private rented sector to discharge homelessness duties there is a need to make sure that the property also is accredited.

With regard to property there is a need to make sure condition is good and just accept a label such as 'decent homes' (e.g. a home may be decent but fail on hazards under the Housing, Health and Safety Rating - any property with either a Category 1 hazard or hazards, or a property with multiple Category 2 hazards would have to have some form of enforcement action taken, be it formal or informal).

3. Landlords as Small Business. The first point touches on a wider point, which is that local authorities have often interfaced with landlords through enforcement action rather than see them as small businesses providing an important function in the local economy. There is a need to facilitate learning for landlords and consideration could also be given to developing the advice role to them in other ways. For example this might relate to business plan development and offering proactive support to landlords to help them meet their regulatory requirements and property improvement. The Midlands Landlord Accreditation Scheme and the Homestamp consortium have an important role here and this underlines the importance of the Council further developing its joint working with these groups.

Action: see 2 (a) above

4. Section 106 policy. Section 3 noted the lack of differentiation in the private housing sector when negotiating affordable housing requirements as part of a planning application. In its development of a new 'Development Plan Document' for affordable housing consideration could be given to how policy might be adjusted where a developer was giving guarantees about a proportion of properties being provided on a rental basis for a defined period of time. For example, where a site viability demonstrated that the current 40% affordable requirement could not be met a response could be for the developer to retain a proportion of the properties and let them at an "intermediate" rent of (say) 80 per cent of market value for (say) 21 years.

Action:

(a) Develop this idea with Homes & Communities Agency and through Local Development Framework process

5. Respond effectively to legislation. It can be expected that the growing recognition by government of the importance of the private rented sector will continue irrespective of the outcome of the spring 2010 General Election. It is therefore important that the Council responds promptly and effectively to new practice guidance or legislation that emerges in 2010 and later years.

### 8.3 Maximising the contribution of the private rented sector for low income households

1. Property improvement and return to occupation. The Council could introduce repair and improvement grants for landlords who buy properties requiring works in exchange for letting the property to a Council nominee. For example a grant could be provided for 50% of the cost up to a maximum of (say) £10k which is written off if the landlord rents the property to a Council nominee for a 5 year period at LHA rates. Consideration could be given to extending this idea to include grant funding for environmental and energy efficiency works. This kind of initiative would also be an important element of the Council's work in tackling empty homes. Where a landlord wants to improve their property but does not want to let it to a Council nominee they could be advised and assisted with low interest loans.

There are other ideas that can be explored to incentivise owners to either return a property to occupation and/or let it to a Council nominee. For example some authorities operate a scheme that provides a free letting service and an incentive payment to owners that do this. Another approach could involve the Council/SCH using its purchasing power to buy (for example) high security front doors which can then be sold to landlords at a lower price than landlords could afford if buying on their own.

Actions:

- (a) Produce data on empty homes every three months
  - (b) Develop Empty Homes Strategy and actions
  - (c) Develop proposal for grant assistance in return for letting to Council nominee for a defined period
  - (d) Develop alternative idea of Council commitment to funding return of property to its original condition at end of nomination period
2. Local Lettings Agency. Further to the discussion in section 6 SCH have considered the possibility of establishing a Local Lettings Agency.

The idea had potential, for example, SCH could potentially operate an effective Local Lettings Agency,

- 'Solihull Home Options' could serve as an effective shop window for the free advertising of properties
- SCH could select the tenant and act as managing agent, and possibly provide a bond
- Competitive repairs and maintenance costs through access to SCHs contractors
- Essential certificates (gas, electric, housing , health and safety rating, energy performance)
- Competitive accreditation fees
- Access to 'Shipshape' (an approved tradespersons list)

However an SCH Local Lettings Agency would require up front investment but could, over time, also be an income generator. However the Council would need to consider whether this would have undesirable effects for existing lettings agents.

Actions:

- (a) Agreed that best not to establish a specific Local Lettings Agency at this point. Focus instead on getting other actions properly established
- (b) SCH will take forward existing work on allowing landlords using the Bond scheme to use its repairs and maintenance service. Viability exercise to be completed by end October 2010

3. Housing Benefit Regulations for Direct Payments. The payment of housing benefit to tenants represents a significant business risk to landlords. The LHA guidance manual does allow direct payments to be made to the landlord in order to 'safeguard' the claimant in cases where the authority considers that the claimant is likely to have difficulty in relation to the management of their financial affairs or where the claimant is identified as 'unlikely' to pay their rent. Recent changes to chapters 4, 5 and 6 of this guidance (revised LHA Guidance Manual published in December 2009) boosts the importance of the local authority homelessness team or the homeless prevention team in the process whereby a local authority decides whether to make a housing benefit payment direct to the landlord rather than the tenant. This includes the process of gathering and providing evidence and the 'weight' that should be given to any evidence provided by the Homelessness Service. In advance of any further changes to national rules, it is important that the regulations are used to their full extent to assist both landlords and tenants. The Council (Income and Awards Team and Housing Strategy Team) and SCH are currently working together to agree processes for implementing these changes in Solihull with specific reference to households assisted through the Bond scheme.

More generally it is important that the Council and SCH work jointly to identify and prepare for any future changes relating to the payment of LHA.

Action:

- (a) Maintain existing Council/SCH relationships and use regulations to full extent

4. The Emergency Budget announced that the Discretionary Housing Payment (DHP) budget will rise from 2012. DHP is a payment for people who require further financial assistance with their rent. The Budget announcement will see national estimated expenditure rising from £10 million in 2011 to £40m per year thereafter. This is welcome as Solihull's DHP fund can be expected to face additional demands in light of the cuts

to Housing Benefit discussed in 7.7 above.

Action:

(a) It is vital that the Council reviews how best to use its DHP to help assist low income households and achieve wider homeless prevention objectives.

5. Preparing people to be tenants. AHAS research found that landlords often feel that local authorities discharge families into the private rented sector and then 'forget' about them. Landlords often said that people were not being properly prepared to take on the responsibilities of being a tenant. AHAS recommend that local authorities can do more to promote sustainable tenancies by encouraging responsible behaviour.

Actions:

(a) Ensure that people are clearly informed of their responsibilities, as well as their rights

(b) Consider whether some people placed in the private rented sector need some form of 'tenant training'

(c) Consider the need to provide a plain English Tenants' information pack to reinforce the issue of responsible behaviour

6. Private Sector Leasing. This refers to privately-owned housing which is leased to housing associations or local authorities for use as temporary accommodation for a defined period (normally three to five years). This has become more common across the country in recent years. In this arrangement the private landlord receives a regular income while the social landlord is responsible for managing the property and collecting rent/Housing Benefit payments from the residents. In the case of accommodation leased to housing associations, local authorities are able to nominate homeless households for temporary placement in these properties. The Homelessness Code of Guidance for Local Authorities encourages authorities to enter into leasing arrangements:

Accommodation leased from a private landlord can provide housing authorities with a source of good quality, self-contained accommodation, meeting households' need for space and privacy. Where there is a need for temporary accommodation, housing authorities are encouraged to maximise their use of this type of leasing, in so far as they can secure cost-effective arrangements with landlords.

Landlords are likely to accept a slightly lower rent level in exchange for the security they will receive through the scheme. The rent charged must be

at a level that gives the landlord an acceptable return while also allowing SCH to fund costs arising from voids and bad debts.

It is important that the lease terms are correct and do not prevent a landlord being able to obtain a mortgage. The key point here is to agree an annual rolling renewable lease. Another important point is that the Council does not accept a lesser standard of property condition and seeks to 'raise the bar' on condition.

As discussed in section 6 this has application not only for homeless households requiring temporary accommodation but potentially other needs too, such as Unaccompanied Asylum Seeking Children. Feedback from landlords indicates that there are some who would be interested in working with the Council on a Private Sector Leasing scheme.

Action:

- (a) Council and SCH to take forward with interested landlords with a view to establishing a small portfolio for temporary accommodation use
- (b) Beyond this, aim to grow the number of properties that are covered by lease arrangements. A successful leasing programme has the potential to help meet a diverse range of needs

7. Review SCHs 'Bond scheme'. The scheme has operated successfully since 2007. There is through a need to look again at the scheme. SCH generally offer support for up to 12 months but with the bond lasting for the life of the tenancy the situation arises where SCH are guaranteeing the bond where they have little or no contact with tenant or landlord. Consideration should therefore be given to time limiting bonds to between 12 and 24 months. A savings scheme through the Credit Union could help tenants to save and replace the bond once the guarantee has ended. This change would allow SCH to recycle funds and assist more people. Recycling funds in this way may also give the financial capacity to provide some targeted rent in advance assistance. It is recognised however that this could have negative consequences – for example would landlords be more likely to serve a 'section 21 notice' (1988 Housing Act, slightly amended by the 1996 Housing Act) when the deposit guarantee ends?

Any such change would therefore need to be carefully consulted on with participating landlords and agents to establish whether the benefits of this change would outweigh the potential drawbacks.

Actions:

- (a) Council and SCH discuss and agree how the proposal is best 'sold' to landlords
- (b) SCH investigate emerging ideas to allow Credit Union customers to use Post Offices
- (c) Landlords participating in scheme to be consulted on proposal to time limit bonds

## **9. Conclusion**

9.1 On the basis of consultation with landlords and letting agents, and consideration of supply and demand factors, the private rented sector in Solihull is assessed as having a good future. This is with regard to both its general place in the local housing market and its ability to provide homes for low income households.

9.2 Taking into account the fundamental supply and demand 'drivers' in the borough, and conditions in the wider economy, it is considered that investment will occur at a stronger rate than disinvestment. Many landlords have been letting properties for a number of years and intend to continue doing so in the future. At the same time the indications are that there are new entrants with business ambitions to develop portfolios in the borough.

9.3 Looking further ahead, there is the potential for the institutional sector to become an additional source of supply.

9.4 Many households (e.g. young and first time homemakers, separating households, those unable to get a mortgage and those with insufficient priority to access social housing) will need to access the private rented sector if they are to be able to live in Solihull. The housing choice offered by private landlords therefore presents another pathway option which has a role to play, not just as a short term option, but as a sustainable long term housing choice.

9.5 Although the national policy position on the private rented sector is in a state of change, there are a number of initiatives that the Council can do now to help develop the sector further. This is in relation to both encouraging the development of the sector generally and more specific initiatives to realise the potential of the sector to help low income households.

## **Appendices**

- A. Indicative Rates of Return
- B. Private Rented Sector: Distribution by ward
- C. Local Housing Allowance rates in Solihull (March 2010)

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Appendix A Rents, Property Prices and Rates of Return for Private Renting in and around Solihull

**Shirley West**

	<b>Cost of renting (weekly)</b>	<b>House Price Lower quartile</b>	<b>Gross rate of return</b>	<b>House prices Average</b>	<b>Gross rate of return</b>
1 Bed Flat					
2 Bed Flat	138	105000	6.8%	111500	6.4%
2 Bed House	138	149000	4.8%	160500	4.5%
3 Bed House	132	157500	4.4%	176000	3.9%

**Olton**

	<b>Cost of renting (weekly)</b>	<b>House Price Lower quartile</b>	<b>Gross rate of return</b>	<b>House prices Average</b>	<b>Gross rate of return</b>
1 Bed Flat					
2 Bed Flat	150	115000	6.8%	145500	5.4%
2 Bed House	150	135000	5.8%	138000	5.7%
3 Bed House	168	167000	5.2%	229500	3.8%

**Kingshurst and Fordbridge**

	<b>Cost of renting (weekly)</b>	<b>House Price Lower quartile</b>	<b>Gross rate of return</b>	<b>House prices Average</b>	<b>Gross rate of return</b>
1 Bed Flat	91	50000	9.5%	48000	9.9%
2 Bed Flat	91	63000	7.5%	61500	7.7%
2 Bed House					
3 Bed House	126	98000	6.7%	115000	5.7%

**Balsall Common**

	<b>Cost of renting (weekly)</b>	<b>House Price Lower quartile</b>	<b>Gross rate of return</b>	<b>House prices Average</b>	<b>Gross rate of return</b>
1 Bed Flat					
2 Bed Flat	137	220000	3.2%	180000	4.0%
2 Bed House	137	250000	2.8%	255000	2.8%
3 Bed House	206	195000	5.5%	247000	4.3%

**Moseley and Kings Heath**

	<b>Cost of renting (weekly)</b>	<b>House Price Lower quartile</b>	<b>Gross rate of return</b>	<b>House prices Average</b>	<b>Gross rate of return</b>
1 Bed Flat	103	82500	6.5%	94000	5.7%
2 Bed Flat	155	115000	7.0%	132000	6.1%
2 Bed House	155	143000	5.6%	155000	5.2%
3 Bed House	183	157500	6.0%	195000	4.9%

**Selly Oak**

	<b>Cost of renting (weekly)</b>	<b>House Price Lower quartile</b>	<b>Gross rate of return</b>	<b>House prices Average</b>	<b>Gross rate of return</b>
1 Bed Flat	98			90000	5.7%
2 Bed Flat	131			97000	7.0%

2 Bed House	131	115000	5.9%	128000	5.3%
3 Bed House	144	130000	5.8%	162500	4.6%

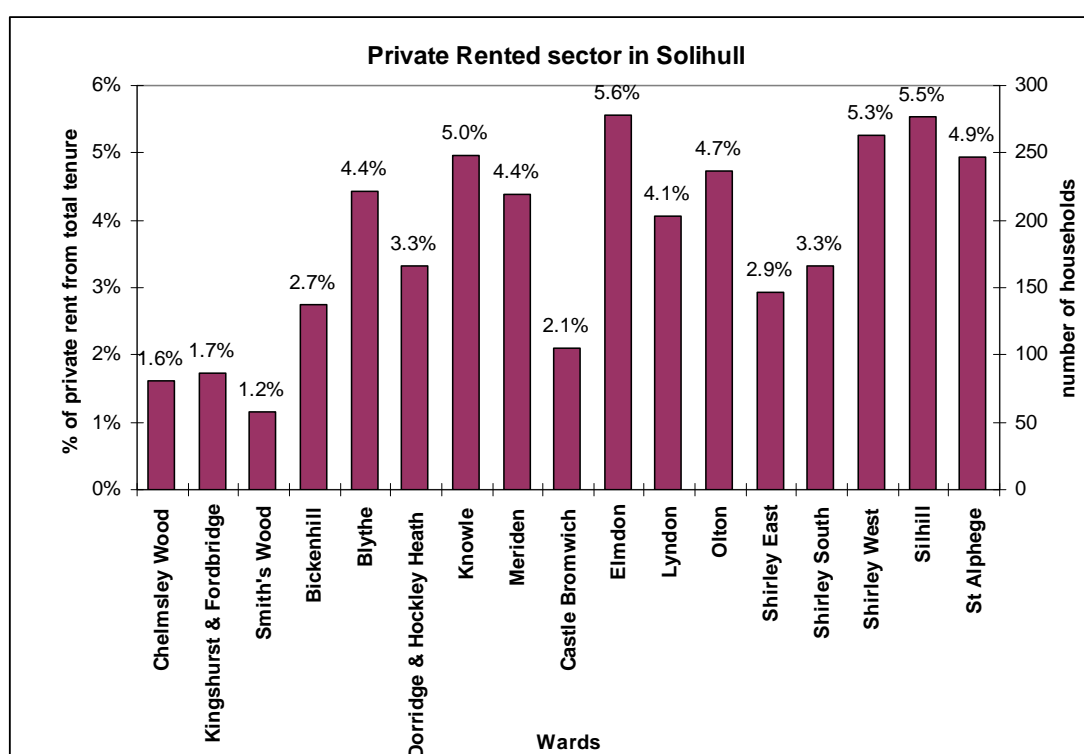
### Sheldon

	Cost of renting (weekly)	House Price Lower quartile	Gross rate of return	House prices Average	Gross rate of return
1 Bed Flat	109	52000	10.9%	58500	9.7%
2 Bed Flat	126			61300	10.7%
2 Bed House	126	95000	6.9%	109000	6.0%
3 Bed House	144	120000	6.2%	135000	5.5%

Source: Hometrack Housing Intelligence System January 2010

Note: Where number of cases was two or less, no figure is shown.

### Appendix B Distribution of Private Rented Sector in Solihull, 2001



Source: Census 2001

### Appendix C Local Housing Allowance Rates (weekly), March 2010

Broad Rental Market Area	1 Bed Shared	1 Bed Self Contained	2 Beds	3 Beds	4 Beds	5 Beds
Birmingham	£58.59	£103.56	£126.58	£132.33	£172.60	£207.12
Solihull	£70.33	£115.07	£143.84	£172.49	£253.15	£344.05
Warwickshire South	£63.15	£113.92	£143.84	£167.43	£228.99	£298.61

Data as at 1<sup>st</sup> March 2010

Source: <https://lha-direct.voa.gov.uk>