

# THE CASE FOR REFORMING PRIVATE RENTING

## INTERIM REPORT

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December 2018



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## ACKNOWLEDGEMENTS

The authors would like to thank Nationwide Building Society for their generous support of this work.

We are particularly grateful for those that took the time to attend the focus groups, the insights from which have been drawn on in this report.

We would also like to thank Charlotte Snelling for her analysis and literature review which was a useful resource in drafting this report, Gareth Williams for his review of pan-UK policy change and to Jed Meers for his advice on legal processes and court statistics.

The analysis and conclusions of the report, and any errors, are the authors' own.



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Baxter D and Murphy L (2018) *The case for reforming private renting*, IPPR.  
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# SUMMARY



The private rented sector has grown substantially over the past two decades. It is now home to 20 per cent of households (4.7 million). Many more people now expect to live in the private rented sector for longer; this includes 1.7 million households containing nearly three million children. Many of those children will grow up, go to school and transition into adulthood in homes rented from private landlords.

Despite the more significant role that the private rented sector now plays in the housing market, the regulations which govern the tenure have not kept pace with its growth. This report follows a number of in-depth conversations with tenants and landlords across England as we seek to understand the lived experience of those in private renting and how they want it to change.

Through our conversations with tenants we found that many remain very concerned about the insecurity of private renting, the unaffordability due to rent, fees and deposits, the poor conditions which they too often find themselves in, and the lack of agency and representation that they have in the sector. From the landlords' perspective, the key concerns were welfare reform, reforms and reductions to tax relief on private landlords, and the legal system.

Our research also found that tenants and landlords shared some key issues about the sector. Both felt that they lack knowledge on their rights and responsibilities, that too often they were reliant on luck as to whether they could build a good relationship with each other, that tenants lacked power in the system overall and landlords at key pressure points, and that both distrust the ability of the government to reform the sector.

With private renters now comprising a significant block of voters, particularly in many marginal seats, the offer that is made to them will be a defining political issue in coming elections. Ultimately, we argue in this interim report, a new deal is needed for both tenants and landlords, one which raises standards for tenants and equips them with better rights, all the while supporting landlords through strategic and well-understood policy that encourages socially responsible landlordism.

## KEY FINDINGS

- The private rented sector has grown considerably in recent years, housing 4.7 million households (20 per cent) in 2016/17, up from two million (10 per cent) in 1996/97.
- The types of households renting from private landlords has changed. The number of households with dependent children living in the private sector grew from 461,112 in 1996/97 to 1.7 million in 2016/17.
- The private rented sector is insecure. Around one in 10 tenancies which come to an end do so as a landlord has terminated them, typically through a no-fault eviction. The biggest reason for a no-fault eviction is to enable a landlord to sell the property or take it back into their own use. Tenancies ended by landlords were the biggest cause of homelessness acceptances in England in 2017, accounting for 28 per cent (16,320) of all local authority homelessness acceptances.
- Private rents are unaffordable for many. In 62 per cent of local authorities the median private rent would be unaffordable to those on low incomes and in 52 per cent to those on middle incomes. In all but one local authority, a person earning minimum wage would find the average private rented home unaffordable.

- A higher proportion of private rented homes are of poor quality compared to other tenures, with 27 per cent of homes failing to meet the Decent Homes Standard.
- The court system is working for neither tenants nor landlords. Legal aid reforms limit access to justice for tenants, with housing cases dropping by half following reforms. Meanwhile, court statistics show that, where they need to use County Court Bailiffs, it takes on average 41 weeks between a landlord making a claim for possession and regaining possession of the property.
- The key issues for tenants identified by our focus groups were insecurity, unaffordability, poor conditions, and a lack of agency and representation.
- The issues identified by landlords were welfare reforms, reforms and reductions to taxation on private landlords, and the legal system. Landlords also suggested that the key risks to their investments were long void periods plus rising interest rates.
- Our research also found that tenants and landlords shared some key issues: a lack of knowledge on their rights and responsibilities; the dependence on the kind of relationship that is built between tenant and landlord; an imbalance of power, with tenants feeling that they lack power in the system as a whole and landlords expressing frustration at a lack of power at key parts of the process, and limited trust in the system on both sides.
- Polling commissioned by IPPR from Sky Data found that most people believe the current system of private renting is unfair to tenants, providing them with neither a stable nor an affordable home. The poll found that 53 per cent of people believe the way private renting works is “very” or “fairly” unfair for tenants, while just 19 per cent regard it as fair; pensioners, single parents and couples with children are seen as groups for whom it works very or fairly badly by most people – 61 per cent, 58 per cent and 49 per cent respectively; 61 per cent said it does not provide tenants with a long-term, stable home; and 59 per cent say it does not provide affordable homes, and only 29 per cent say it provides good quality accommodation – outnumbered by the 45 per cent who say it does not.

# 1. INTRODUCTION

***"...if a country is going to move into building more rented properties, then the law has to be there to make it fit for purpose. You know, if people aren't going to be able to afford to buy the houses, which they can't, really... Otherwise, it is all about just making money and greed."***

Private tenant, Oxford

The private rented sector has grown rapidly since the turn of the century – since 2000/01, the sector has grown by 131 per cent, from two million households to 4.7 million. The tenure now plays a much more significant role in housing provision, with 20 per cent of all households living in the sector, up from nine per cent 20 years previously. At the same time, the tenure has diversified. Where it was once primarily home to single, young people who were often looking for temporary accommodation, an increasing number of households with children and older renters are making a long-term home in the sector. Currently, there are 1.7 million households with children renting privately. In total around 3 million<sup>1</sup> children live in privately rented homes, many of whom will grow up, go to school and transition into adulthood in homes rented from private landlords.

Despite the more significant role that the private rented sector now plays in the housing market, the regulations which govern the tenure have not kept pace with its growth. As a result, the 4.7 million households living in the private rented sector are not provided with the security, affordability and quality that many of them look for in a home.

This has political consequences. Analysis by the housing charity Shelter has shown that in marginal constituencies, private tenants make up a significant block of voters (Shelter 2018a). In the last election, data from the British Election Survey revealed that the majority of the increase in voter turnout was attributable to people who rent rather than own – and that was also the case for the entirety of the swing from the Conservatives to Labour (ibid). Moreover, in 253 constituencies, more than 20 per cent of voters are renters (ibid) and they are particularly motivated by housing, prioritising it as a key issue that affects their vote. The offer that is made to private tenants will be a defining political issue in coming elections.

IPPR is undertaking a programme of work seeking to understand in greater depth the lived experience of both tenants and landlords in the private rented sector. The aim is to generate the insights necessary to help inform our proposals (and those of others) for reform to the sector – ensuring it is one of choice, not of last resort.

As part of this programme, IPPR is conducting focus groups structured over two waves. In the first, we have set out to understand tenant and landlord experiences and their attitudes to reform. In the second, we will work through some policy proposals designed to tackle the issues unearthed by the project. These ideas will be tested with the two groups and refined based on their insights and feedback.

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1 IPPR analysis of the Survey of English Housing 1993/94–2007/08 and the English Housing Survey 2008/09–2015/16.

This report summarises the findings from the first wave. It does not hope to do justice to the volume of insights and issues unearthed through our work so far; this will come in our final report. Rather, this paper uses the understanding gained in the focus groups so far to set out a case for reform.

In our conversations with tenants it became clear that there were four key concerns. Our focus groups with landlords also highlighted that they recognised many of the issues that tenants faced and sympathised with them regarding their challenges. The key issues were insecurity, unaffordability, poor conditions, and a lack of agency and representation.

From the landlords' perspective, we also learnt their motivations for becoming landlords, which for many centred around it being the best form of investment. They also highlighted a number of key issues, which were welfare reforms, reforms and reductions to taxation on private landlords, and the legal system. Landlords also suggested that the key risks to their investments were long void periods and rising interest rates.

Our research also found that tenants and landlords share some key issues. These are:

- **Knowledge:** they lack knowledge on their rights and responsibilities, undermining their ability to exercise them.
- **Relationship:** they share an awareness that their experience is largely dependent on the kind of relationship that is built between tenant and landlord.
- **Power:** tenants feel that they lack power in the system as a whole, resulting in mistrust; landlords have expressed frustration at a lack of power in key parts of the process. The current regulatory arrangements fail to give either party the reassurance that risk is being shared fairly between renters and landlords.
- **Trust:** both tenants and landlords have limited trust in the system and the ability of government to reform it, demonstrating that reforms will need to build confidence in the sector if they are to be successful.

To support the focus group research conducted with tenants and landlords, IPPR also commissioned polling from Sky Data on the views of the general public on private renting.<sup>2</sup> This research found that most people believe the current system of private renting is unfair to tenants, providing them with neither a stable nor an affordable home. It found that most believe that the tenure works poorly for certain groups in particular – pensioners, single parents and couples with children.

In response, this report concludes by setting out a case for why reform to the private rented sector is overdue. Ultimately, we argue that a new deal is needed for both tenants and landlords, one which raises standards for tenants and equips them with better rights, all the while supporting landlords through strategic and well-understood policy which mandates socially responsible landlordism.

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<sup>2</sup> IPPR commissioned Sky Data to conduct a nationally representative poll of 1,119 people. The poll which was conducted online between 23 and 26 November 2018 included questions to gauge perceptions of how well the private rented sector works for tenants and landlords. The full results, including weighted and unweighted sample sizes, are available at: <https://www.ippr.org/files/2018-11/ippr-sky-data-polling.pdf>. Sky Data is a member of the British Polling Council and abides by its rules.

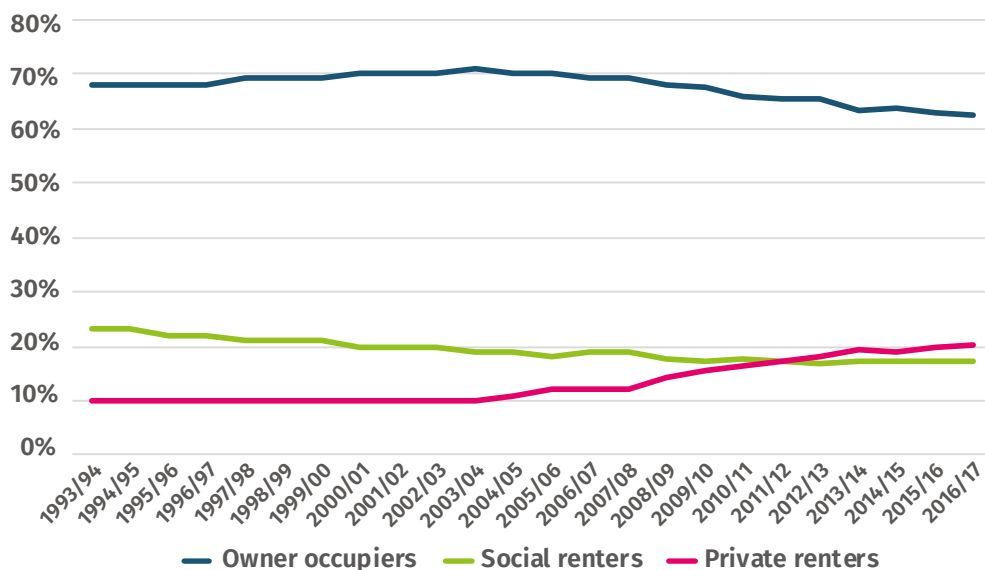


## 2. PRIVATE RENTING THEN AND NOW

The private rented sector has grown significantly in recent decades, with around 4.7 million households in England calling the sector home. This is more than double the proportion living in it 20 years ago<sup>3</sup>. While the number of households renting from private landlords has been growing consistently since 1999, the period following the financial crisis of 2008 has seen the most rapid expansion. However, recent data shows a slight contraction of the sector in 2017 (Rhodes and Rugg 2018), suggesting that this growth may be beginning to slow or plateau, although this may be temporary.

**FIGURE 2.1**

The proportion of households living in the private rented sector has grown rapidly since 2007/08



Source: IPPR analysis of the Survey of English Housing 1993/94–2007/08 and the English Housing Survey 2008/09–2016/17.

The growth of private renting has been highest in urban centres, predominantly those with higher than UK average house prices. In London, for example, 30 per cent of all households now rent their home from a private landlord, compared to 19 per cent across the rest of England (excluding the capital) (MHCLG 2018c).

Nonetheless, the sector has expanded in all regions of the country. In fact, between 2003/04 and 2016/17 the growth of the private sector was larger in the north of England and the West Midlands than elsewhere in the country, with

<sup>3</sup> IPPR analysis of the Survey of English Housing 1993/94–2007/08 and the English Housing Survey 2008/09–2016/17.

Northern regions growing by 181 per cent compared to 156 per cent in London and 119 per cent in the South East (ibid).

**TABLE 2.1**

**Growth in the private rented sector across the English regions between 2003/04 and 2016/17**

Region	2003/04		2016/17		% growth
	000s households	% of all households	000s households	% of all households	
North East	66	6%	186	16%	181%
North West	203	7%	582	19%	187%
Yorks and Humber	199	10%	483	21%	142%
East Midlands	137	8%	350	18%	154%
West Midlands	150	7%	426	18%	184%
East of England	224	10%	464	18%	107%
London	405	14%	1,035	30%	156%
South East	325	10%	711	19%	119%
South West	232	11%	456	19%	97%
England (excluding London)	1,537	9%	3,657	19%	138%
England	2,234	11%	4,692	20%	110%

Source: IPPR analysis of MHCLG (2018c).

### **A MORE DIVERSE TENURE**

Where the private rented sector was once seen as a ‘marginal tenure’ – home to young, single and transitory households – this is no longer the case.

While the proportion of all household types living in the private rented sector has grown, the expansion has been greatest for those with children. The number of households with dependent children living in the private sector grew from 461,112 in 1996/97 to 1.7 million in 2016/17 (ibid).

**TABLE 2.2**

The proportion of those from all household types that live in the private rented sector grew between 1996/97 and 2016/17, but this growth was most significant for those with children

Household type	Number of households in the private rented sector			Percentage of all household type in the private rented sector		
	1996/97	2016/17	Change	1996/97	2016/17	Change
Couple with no children	48,000	965,000	917,000	8%	14%	6%
Couple with dependent children	306,000	1,140,000	834,000	7%	23%	16%
Lone parent with dependent children	155,000	590,000	435,000	12%	37%	25%
Other type of household	250,000	580,000	330,000	33%	51%	17%
One person	765,000	1,255,000	490,000	14%	19%	6%

Source: IPPR analysis of the Survey of English Housing 1996/97 and the English Housing Survey 2016/17, results rounded to the nearest 10,000

People are also living in the private rented sector for longer. Millennials (the generation born between 1981 and 2000) are four times more likely to be renting privately at age 30 than baby boomers (the generation born between 1946 and 1965) did at the same age (Corlett and Judge 2017).

Moreover, estimates by PWC based on government data suggest that by 2025 almost a quarter (24 per cent) of all households will be private tenants (PWC 2016). This change is most significant in London, where almost 40 per cent of households will be private tenants, the same proportion who will be owner occupiers (ibid). However, it should be noted that recent data shows a slight drop in the number of private rented sector dwellings (Rhodes and Rugg 2018), which suggests that the precise trajectory of the sector will depend in a large part on policy.

### LANDLORD DEMOGRAPHICS

More than seven in 10 (71 per cent) of all privately rented homes are owned by individuals and couples – 78 per cent of all landlords own just a single dwelling and only eight per cent are full-time landlords (DCLG 2011). For the majority, 69 per cent, becoming a landlord is an investment decision, although a significant proportion are motivated by other reasons, including the four per cent who are landlords because they have a property they cannot sell and the 10 per cent who are holding onto a home that they or their family, friends or relatives will live in in the future (ibid).

While the majority of those who become landlords bought the home they rented out, a significant group (25 per cent) acquired it through other means, with 11 per cent inheriting their property or receiving it as a gift (ibid).

### DRIVERS OF GROWTH IN PRIVATE RENTING

The growth of the private rented sector over the past two decades has been driven by four inter-related factors: deregulation; the expansion of credit; the financial crisis, and a growing demand for privately rented property.

### **Deregulation**

In the early 1980s, Margaret Thatcher's government announced a desire to revive the private rented sector (Crook and Kemp 1996). Tenure reform, through the introduction of the assured shorthold tenancy, was a key tool in the then government's attempts to increase private investment in the rental market.

These reforms allowed landlords to charge market rents and made it much easier to evict tenants through the creation of 'no-fault evictions', which enabled landlords to take possession of a property without having to give a reason (Kemp 2015). At the same time, the reforms provided certainty on government support for the sector after years of its marginalisation by both of the main political parties (ibid).

### **The expansion of credit**

The deregulation of the private rented sector began to support the growth of the tenure, but this was further driven by the expansion of credit available to landlords, particularly through the emergence of buy-to-let (BTL) mortgages in the 1990s (ibid). Buy-to-let mortgage products, initially developed with the Residential Landlords Association and later adopted in a more wholesale fashion by lenders, allowed prospective landlords to take on mortgages for rental properties, something which lenders had previously been disinclined to do, given perceived risks (ibid). This made credit available for small-scale landlords who saw housing as a solid investment and were attracted to the capital gains which they could make from properties (Leys and French 2009).

### **The financial crisis**

The rise of the private rented sector, and the increase in BTL landlords, was further facilitated by the global financial crisis (Kemp 2015; Kennet et al 2013). The decision in March 2009 by the Bank of England to reduce the base rate to a low of 0.5 per cent and to embark on a programme of quantitative easing to suppress interest rates resulted in low borrowing costs for those who could access BTL mortgage finance. This allowed a greater number of households with access to capital to purchase BTL properties or to increase the size of their existing property portfolios (Kemp 2015; Kennet et al 2013). At the same time, low interest rates meant that returns from other investments were lower than investing in property, thereby directing those who had assets or capital and who wanted to seek a return to look to property investment.

### **A growing demand for private rented property**

The deregulation, new supply of credit and post-crisis macro-economic policy which led to a growth of BTL landlords also created a situation in which a growing population has been forced to meet its housing needs through privately rented housing. Mortgage reforms enacted in the shadow of the financial crisis which made mortgage finance requirements more stringent and increased loan-to-value (LTV) ratios (Kennet et al 2013), combined with the slow growth of post-crisis earnings relative to house prices (IPPR Commission on Economic Justice 2018), have made home ownership more difficult to access. This, in combination with the decline of social housing stock, has created a greater pool of those who are more reliant on using the private rented sector to meet their housing needs.

Yet, despite the rapid (and largely unintended or at least unplanned) growth of the private rented sector and the increasing role that amateur landlords are playing in housing provision, regulation has not kept pace with this development. This means that many are living in a tenure which is unfit for their needs, creating significant issues for both tenants and landlords. These issues will be considered in the following chapter.

### 3.

## THE CHALLENGES FACED BY TENANTS

The growth and changing role of the private rented sector has not, in England at least, been accompanied by a comprehensive rethink of the overall framework, regulations and legislation which govern the sector on an appropriate scale. The same insecure tenancy form that was used to spur on the growth of the sector still governs the rights that a tenant has over the homes in which they live. All the while, welfare reform, changes to access to the judicial system and spending cuts as part of austerity all interact to create issues for tenants.

This chapter considers the four key issues facing private rented tenants that arose from our conversations with them: insecurity, unaffordability, poor conditions, and a lack of agency and representation.

#### THE PRIVATE RENTED SECTOR IS INSECURE

Tenants in the private rented sector have limited protection from eviction. Unlike in other tenures, a landlord can end a tenant's contract without providing a reason if a tenant is out of their initial term, which is generally limited to only six or 12 months. The statistics show that the majority of tenancies are ended by tenants who decide to move, while around one in every 10 tenancies is ended by a landlord (Rhodes and Rugg 2018). Most of the tenancies which are ended by a landlord are done so in order for the landlord to sell the property or bring it back into their own use (Baxter 2018). A minority are done so because of rent arrears or other reasons for which the tenant is at fault.

While the statistics show that the majority of tenancies are ended by tenants who choose to move, they do not capture the reasons why tenants leave or the lived experience of tenants who, as we heard in our focus groups, fear being asked to leave with just two months' notice.

***"I'd like somewhere that I can call my home because at the moment, you never know when you've got to move on. There's always a phone call to say, 'That's it, move.'"***

Private tenant, London

***"So... you haven't got that security that you want where you're there for, like, 10, 20 years, and you can make it a home. It's, kind of, like, you never really fully invest yourself."***

Private tenant, Oxford

The impacts of tenancies coming to an end in this way can be significant. The ending of private rented tenancies is the biggest cause of homelessness acceptances in England, accounting for 28 per cent of all local authority acceptances in 2017 (MHCLG 2018a).

Recent evidence suggests, however, that tenants are living in a single property for longer. Between 2008/09 and 2015/16 the proportion of households who had been living in their rented home for between three and five years increased from 18 per cent to 30 per cent (Rhodes and Rugg 2018). Over the same period, the number of

households who had lived in their current home for less than one year fell from 39 per cent to 26 per cent (ibid).

Yet a culture of insecurity remains, undermining tenants in other ways, such as limiting their ability to complain to landlords about conditions for fear of retribution. Research by the Citizens Advice Bureau (CAB) found that almost half of tenants who make a formal complaint about the conditions of their property are subsequently evicted (CAB 2018). This is despite recent legislation designed to crack down on these so-called revenge evictions. The tenants we spoke to told us how it changed their behaviour. They choose not to invest either emotionally or physically in the home in which they live and they save up complaints so as not to become a 'pain' to their landlord.

***"The problem is, based on supply and demand, they know full well that if you don't like it, there will be somebody that will jump straight into that. You're not actually the only one in the queue, so in terms of, like, when you raise issues, and where I've raised issues in the past, I raise them a couple of times, and then you get to a point where you start feeling quite vulnerable, because the reality is, am I becoming that pain to them?"***

Private tenant, Oxford

***"For me, it's just to feel secure really. I've never felt 100 per cent secure renting because you can just get that letter or phone call saying, 'Out in two months.' Also, in my opinion, it makes it quite hard if you're, just for me personally, pre-married, pre-children, to make any sort of big life decisions knowing that that's in the back of your head."***

Private tenant, London

***"Yes, that's right. It does affect you, and then you become a disposable tenant. You moan and ask for things too much, then they'll say, 'Move out. Move on. If you don't like it, then we don't need you.'"***

Private tenant, Oxford

It wasn't just tenants who made clear that there are issues with stability in the private rented sector; many of the landlords we spoke to also said that they understood the issues that the lack of stability presented to tenants. There was particular concern on the behalf of landlords on how it was affecting families with children.

***"You think about people with families, like, young children, if they go to local schools, it's in their best interests to stay put, isn't it? Otherwise it messes the child up having to keep moving around and, you know, it's a knock-on effect for lots of things, isn't it?"***

Private landlord, Bristol

***"With a family, if I had children that were in school, I'd want that security. My brother had it, their kids were settled in school, 'No, we want to take the property back, we want to move back in,' so he had to uproot the kids out of school and he had to move."***

Private landlord, London

Polling commissioned by IPPR from Sky Data supported the findings from focus groups regarding the issues of stability. The research found that most people agree that the private rented sector fails to provide a long-term stable home – 61 per cent said it does not provide tenants with a long-term, stable home, compared with 15 per cent who do.

## PRIVATE RENTING IS UNAFFORDABLE FOR MANY

Private rents are unaffordable to those on lower incomes in 62 per cent of local authorities in England and in more than half (52 per cent) for those on median incomes (IPPR analysis of VOA 2018). In only one local authority would a person earning the minimum wage find the average private rented home affordable (ibid). This is in a large part because rents have risen at a greater pace than earnings. Between 2001/01 and 2015/16 median private rents in England increased by 92 per cent, while median earnings only increased by 52 per cent (Rhodes and Rugg 2018).

Many of the landlords recognised the issues that tenants faced with regard to high rents and also high fees. Some said that the lack of choices that the private rented sector afforded tenants was one of the reasons that they wouldn't want to rent.

**Landlord one: "Renting is really dead money."**

**Landlord two: "It's expensive to rent somewhere decent."**

**Landlord one: "You're paying more in rent, probably, than what a mortgage would be."**

**Landlord three: "But you haven't got a deposit to put down to get a mortgage."**

**Landlord two: "Yes, it's really tough, really is."**

Private landlords, London

**"It's not cheap. Then they could get somewhere where... it's perfect because it's down the road from the school that you want your kids to go to, and you get settled, and it's around the corner from your mum and dad and everything. Then all of a sudden, they say, 'Your rent's going up', by £50 or whatever, or, 'We're selling, so we want you out.' There's always that. I wouldn't personally like to rent for that. You want it to be your choice, yes."**

Private landlord, London

Alongside rents, the cost of deposits and letting agency fees also cause financial stress for renters. The average deposit is equivalent to 60 per cent of average earners' monthly take-home pay (IPPR analysis of VOA 2018), while research has found that more than half (54 per cent) of renters who use a letting agency have to dip into their savings, cut down on food and/or fuel costs, or need to borrow money to cover the cost of fees (Webb 2013).

**"You have to pay lots of fees now. If you want a guarantor, they've got to pay. Everyone's got to pay. The kids that are over 18, they all have to pay. It's like thousands at the time. You're renting because you can't really afford it in the first place. You feel quite stuck really."**

Private tenant, London

**Tenant one: "Just for changing a date and a few other bits and pieces, they charge an extortionate amount of money. It's like changing a plane ticket, 'Oh, sorry, missed out the A? That'll be another £200.'"**

**Tenant two: "Yes, it's usually like a standard tenancy agreement that they just fill in your name, and they charge you £150 or £200 for that, so it's quite a lot, but there might be more to it. On the surface, that's what it feels like for us."**

Private tenants, Oxford

**"I wouldn't like to rent, because I think that the fact that they have to put a month's bond down, a month's rent in advance, then they have to pay probably £250, £300 fees for, like, credit searches and stuff."**

Private landlord, London



In addition, the polling research commissioned by IPPR found that most people believe the issue of affordability is the biggest issue facing those in the private rented sector. A total of 35 per cent of people believe that 'the level of rent is too high' in the private rented sector with the next closest issue being the 'level of letting agent fees' at 14 per cent. The polling work also found that 59 per cent of people do not believe that the private rented sector is 'an affordable place to live' compared with 21 per cent who think the opposite.

At the same time, the financial support available to those on low incomes to help meet their housing costs has been cut in recent years. Reforms to and the freezing of housing benefit mean that a greater number of low income households face a shortfall between the rent they are being charged and the amount of local housing allowance they can claim, causing financial strain (Rhodes and Rugg 2018).

### THE QUALITY OF HOUSING IN THE PRIVATE RENTED SECTOR IS WORSE THAN IN OTHER TENURES

In the private rented sector, 27 per cent of homes fail to meet the Decent Homes Standard<sup>4</sup> (MHCLG 2018b). Research by the housing charity Shelter found that 61 per cent of renters had experienced damp, mould, leaking roofs or windows, electrical hazards, animal infestations or gas leaks in the last 12 months (Gousy 2014). As one tenant told us:

***"We've got storage heaters. They're awful in the winter. The kitchen, dated. I've mentioned it many times, but it's like, not priority for the landlord. It is for me, because it affects my day-to-day living, but to them, they're like, you know?"***

Private tenant, Oxford

While standards have been rising in the private rented sector in recent years, they still lag considerably behind other tenures (MHCLG 2018b). In the owner-occupied sector, 20 per cent of homes fail to meet the Decent Homes Standard, with 13 per cent falling short in social housing (ibid), showing that private tenants are far more likely than those in other tenures to face poor conditions.

The polling research commissioned by IPPR also supported these findings with 45 per cent of people saying that the private rented sector does not 'provide good quality accommodation for tenants' compared with 29 per cent who believe the opposite.

### TENANTS LACK AGENCY AND REPRESENTATION IN THE PRIVATE RENTED SECTOR

Current legislation means that landlords hold much of the control over who they let to and what they allow tenants to do with a property, in a manner which is out of step with the other main tenures. For example, it is common for landlords and letting agents to refuse tenants who are claiming certain benefits (Shelter 2018b). This, in a market where alternative tenure options may be out of reach, can constrain the ability of those on low incomes to access housing. The Residential Landlords Association has recently pointed to evidence that mortgage lenders representing 90 per cent of the market refuse loans to landlords who let to tenants who are claiming housing benefit (Guardian 2018). However, our conversations with landlords revealed a hesitancy to let to people on benefits from landlords themselves.

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<sup>4</sup> This means the home fails to meet one of four categories – being free from hazards which pose serious harm to health or safety, being in a reasonable state of repair, having reasonably modern facilities and having efficient heating and insulation.



**Landlord one: "I think my friend blatantly chooses not to rent to people on benefits, and I feel like that should be her choice. It's her property."**

**Landlord two: "Yes."**

**Landlord one: "Are we discriminating? Is it another politically correct thing?"**

Private landlords, Bristol

At the same time, landlords commonly place limits on the ability of tenants to occupy a home freely, for example, preventing them from decorating or owning a family pet. This shapes how tenants view their home and whether they feel they have control over it. This impacts on whether tenants can feel 'at home' in the private rented sector (Baxter 2018).

**"I don't know. I mean, where I live now is comfortable, and I know that I can relax in the house, but I do feel-, like, because, you've just mentioned, you can't put pictures up. My sister, she's had [houses] similar to this and said, 'Oh, don't put a picture on the wall. If it leaves a line around the picture then you'll have to get the whole room painted or you'll lose some of your money on a deposit.' Council renting, they don't care. My neighbour, he's ripped out two kitchens and put brand-new kitchens into his [house] because he does feel that that is his permanent residence."**

Private tenant, London

Private tenants also lack political agency and have weak representation in the debates that affect them. Unlike elsewhere in Europe, the UK lacks an effective system of tenants' unions which represent tenants' interests, both politically and in disputes with their landlords.

Tenants' unions in the UK are embryonic, lack significant membership and are poorly recognised in the housing system and in policy. In contrast, the national tenants' association in Germany, Deutscher Mieterbund (DMB), represents 320 local organisations which themselves represent around 1.3 million tenant households containing three million tenants (Davies et al 2017).

What is more, tenants lack access to legal representation when they need it. Recent reforms to the legal aid system mean that fewer tenants can access financial support to take forward claims against their landlord. Court statistics collected the year following reforms to legal aid which limited access to funding for housing cases saw such cases drop by 50 per cent (Amnesty International UK 2016).

The findings from polling commissioned by IPPR, support these findings. The polling found that a majority of people think landlords have too much power, and that tenants should have greater protection from those landlords who behave badly. The research found that 54 per cent of people believe landlords hold too much power over tenants, with only 10 per cent believing the opposite.

## 4.

# THE MOTIVATIONS OF LANDLORDS AND THE CHALLENGES THEY FACE

The growth and changing role of the private rented sector has seen greater political and policy attention focused on the tenure. This has resulted in some policy changes which have had a variety of impacts on landlords. The wider policy context, in terms of austerity and the reductions to government spending, has also had an impact on the sector. Through our conversations with private landlords across England we sought to understand their motivations for entering the market as well to get to grips with the challenges that they were facing.

### LANDLORD MOTIVATIONS

The landlords we spoke to told us about their reasons for becoming landlords, with most stating that it had been a deliberate investment decision and some saying it was because they'd inherited a property. Many of the landlords we spoke to argued that an investment in a buy-to-let property was likely to achieve a higher return than comparable investments, including pensions.

*"My mum died, so it obviously came to us in the will and basically, we talked about it, I don't actually trust pensions in pension funds because it's always the same, 'Yes, it's doing really well, really well.' All of a sudden, 'No, it's doing really bad'; when you're going to get your money and other things. So, I just thought at least we have a house, you can see it's there, it will go up in value, yes, we could have crash, it will drop but when then happens, rental goes up anyway. So, as long as you can service a loan, which I don't have on it, so I can do that, you just sit and wait seven years and it'd go back up to £300,000 and odd that it's worth now."*

Private landlord, London

*"For me, it's mainly because properties are far, far cheaper and, for me, the capital appreciation is probably not going to be great, in all honesty, but it's far better, because I earn some money to put it into that, because if it was just an ordinary interest account, I'm probably getting about 7 per cent interest. So, for me, it's an income, rather than the appreciation."*

Private landlord, London

Some of the landlords we spoke to explained the strategy behind their investments, including investing in properties close to transport upgrades or new infrastructure. As one landlord told us:

*"It's really getting the most out of an investment, really, and there isn't anything better than mucking in with a property. I bought one right, sort of, half a mile from the Crossrail, because I know once it starts up next year, property prices will rise a little bit more, because of the Crossrail being nearby, and I'm getting more appreciation for my money, my investment than I would anywhere else, really."*

Private landlord, London

## KEY CHALLENGES FOR LANDLORDS

Over the past few years a number of policy changes have had an impact on landlords. The policy changes that were mentioned most frequently were reductions to housing benefit for tenants and other changes such as direct payment; the other main changes were government reforms to the taxation system. Landlords also regularly referred to problems in the court system.

### Welfare changes

Landlords in our groups frequently raised the government's reforms and cuts to housing benefit as a challenge to their rental yields and willingness to let to households in receipt of benefits. This is supported by research by the Residential Landlords Association, a representative body for private landlords, found that their members had experienced an increase in arrears due to changes to the social security system and a decrease in their likelihood to choose to rent to tenants in receipt of benefits (Wilson 2018).

**Landlord one:** *"I've been in properties where they're tenanted by people on social services, you know, and they're perfect."*

**Landlord two:** *"I think if housing benefit got paid direct to the landlord it would—"*

**Landlord one:** *"Well, it used to be, didn't it? It used to be, and then they decided that these tenants can make their own responsibility to pay themselves."*

Private landlords, Bristol

### Tax changes

In the 2015 budget, George Osborne announced a range of tax changes which affected private landlords, including reductions in mortgage interest relief and the introduction of additional Stamp Duty on the purchase of second homes (HM Treasury 2015). The expressed motivation for these changes was to 'level the playing field' between first-time buyers and investors. The overarching intent of this was to reduce BTL investment in the private rented sector (ibid). The landlords we spoke to highlighted the impact that they believed these changes were having.

**Landlord one:** *"I think the problem is there is a need for rental properties and they seem to be hitting you with this extra 3 per cent tax if you buy a property, you've got a second home and then with the interest with the way that they've capped the reliefs."*

**Landlord two:** *"Do you think they are trying to squeeze us out? We're needed, though, aren't we?"*

**Landlord one:** *"They're trying to free up more houses, I said."*

**Landlord two:** *"That's what I think, yes, they want first-time buyers because predominantly, people who rent buy first-time buyers' houses, three bed down to rent out."*

**Landlord three:** *"That's a lot, 3 per cent."*

**Landlord one:** *"It can be. On this flat it's £6,600 on a one-bed flat but I don't know, I don't think it's such a bad thing that it allows people, as the gentleman said here, my children buy in, they needed help because the properties that they're buying are what landlords are taking."*

**Landlord three:** *"So, they're penalising us, aren't they, for buying the second property."*

**Landlord two:** *"Yes, I think they're trying to make it unviable, really, as an investment for new buyers."*

Private landlords, Bristol

Some of the landlords we spoke to had mixed views about the tax reforms. While they believed that the government was unfairly targeting landlords, many of them had sympathy for those who wanted to buy their own home but were being squeezed out.

**Landlord one:** *"It's stopping people buy to let. It's stopping it. Again, they know there's going to be this big problem down the road. So, they don't want any more people buying to let. Or they want to discourage it as much as possible."*

**Landlord two:** *"I don't really know what the answer is because I get where the government's coming from in that they're trying to do things for tenants. Part of me feels like, in a lot of cases, it's weighted towards more the tenant than the landlord. I get that they probably feel like first-time buyers are being out-priced. You know, other people can't get on the market. Maybe the answer is to look at an area and say, 'Out of an area that can house 2,000 people, or there are 2,000 homes, there's only ever going to be 300 that are allowed on buy-to-let.'"*

**Landlord one:** *"The fact that first-time buyers can't afford isn't all landlords fault though, is it?"*

**Landlord three:** *"No."*

**Landlord two:** *"No, course it isn't."*

**Landlord one:** *"It's not all landlords' fault yet they seem to be the easy target."*

Private landlords, London

The polling commissioned by IPPR into people's views on the tax changes introduced by the government found support for the reforms. In total 44 per cent of people believe the tax changes on mortgage interest rate relief and higher stamp duty were either 'very fair' or 'fair, compared with 21 per cent who believe the opposite. The research also found that the overwhelming majority of people (70 per cent) believe the private rented sector is a sound investment for landlords.

### **The legal system**

In England, court statistics on private and social rented sector repossessions show that it takes an average of 11 weeks from the point a landlord makes a claim for a possession order, which will give them the ability to take back control of their property, to have the order granted (Moj 2018). If a landlord needs to apply for County Court Bailiffs to evict a tenant, for example in a case where tenants refuse to leave after a possession order has been granted, this can take considerably longer. Currently, court figures show that this takes on average 41 weeks, in which time a landlord is unlikely to receive rent (ibid).

The government in their consultation on increasing security of tenure to tenants suggest that when private landlords and tenants and extracted from these statistics it shows that these timescales are much shorter (MHCLG 2018d). MHCLG estimate that the time taken from order to gaining possession for private landlords is 22 weeks, though they do not specifically state whether this includes time taken to apply for bailiffs (ibid).

Whether this shorter window, if it were better communicated to landlords, would put them at ease is unknown. Many are perhaps likely to still think that five and half months is too long to go without rent. Regardless, the responses in our focus groups showed that it was the perception of the time it would take to remove tenants and their likely compliance, rather than an evidential understanding of the court system nor prior experience, which concerned landlords and dissuaded them from offering greater security.

***"The process I just found ridiculously complicated. Lawyers. Costly. The procedure was all weighted in terms of the tenant. I've been threatened outside the courtroom. I was told, 'Don't react.' So, somebody owes me thousands of pounds and I have to smile and say, 'Thank you.' I've encountered all of this."***

Private landlord, Manchester

### **Perceived risks to landlords**

The landlords we spoke to also set out the issues which they believed posed the biggest risks to their investments. In general, those we spoke to said that the biggest ongoing risk was that of having an empty property which they couldn't rent out for some reason.

***Landlord one: "Voids, isn't it?"***

***Landlord two: "Void periods."***

***Landlord three: "If you don't have the rent coming in, you're stuffed, you've got to find it out of your own pocket, if you haven't got the insurance."***

Private landlords, London

However, in terms of future perceived risks, the potential for rising interest rates was one of the biggest dangers that landlords foresaw to their investment in future.

***Landlord one: "Interest rates would affect me. If mortgage rates go up, it's going to impact on my profit threshold."***

***Landlord two: "Unless you want to sell your rental property, I think you're quite comfortable, as long as you can let it out, it's only if you've got plans on selling."***

***Landlord three: "I mean, I think we've been very, very fortunate for the last 10 years with interest rates being at an unprecedented bottom. We've been able to get the highest margin for rent, which has been fantastic, but it can only go up, so it's just a question of how slow and how much it goes up. If it goes up, like, 2 to 3 per cent, then it could really make the margins for landlords very tough."***

Private landlords, London

## 5.

# COMMON THEMES FOR TENANTS AND LANDLORDS

Our focus groups also revealed that both tenants and landlords have some issues in common and are looking to government to address these. As outlined above, tenants were concerned about security, affordability, quality and agency, while landlords discussed the challenges they faced in accessing the court system and from the impact of recent tax reforms.

However, in the course of our conversations with tenants and landlords we found that they had several shared concerns. These centred around four themes: a lack of knowledge about their rights and responsibilities; a perception about power in the system; a reliance on the individual relationship between tenant and landlord, and a lack of trust in the system and the ability of government to reform it.

### 1. A LACK OF KNOWLEDGE OF THEIR RIGHTS AND RESPONSIBILITIES

Both tenants and landlords demonstrated limited knowledge of the legal frameworks and rights which govern the private rented sector. Tenants often described experiences where they had been unsure of their rights in the past, or where they had subsequently learned that a landlord had behaved in a manner which was unlawful. At the same time, most tenants were unaware of where to turn if they were having issues and did not know – beyond taking up the issue with their landlord directly – where to go with complaints about letting agents or landlords.

***"There's this rip-off culture with deposits where people are being completely messed over, because the landlord is saying, 'Oh, well, you've marked that wall.' So, that's going to cost you £300 to paint the living room, whereas actually, as a tenant, you're really protected... It's just that no one knows that this stuff exists."***

Private tenant, Oxford

Landlords were often similarly unaware of their responsibilities, with most saying that they often learned about the regulations governing the sector reactively, often when they were informed by a tenant or in response to emerging issues. Building an understanding of their role as a landlord and the regulations governing their behaviour was, in the most part, acquired through experience and not learnt from the outset upon becoming a landlord.

An example of this was found in our focus groups in Scotland, where most tenants and landlords were unaware that the government had recently implemented substantial reforms to the sector, increasing the rights afforded to tenants. Those tenants and landlords who were aware of these changes, apart from two large portfolio landlords, had only found this out when they signed a new contract with a letting agent.

This lack of knowledge means that tenants face unnecessary and unlawful treatment in the sector, which could be avoided were they to enforce their rights. At the same time, the lack of knowledge on the part of landlords means that tenants cannot necessarily expect lawful treatment by default.

More generally, this shows that landlords' professional engagement was poor and, as a result, strategies for informing landlords of their responsibilities which require active engagement are likely to be ineffective.

## 2. A PERCEIVED LACK OF POWER IN THE SYSTEM

Where tenants and landlords were aware of their rights or of the mechanisms such as dispute resolution, whether formal or informal, both often felt disempowered by the system. Both groups felt that the other held the power in the relationship and that the processes and regulations that are designed to mediate risks were unfairly tipped in favour of the other party. Clearly, where legislation should balance risk in the relationship between landlord and tenant, neither party felt this was happening. This led to distrust between the two groups.

Tenants felt that landlords ultimately controlled whether they stayed in the property, given the ease of repossession with Section 21 notices, and that this meant they were beholden to their landlord. This shaped the behaviour of tenants, with a number describing how they 'saved up' repairs and worked hard at being a 'good' tenant who did not present as a nuisance, for fear of goading a landlord into ending their tenancy.

***"There's no one to turn to. The local authorities, no one's got any power in this game, apart from the people who own the properties, you know. There's this power imbalance."***

Private tenant, London

***"Tenants are very vulnerable. I mean, you have very little power, you're worried about your deposit, there's also this thing called revenge eviction. Now if you complain, if you're dealing with a nasty landlord, he'll just evict you on Christmas Eve, usually."***

Private tenant, London

Landlords often described feeling that they lacked power where they had a bad tenant and that they were unduly disadvantaged by the legal protections which were designed to safeguard renters gave them too much power. This led a number of them to believe, whether fairly or unfairly, that tenants were free to not pay rent or damage the property as they wished.

This was a further manifestation of the concerns surrounding the court system described earlier in this report. Landlords in our groups described having to go out of their way to accommodate the tenants even if they were themselves in the right, for example in situations of rent arrears. This, they argued, was particularly the case when they were taking possession of a property because they were concerned that a tenant may stay put, trapping them in a protracted and costly process.

***"So, basically, [I] gave her written notice of two months and that's when I had to be just really nice to her and say, you know– basically not mention the fact that she already owed me two months and I wasn't getting that plus the other two months' notice. Then it came to the day when she was due to move out... 'I'm not going to be out, I need longer.' Again, I had to just be really nice because I thought she could just dig her heels in and I have to take her to court... I had to give her an extra week."***

Private landlord, Manchester

## 3. THE RELIANCE ON THE TENANT AND LANDLORD RELATIONSHIP

Perhaps unsurprisingly both tenants and landlords remarked that the quality of their experience largely depended on the nature of the individual on the other side of the relationship as well as the quality of that relationship. In many ways, this linked to the lack of knowledge that both tenants and landlords have about



their rights and responsibilities. In the absence of that knowledge, the individuals involved are more reliant on the relationships they build between each other, rather than what they are entitled to or responsible for.

**Tenant one:** *"I agree, but I think it depends on the landlord because I've had situations where it's taken the landlord a long time to respond to any enquiries, and it's like you're having to chase them up and it's just extra effort, kind of thing."*

**Tenant two:** *"So, I think it depends really on how conscientious the landlord or landlords are, and whether you're dealing with a single person privately or whether you're dealing with them via someone like [a letting agency]."*

Private tenants, London

**"For me, at the moment, I've had a tenant in now for three years. They've got two children. She's now doing a university course. They want to stay there for another three years. Great. The first two tenants I had weren't very good at all. A lot, in the first, sort of, year, they ruined the place, if I'm honest. The people we've got now, we do more checks so, yes, but it's all down to what you've got in front of you, isn't it? If you've got somebody good who's renting it, you're laughing. If you haven't, it can be difficult, I'm sure."**

Private landlord, Bristol

#### 4. A LACK OF TRUST IN THE SYSTEM

The issues so far set out would suggest that both private tenants and landlords would be keen to see significant reforms to the sector. In a large part this is true, however both groups were deeply sceptical of the ability of government and market intermediaries, such as letting agents, to pass and implement reforms.

**"I just find the whole thing frustrating, really. You know, if you think about coffee shops, you can go where you like, right? You can go to Nero, you can go to Costa, you can change your mind, you can pick and choose, you can duck and dive. Housing is just not like that. It doesn't work as a free market, it just does not work. There are so many factors involved that, to me, it just seems like an Alice in Wonderland world where nothing is what it seems, your deposit, you know, it's just a nightmare. The whole thing stinks."**

Private tenant, London

Tenants were frequently dismissive of attempts to regulate landlords, feeling that they would find ways to evade new legislation. Landlords frequently felt that while they would adapt to new legislation, 'rogue' landlords would simply dismiss it. In this sense, they felt that a small group of landlords were causing significant issues for those who operated responsibly.

At the same time, landlords often described feeling frustrated with current policy, arguing that it was harmful to them and their rental yields. The recent tax changes in the sector had left many frustrated and feeling that landlords were being actively driven out of the market. This frustrated those who felt that they were providing a useful service, housing those who would otherwise be unable to access home ownership.

A good example of this trust gap can be found in government's plans to ban letting agent fees. Tenants and landlords alike felt that, regardless of whether it was the right thing to do, letting agents would get around the ban by passing the costs onto tenants in different ways. This shows that beyond legislation alone, any reforms to the private rented sector will need to build trust.



**Landlord one:** *"They're going to find another way to – they're not just going to lose that money, are they? The letting agents..."*

**Landlord two:** *"No."*

**Landlord three:** *"They'll just package it up as something else."*

*Private landlords, Manchester*

**Moderator:** *"Was anybody aware that [the letting agent fees ban] was happening?"*

**Tenant one:** *"No, I didn't know that."*

**Tenant two:** *"I didn't know that but, and there is a 'but' here, is that they are going to get that money somehow. So, they're not going to charge administration fees, but they'll come up with some other genius thing for people. 'We're going to charge you for this.'"*

**Tenant three:** *"They'll just put the rent up by £10 a month."*

*Private tenants, Oxford*

That the private rented sector is perceived to be working poorly for both landlords and tenants should be further evidence for its reform. What is clear from the insights which have emerged from our focus groups is that regulation alone is unlikely to be enough to reform the private rented sector. Rather, government needs to consider how it packages reforms, setting out an intent for the future direction of the sector and the role it plays in the wider housing market if it is to be successful. Throughout this paper we have argued that this should take the shape of a new deal for tenants and landlords.

## 6. A PLACE TO MAKE A HOME, NOT OF LAST RESORT

The private rented sector has grown dramatically over the last two decades, housing 4.7 million households in 2016/17 up from 2 million in 1995/96. At the same time, the diversity of households making their home in the sector has grown. For example, the proportion of couples with dependent children living in the private sector grew from 320,000 in 1995/96 to 1.14 million in 2016/17. Over the same period, the number of lone parents who are private renters grew from 170,000 to 590,000.

This growth has been driven by the deregulation of the private rented sector and the expansion of credit, interacting with the investment conditions left by the financial crisis and a growing number of households who need to access private rental housing. This means that the contemporary private rented sector has seen the significant growth of two groups.

Firstly, new groups of tenants, locked out of ownership and council housing, who are making a home in the tenure, many of whom are looking for the security and control that they would have expected through ownership or a secure, social tenancy. Secondly, landlords who are looking for an investment opportunity or to make the most of an asset they already have, who are largely unprofessional and have limited engagement with the sector.

In the absence of robust legal frameworks or institutions governing the sector, a good experience of private renting relies on the relationship between these two groups on a tenancy-by-tenancy basis. This sometimes works well, but often it does not and it is an unsustainable and sub-standard way to run a tenure that is home to 20 per cent of all households, an increasing number of whom will stay in the sector throughout their lives, raising children and growing old.

If the private rented sector is to be a tenure of choice rather than last resort, the current approach to regulation cannot continue. Lessons can be learnt from our European neighbours where private renting plays a more significant role, tenants are equipped with more substantial rights and small-scale landlords have a more socially responsible function (Davies et al 2017).

Some of the tenants and landlords we spoke to argued that a more long-term and strategic approach to the sector was needed.

***"That's what I'm saying is because you get a government in cycle for four years, this is a problem. There's no long-term thinking because they're not bothered. They just have to retain votes. So, they're just doing their cycle for four years so there's not a strategy for 20 years."***

Private landlord, London

Addressing these issues will require government, current or future, to move beyond tinkering around the edges of the tenancy and to undertake a radical and holistic programme of reform to bring about cultural change, improve perceptions of fairness and clarify roles and responsibilities. What is needed is a new deal for tenants and landlords.

As we will set out in our final report next year, this deal must provide tenants with much greater security, while poor quality must be challenged and tenants' control over their housing increased. This cannot happen in isolation. It needs to be intimately connected to ensuring the welfare system is supporting tenants appropriately, reforming to the justice system so that it increases access to tenants and gives certainty to landlords, and is part of a programme of investment in genuinely affordable housing.

At the same time, the worst landlords must be driven from the sector and those who do not want to live up to the expectations set for them encouraged to divest. As part of this, an offer must be made to those landlords who are willing to remain in the market and take on this more active, socially responsible role. This goes beyond just building their support, although that is important, and should look to define their role and responsibilities within the sector, while providing support for these to be achieved. Addressing the challenges landlords face with the court system would be a good place to start.

Our final report will set out an overview of what this new deal should look like. It will continue to use focus groups with tenants and landlords to understand their experiences, attitudes and issues in shaping this work, while also setting out how this could be delivered.

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