

Investigating the effect of Welfare Reform on Private Renting

Dr Tom Simcock • October 2018
State of the PRS: Quarterly Report



RI **PEARL**

Private renting Evidence, Analysis & Research Lab

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About the RLA Private Renting Evidence, Analysis and Research Lab

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Disclaimer

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Executive Summary

The private rented sector (PRS) over the past twenty years has changed significantly, doubling between 2001/02 and 2011/12 and now provides a home for 4.7 million households (MHCLG, 2018a). Tenants are becoming more diverse, with an increasing number of families, ageing renters, and the most vulnerable calling the sector home. Private landlords are now playing a vital role in providing housing to those on low-incomes and the homeless. Recently, there have been many policy changes that affect the most vulnerable in society and their ability to access a safe and secure home in the PRS. These include the roll-out of Universal Credit (UC), the freeze to Local Housing Allowance (LHA) rates, the two-child limit under tax credits, and the extension of the Shared Accommodation Rate (SAR) to all single people under the age of 35.

The research in this report builds upon our previous quarterly reports on the private rented sector and provides the opportunity for greater understanding of the issues experienced by landlords due to welfare reform. Since the publication of our last research report on this policy area, the DWP have introduced a number of significant positive changes to the implementation of Universal Credit, including but not limited to; the abolition of the 7-day eligibility waiting period, the 2-week housing benefit run-on, the advance payment to up to 100% of the claim and the extension of the maximum payment window from 6-months to 12-months, and the removal of explicit consent when applying for an Alternative Payment Arrangement (APA) when the tenant is in rent arrears of 2 or more months. The previous research findings were provided as evidence to the Work and Pensions Select Committee, and since then the RLA has seen a significant improvement in the willingness for the DWP to work in collaboration to overcome challenges with the continued roll-out of Universal Credit.

The principal aim of the present study was to examine the effect of welfare reforms on the private rented sector, including but not exclusively the impact of universal credit on landlords and the broader sector. A further goal of this report is to continue the monitoring of key trends in the sector. The research findings are based on the responses of 2,234 landlords across the UK to one of the RLA's quarterly surveys.

Key findings

- Our research amplifies concerns surrounding the impact of universal credit and broader welfare reforms on private landlords, specifically regarding rent arrears.
- We found that 61% of landlords that let to tenants on Universal Credit have experienced their UC tenants going into rent arrears in the past 12 months. This is over double from 27% of landlords in 2016, and a significant increase from the previous year where it was 38% of landlords.
- We found that the amount owed by Universal Credit tenants in rent arrears has increased by 49% in comparison to the previous 12 months. This has increased from £1,600.88 in 2017 to £2,390.19.
- Rent arrears for Universal Credit tenants are likely to be driving homelessness, with 28% of landlords regaining possession of their property from a UC tenant and the primary reason being rent arrears (77% of landlords).

- The significant increase in rent arrears for both UC tenants and 'legacy' Housing Benefit tenants also points to much wider issues than just the implementation of Universal Credit. The findings suggest that the freeze to LHA rates since 2016 and that LHA rates had not increased with market rents between 2010 and 2016 is likely to be driving the increase in rent arrears for tenants that claim benefits.
- 53% of landlords have applied for an Alternative Payment Arrangement (APA) in the past 12 months, with 57% reporting this was successful. However, on average we found it was taking 9.3 weeks for this to be organised. This is far too long and is likely to be exacerbating the growing numbers of tenants in rent arrears.
- Tenants that claim benefits/Universal Credit are finding it more difficult to find a home to rent. 62% of landlords reported they were unwilling to let to tenants on Universal Credit.
- Mortgage conditions are a barrier for a proportion of landlords to offer a privately rented home to tenants that claim benefits (22% of landlords).
- The proportion of landlords that have added to their portfolio has continued to decrease and now stands at 14%, down 13 percentage points since Q3 2016. At the same time, the proportion of landlords that are selling properties has continued to increase and now stands at 14%.
- More and more landlords are planning to sell properties in the next 12 months. This now stands at 22% and is up three percentage points since Q3 2016. While, the proportion of landlords looking to buy properties has continued to decline, and more landlords are planning to sell than buy. This indicates chronic undersupply of privately rented homes in the future.

Key Recommendations

The findings of this research provide a greater understanding of the issues facing the private rented sector and a deeper insight into the attitudes and behaviours of private landlords. From these findings, we have developed some key recommendations that we believe will improve the current private rented sector and work to secure a modern private rented sector of the future that works for all.

1. Universal Credit needs to be paused from further roll-out to monitor the impact of current changes and to develop the service further to ensure tenants and landlords are not put in a dangerous financial situation with increasing rent arrears.
2. Going forward the Alternative Payment Arrangement system needs to be significantly improved. There are efforts underway to improve this already by the DWP to move this to an online system. However, it is essential that this is working well before migration is started from next year.
3. We would recommend that to mitigate risk of rent arrears for claimants, that Work Coaches and Case Managers ask tenants during the application process if they need or desire direct payment to landlords from the start of the claim as a standard question. This could build on the housing confident scheme previously delivered by DWP.
4. Part of the underlying ethos of Universal Credit is to promote financial responsibility to claimants. However, a private landlord can only claim rent arrears back as a 3rd party deduction against the current property where the tenant

resides. This does pose an issue, given the financial responsibility that the Government expects of claimants, that when a tenant abandons the property with rent arrears, that these rent arrears are not deducted from the award. This does not provide the reassurance for landlords that they will be paid rent and could be a potential factor influencing landlord unwillingness to let to tenants claiming Universal Credit. Private landlords should not be expected to absorb losses (especially at a time of increasing costs and taxation reform), and it would not be expected that a different business such as a supermarket to absorb any losses for non-payment for a product. To improve landlord confidence in the system and to promote financial responsibility, Universal Credit should be reformed to ensure that any rent arrears accrued can be claimed and taken from the award, even if the tenant leaves the property where arrears have accrued. This would provide the much-needed confidence that a landlord will receive rent payments and not face significant losses when letting to tenants on Universal Credit.

5. Ahead of managed migration there needs to be a significant communications initiative with private residential landlords to inform, advise and educate on how to navigate Universal Credit and how to escalate concerns and complaints when there is risk of the tenancy breaking down.
6. The current positive partnership working between the DWP and the RLA should continue to ensure known and emerging issues with the roll-out of Universal Credit are identified, and concerns and experiences of private landlords are understood by Government.
7. The increasing rent arrears for housing benefit and universal credit tenants indicates broader issues in the private rented sector. We believe that the current LHA freeze needs to be reviewed and lifted urgently, especially with the lifting of the freeze for social landlords. Not only does this have broad support across the industry, but it will help to lift tenants out of poverty and decrease the risk of homelessness for families.
8. There are increasing regulative burdens being placed upon landlords in a piecemeal fashion. There needs to be a large-scale review of the changes introduced in the past two years to identify the impact on the development of the sector. More and more landlords are now planning to sell properties, without change there is going to be a contraction of the private rented sector. While it may be the intention of the current government to encourage home ownership, fewer properties to rent will not support those who cannot afford to buy or seek to rent due to their circumstances.

1. Introduction

1.1 Background and Method

The research presented in this report is part of a longitudinal research project being conducted by the Residential Landlords Association's (RLA) Private renting Evidence, Analysis & Research Lab (PEARL) to understand the state of the private rented sector in the United Kingdom. As part of this project, RLA PEARL conducts four quarterly surveys of landlords each year, where each survey focuses on changes in different policy areas. These are Finance and Investment, Property Conditions and Energy Efficiency, Welfare Reform and Homelessness, and Regulation and Enforcement. This report presents the research relating to the Welfare Reform and Homelessness survey of 2018. The principal aim of the present study was to examine the effect of welfare reforms on the private rented sector, including but not exclusively the impact of universal credit on landlords and the broader sector. A further aim of the research was to monitor and analyse key trends across the private rented sector.

The findings of this report are based on a survey that received 2,234 total responses from landlords across the UK in Spring 2018. To recruit participants for this survey an opportunity sampling approach was utilised to ensure a large representative sample of landlords was drawn upon. This approach included contacting the RLA's database of landlords (including over 30,000 members and associate members, and over 35,000 RLA non-member service users) with an email requesting participation in the research. The landlords were sent a further two direct emails over the course of 8 weeks. The research was also advertised to the wider landlord community across multiple third-party websites, advertised on the RLA website, the RLA Campaigns and News Centre, and was advertised on social media by the RLA and partner organisations.

These sampling methods were used to ensure the opportunity to take part in the research was available to as many landlords as possible. However, there are some limitations over using an opportunity sampling approach that needs to be highlighted, as with all sampling approaches there is the possibility of introducing bias. As the survey and associated advertising were online, this could have biased the sample and excluded those who do not use a computer regularly or have limited access to the internet. While we are currently making progress in identifying trends in demographics of landlords across the sector, there is still very little known about the general demographics of landlords across the sector, and because of this, it is not possible to demonstrate whether this sample is truly representative of all landlords. This should be taken into account when interpreting the results. The size of the sample in this instance and the multiple streams of attracting participants provides us with confidence that a wide spectrum of the sector is represented in the sample. A further caveat that should be noted, is the report refers to 'landlords', this is done regarding expediency and should be viewed and interpreted as 'landlords sampled'.

This research helps the RLA to develop essential insights into the issues affecting the sector, and the survey covered a range of topics. This included demographics of tenants, landlords and their properties. This survey included a number of questions relating to Universal Credit, Welfare Reform, and longer-term tenancies. Finally, the survey included key trend questions carried over from previous surveys enabling us to track and monitor important data longitudinally.

The findings of this research help to provide foundations for the RLA's campaigning to make renting better for all. We also anticipate that this research will provide the opportunity for evidence-based decisions by policy-makers and a more in-depth understanding of landlords, tenants and the private rented sector in general by journalists, academics, and the wider public.

1.2 Structure of the Report

This section of the report has provided the background to this research and the methodology used to collect the data. The next section of the report explores the continued roll-out of Universal Credit and the impact on the private rented sector. Following this, the key trends are examined and investigated, and then we further explore the issues of welfare reform in the private rented sector, including analysis on general attitudes towards welfare reform but also local housing allowance rates. The next section then reports on landlord perceptions and practice towards longer-term tenancies. Finally, the next sections of the report then present the findings relating to the demographics of the landlords who participated in the research, the types of tenants whom the landlord lets to, and the types of properties that form the landlords' portfolio.

2. Examining the Impact of Universal Credit on Private Renting

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Universal Credit is continuing to be rolled out across the UK. Our previous research identified that the private rented sector is struggling with this rollout, with a significant proportion of landlords experiencing their Universal Credit tenants going into rent arrears (Simcock, 2017b). While in the previous quarterly survey, Universal Credit and Housing Benefit questions were grouped, the rollout of Universal Credit has now reached a point where these questions can be separated. In this section of this report, we examine the continuing trends of how Universal Credit is impacting private landlords, and we compare the findings with our previous research to examine longer-term trends.

Key findings:

- 21% of landlords reported they let to tenants on Universal Credit
- 61% of landlords have experienced their Universal Credit tenants going into rent arrears in the past 12 months. This has more than doubled in the past 2-years.
- Landlords were owed on average £2,390.19 in rent arrears
- 53% of landlords had requested an Alternative Payment Arrangement, and 57% reported that this had been successful
- On average it took 9.3 weeks for the arrangement to be organised
- 28% of landlords reported they had to evict a tenant on universal credit in the past 12 months, with the primary reason being rent arrears (77% of landlords)

Respondents were presented with a question to determine whether they currently let to or have let to tenants in the past 12 months on Universal Credit. This question acted as a filter question, with those landlords who responded that they did or were not sure, were then filtered to the following Universal Credit questions. Overall, 21% of landlords reported letting to tenants on Universal Credit, with a further 8% reported they were not sure. Interestingly, 6% of landlords reported that Universal Credit had not been rolled out to their area.

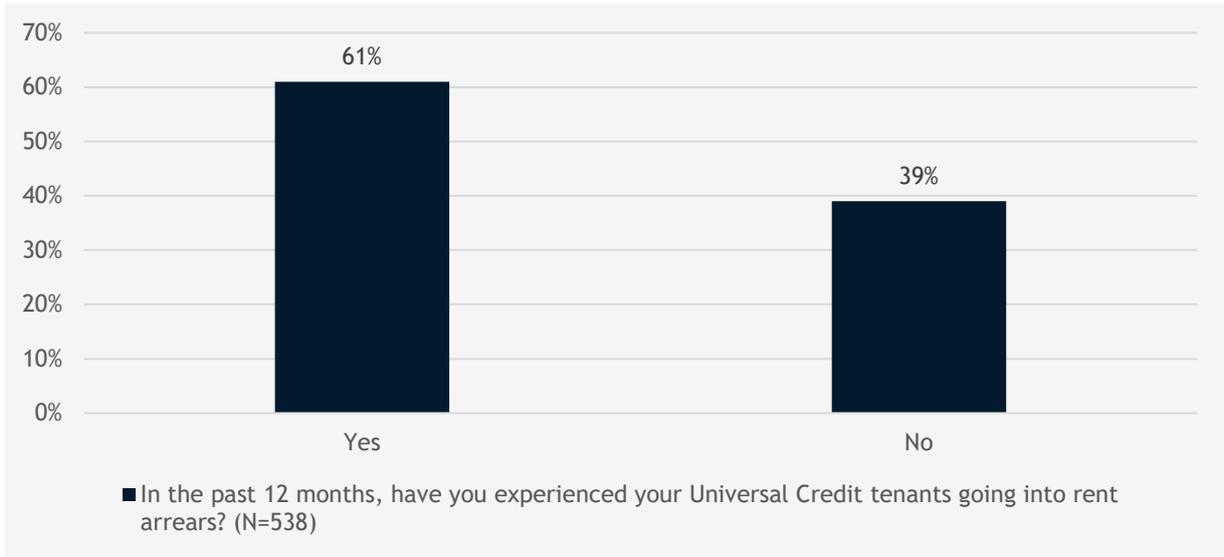


Figure 2.1. The proportion of landlords whose tenants on universal credit have gone into rent arrears

The proportion of landlords who have experienced their tenants on universal credit going into rent arrears in the past 12 months has increased from 38% in 2017 to 61% of landlords (see figure 2.1 and figure 2.2). Respondents were then asked to provide how much in total they were or had been owed by these tenants. On average, landlords were owed £2,390.19 (Median=£1,300, $SD=3994.75$, $N=345$). This is a 49% increase on the previous year and is 254% higher than the current average monthly rent across England (VOA, 2018).

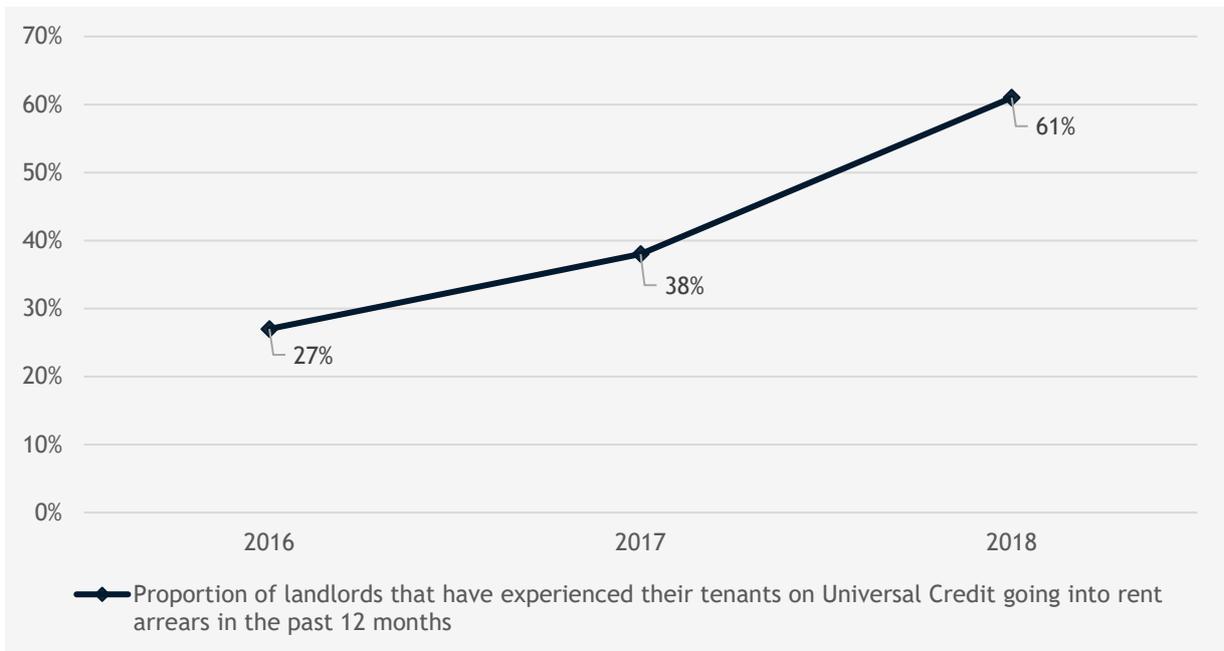


Figure 2.2. The proportion of landlords that have experienced their Universal Credit tenants going into rent arrears in the past 12 months

Figure 2.2 above displays the annual change in the proportion of landlords that have experienced rent arrears with their Universal Credit tenants. In 2016, 27% of landlords reported that their tenants on Universal Credit had gone into rent arrears, this had more than doubled to 61% of landlords over a two-year period.

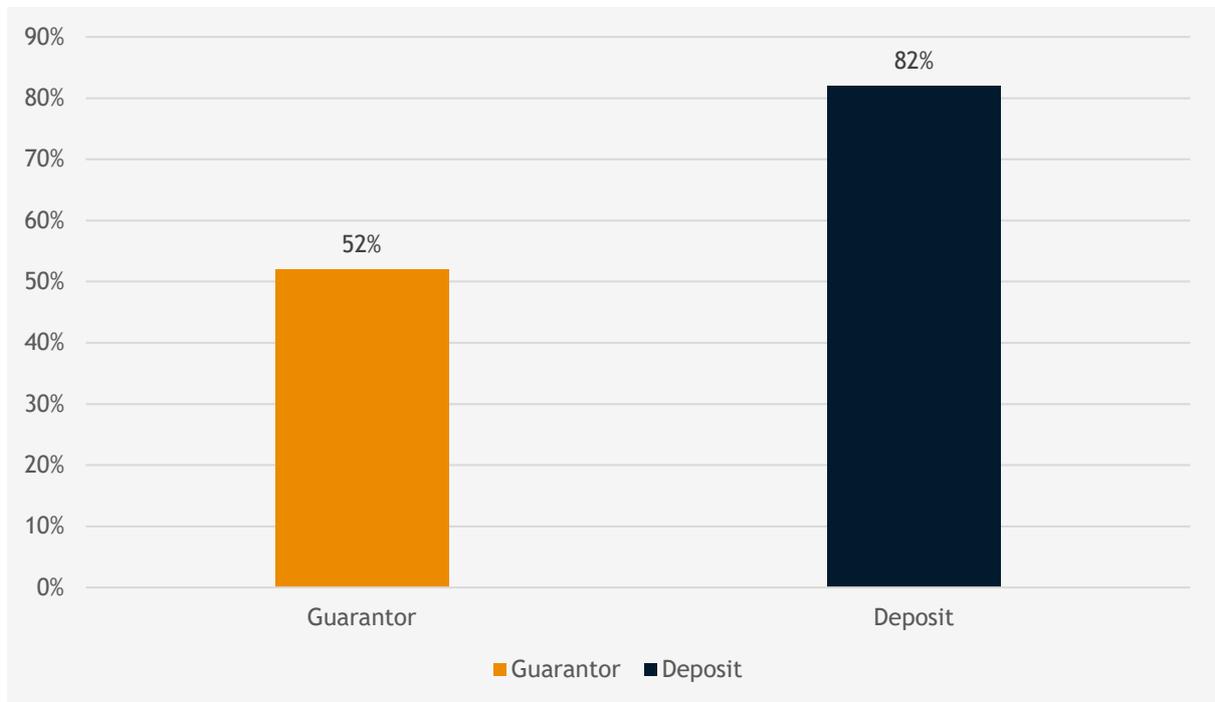


Figure 2.3. The proportion of landlords that ask for a Guarantor and/or Deposit when letting to a tenant on Universal Credit

We asked respondents whether they asked for a guarantor or deposit when letting to a tenant on Universal Credit. 82% of landlords reported they asked for a deposit, while 52% reported they asked for a guarantor.

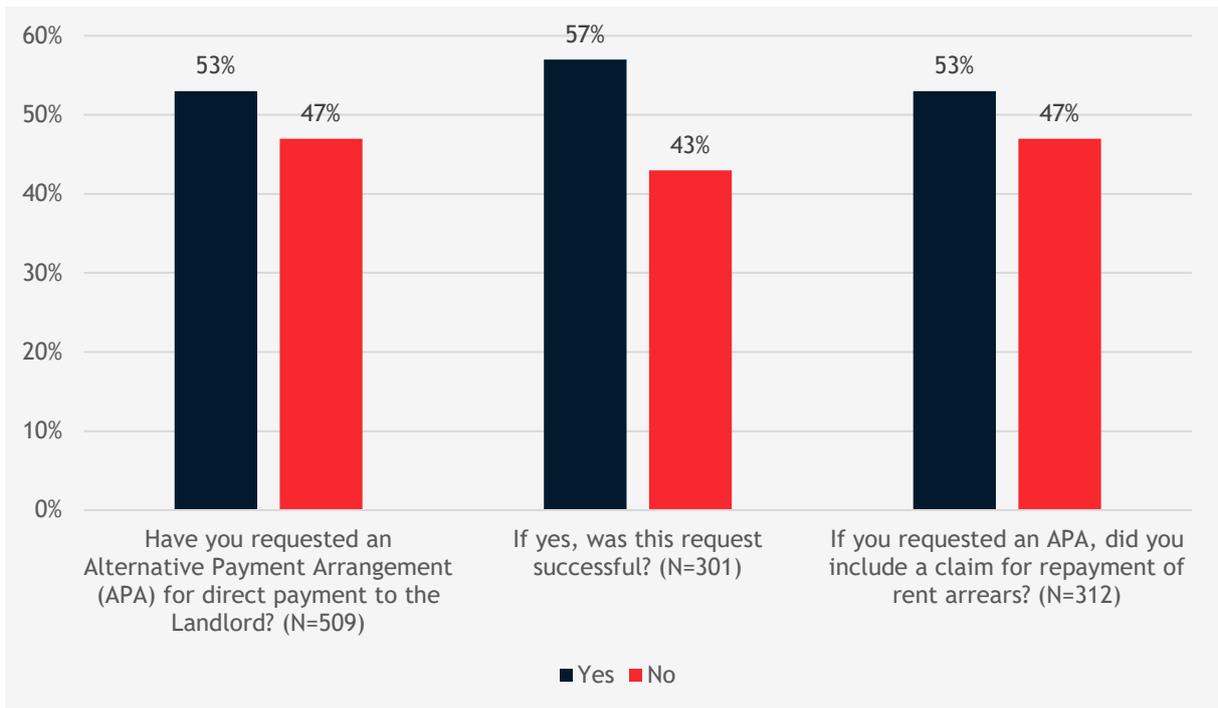


Figure 2.4. Landlords experiences of applying for an Alternative Payment Arrangement (APA)

53% of landlords reported that they had requested an Alternative Payment Arrangement (APA), and of these, 57% reported that it had been successful. Furthermore, 53% of landlords reported that they had included a claim for the repayment of rent arrears in the APA. The full findings are available in figure 2.4 above. Respondents were then asked how easy they had found the APA application process, 51% of landlords reported they had found it difficult or very difficult. The findings can be found in figure 2.5 below.

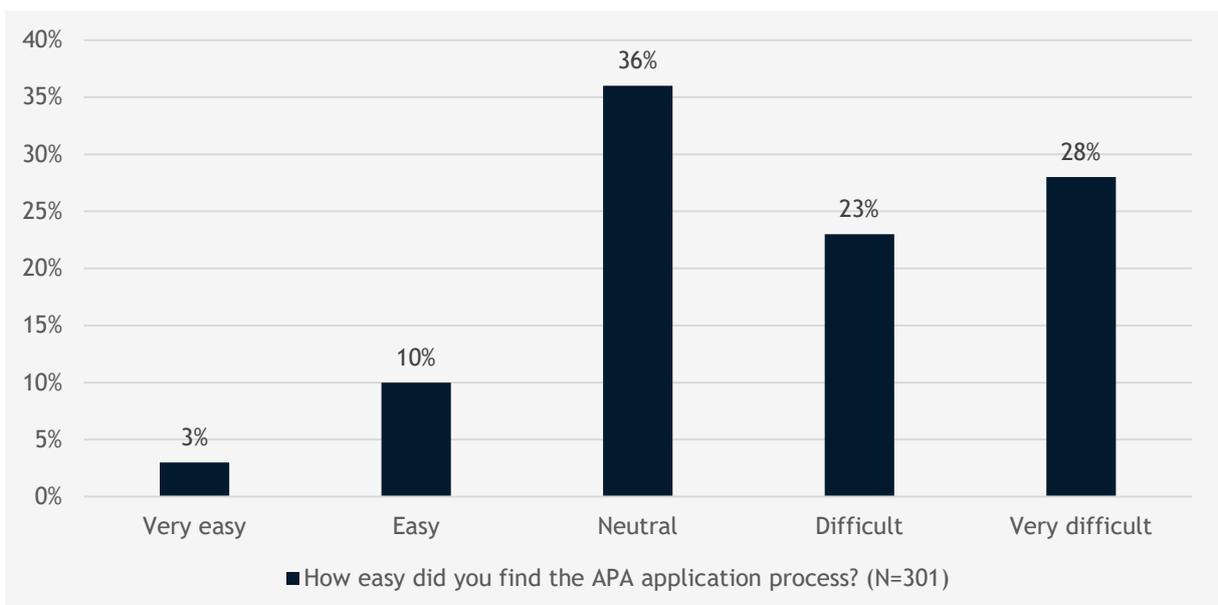


Figure 2.5. Landlord experiences of the APA application process

Respondents were asked how long on average it took them to have the APA arranged. On average, landlords reported that it took 9.3 weeks for direct payment under the APA to be arranged, with the maximum reported to be a full year (N=260).

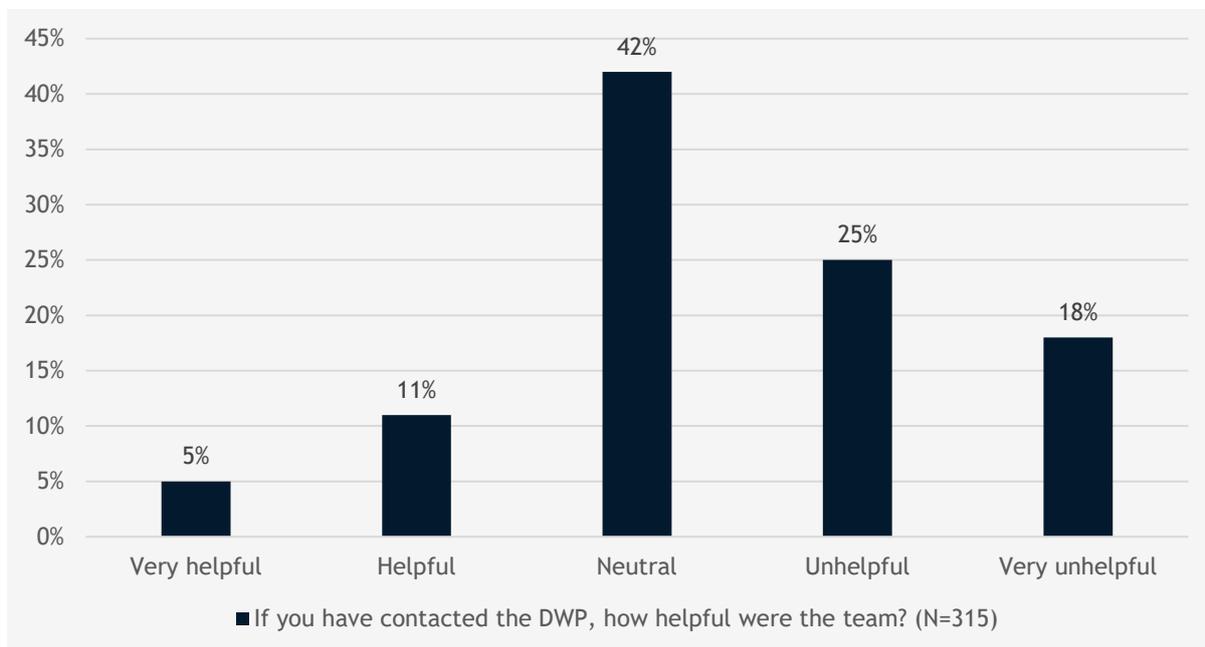


Figure 2.6. The proportion of landlords who found that the Department for Work and Pensions team helpful

Of those landlords that reported they had contacted the DWP for assistance with their Universal Credit tenant, 43% had found them unhelpful or very unhelpful. The full findings are available in figure 2.6 above.

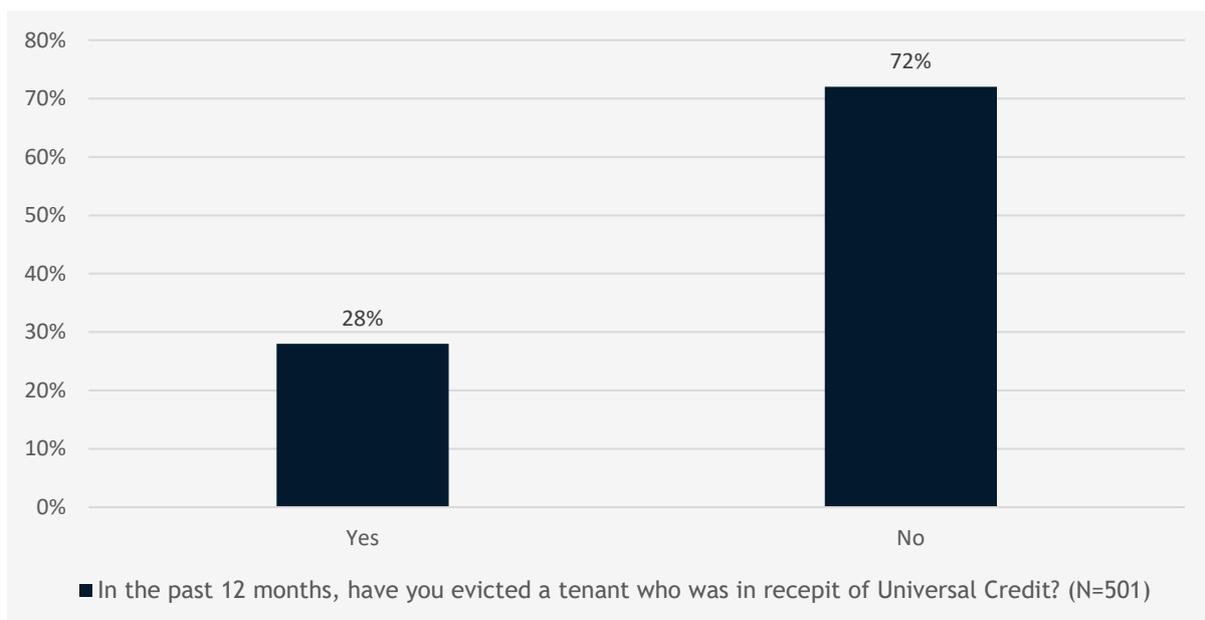


Figure 2.7. The proportion of landlords that have evicted a tenant who was in receipt of Universal Credit

28% of landlords reported that they had to regain possession of a property from a tenant who received Universal Credit. Respondents were then asked for the primary cause for regaining possession of the property. From the analysis of the data, the leading cause of eviction for Universal Credit tenants was rent arrears, with 77% of landlords reporting this was the main reason. This was followed by damage to the property by the tenant (6%) and also the landlord selling the property (6%). The full findings are available in figure 2.8 below.

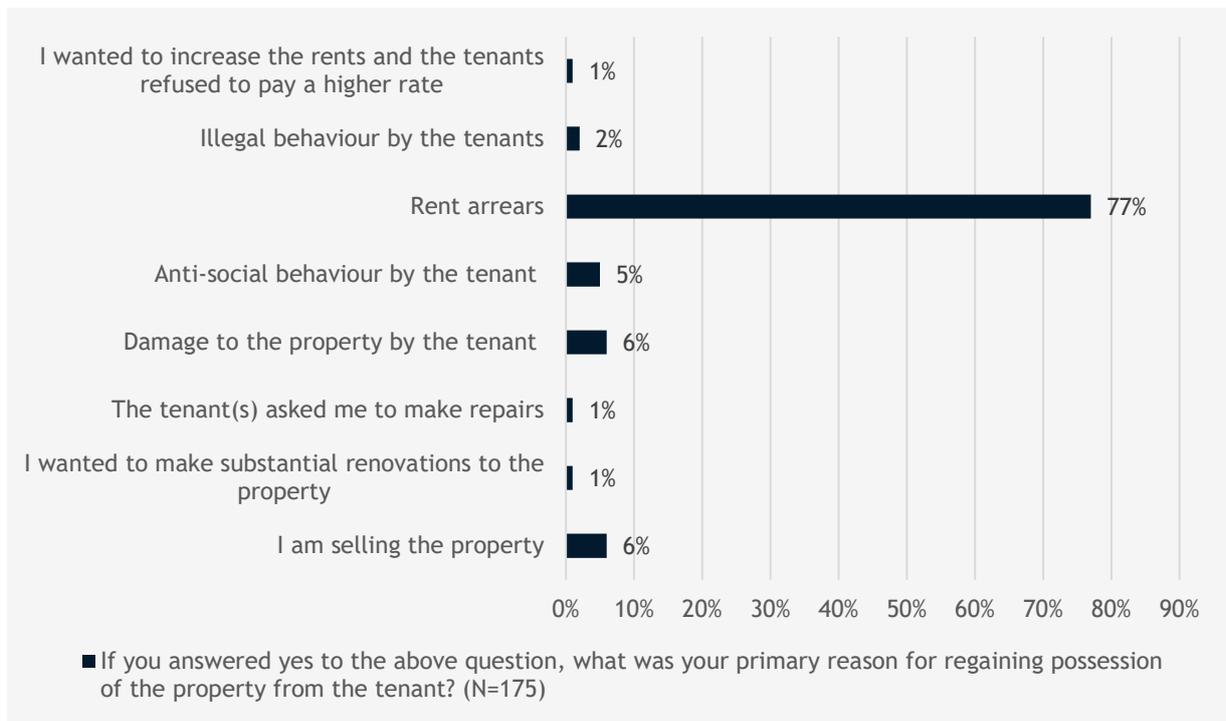


Figure 2.8. Primary reasons for regaining the property from a tenant on Universal Credit

3. Key Trends in the Private Rented Sector

3. Key Trends in the Private Rented Sector

In this section of this research report, we provide an analysis of the key trends in the private rented sector. This includes an analysis of how plans to change the size of property portfolios have changed, planned changes to rent, and changes in tenant demand. The findings of this survey are also analysed in comparison to the findings of previous quarterly surveys that we have conducted; this enables in-depth analysis of how attitudes and behaviours of landlords are changing in the sector over time.

Our key findings are:

- The proportion of landlords who have added to their portfolio in the past 12 months is continuing to decline and now stands at 14%, down 13 percentage points since Q3 2016
- The proportion of landlords who have sold properties is now at 14%, up two percentage points on the previous quarter
- The proportion of landlords that plan to sell properties now stands at 22%, up three percentage points since Q3 2016
- More landlords are planning to sell properties than buying properties, potentially meaning that a future under-supply of privately rented homes
- 84% of landlords reported stable or increased tenant demand for privately rented properties
- The proportion of landlords reported they were not confident in the sector has continued to decline, and now stands at 25% (1-in-4 landlords), down from 32% in Q3 2017.
- The proportion of landlords who have kept the rents the same has continued to increase and now stands at 57% of landlords.
- The proportion of landlords that plan to increase rents has remained flat on the previous quarter and remains at 41% of landlords
- The most common reason for future rent increases was because of the changes to Mortgage Interest Relief (28%)

3.1 Trends in Landlord Portfolios

We have included in each quarterly survey of this longitudinal research project a number of key trend questions relating to both landlords' portfolios and rents. The analysis of the findings of these questions is showing a downbeat attitude towards the private rented sector from private residential property investors.

Since the first quarterly survey in Q3 2016, there has been a significant decline in the proportion of landlords that have bought additional properties. This has decreased from 27% at the end of 2016 to 14% at the start of 2018, a 13-percentage point decrease, and is now equal to the same proportion of landlords that have sold properties.

Over the same period, there has been a gradual increase in the proportion of landlords that have sold properties in the past 12 months. This has increased from 9% in Q3 2016 to 14% in Q1 2018, a full five-percentage-point increase. The full findings of this question and the comparison to the previous quarterly surveys can be identified in figure 3.1 below.

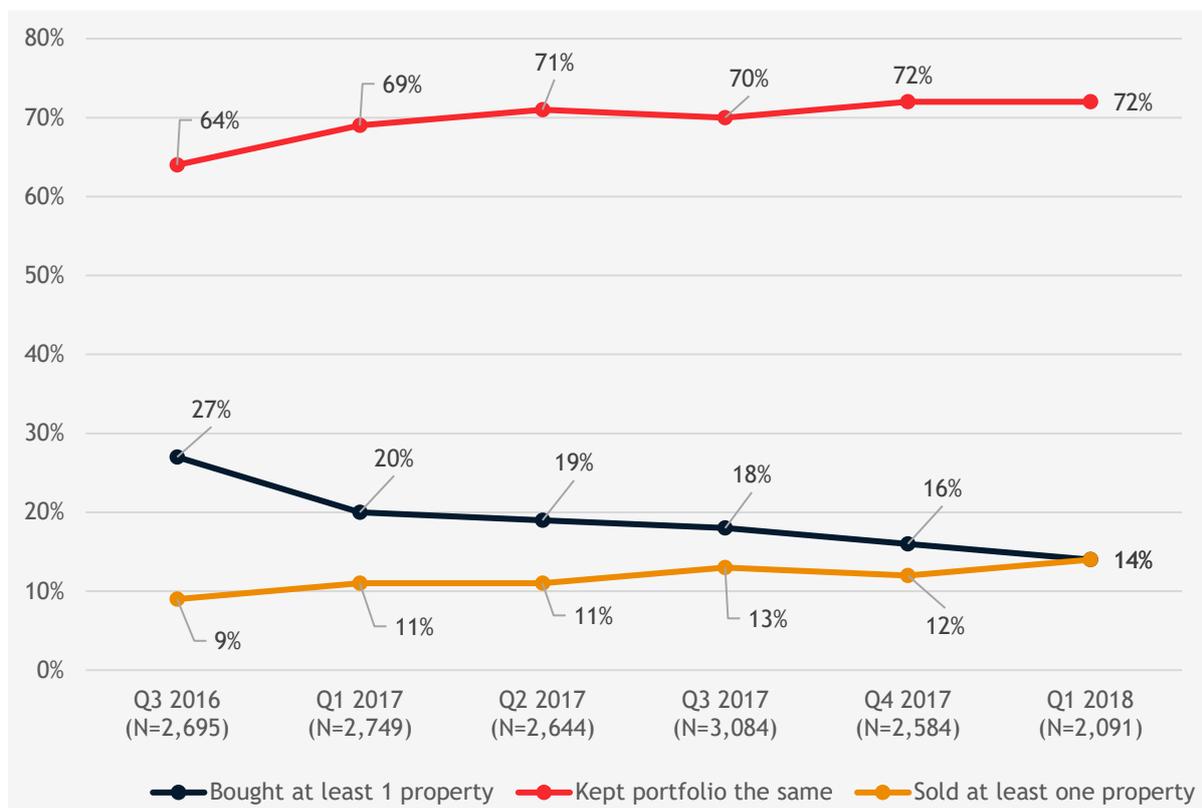


Figure 3.1. Quarterly changes to landlord property portfolios

The next set of questions looked to understand the landlord's plans for their portfolio and asked whether they were looking to sell properties, buy properties or keep their portfolio the same. The proportion of landlords that are planning to keep their portfolio the same has remained relatively consistent across the past quarterly surveys and this quarter has been the same.

In contrast, the proportion of landlords that are planning to sell properties has increased from 19% in Q3 2016 (Simcock, 2016) to 22% in Q1 2018, a rise of three percentage points. However, in comparison to the previous quarter, this is a one-percentage point decrease. At the same time, the proportion of landlords that plan to buy properties has decreased from 20% in the same period to 16%, a decrease of four percentage points. In comparison to the previous quarter, the proportion of landlords that are looking to buy additional properties in the next 12 months has remained flat. Overall, there is now a 6-percentage point difference in between the proportion of landlords planning to sell and buy, indicating a net loss of properties from the private rented sector. The full findings of this question and the quarterly comparison to the previous year can be found in figure 3.2 below.

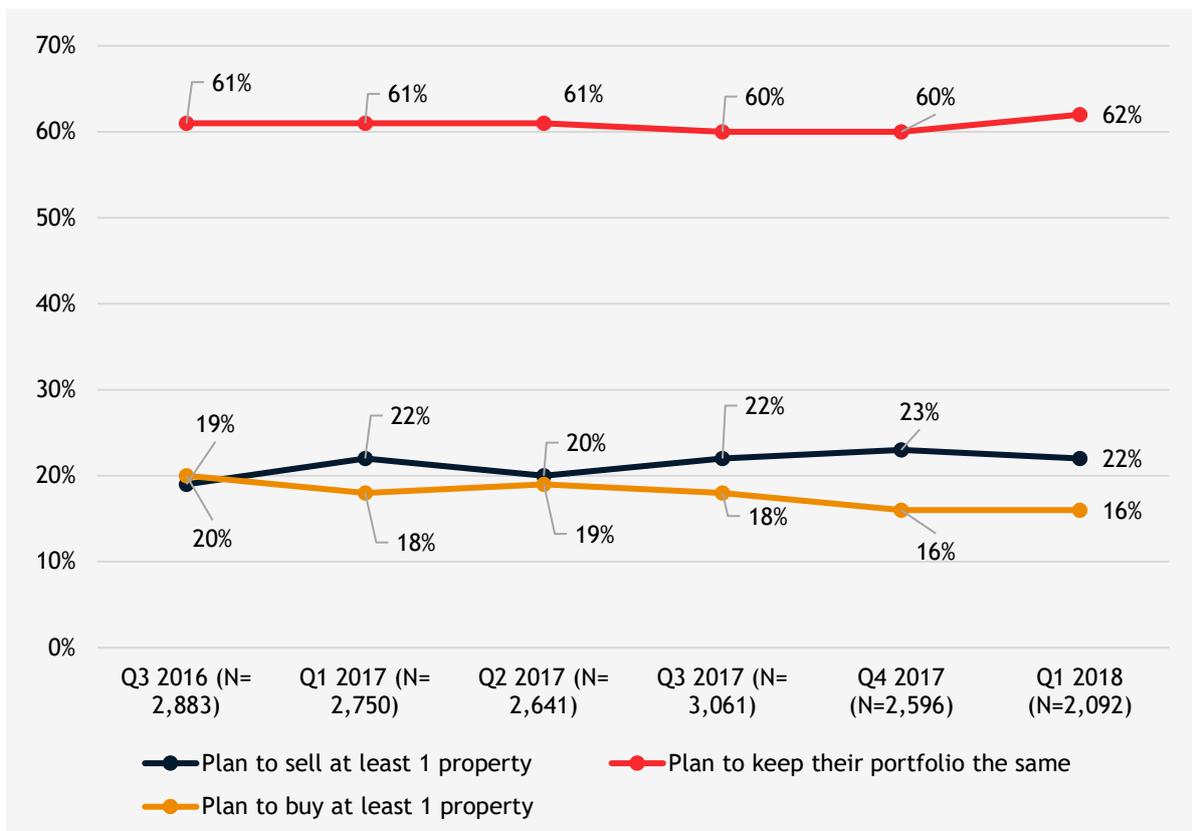


Figure 3.2. Quarterly changes in landlord plans for their portfolios

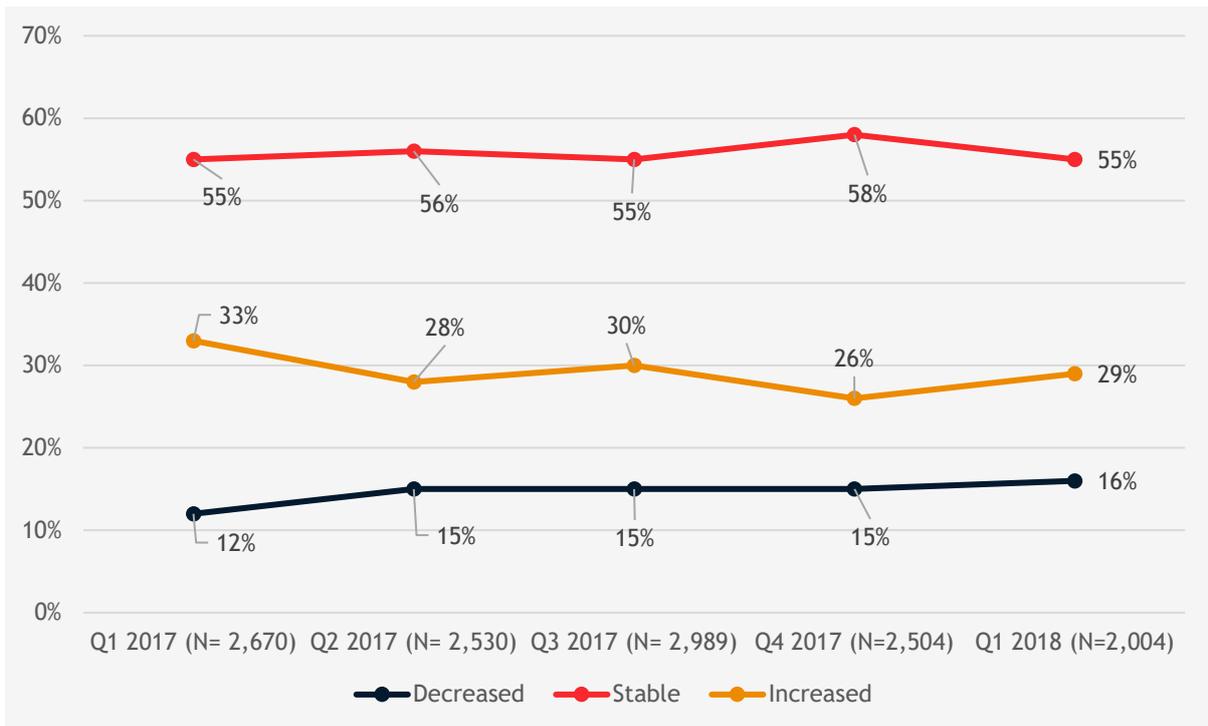


Figure 3.3. Quarterly changes in reported tenant demand for private rented properties

In the most recent quarter surveyed, the majority of landlords (84%) reported that they had experienced either stable or increasing tenant demand for private rented properties. This has remained flat in comparison to the previous quarter. Over the past five quarters, the findings of our research show that the proportion of landlords reporting that demand is increasing or stable has remained relatively consistent. However, over the course of 12 months, the proportion of landlords that have experienced tenant demand decreasing has increased by four percentage points and now is at 16% of landlords.

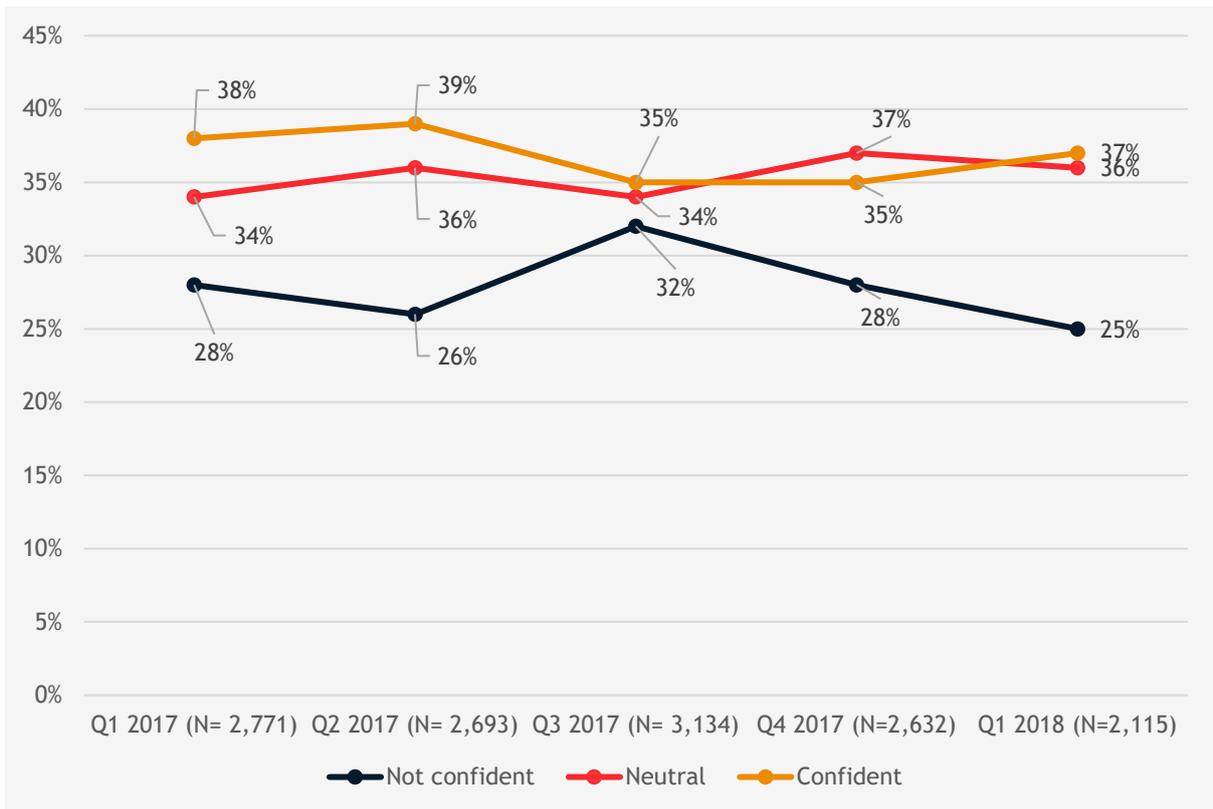


Figure 3.4. Quarterly comparison of landlord confidence in the private rented sector for the next 12 months

In Q1 2018, landlord confidence in the sector has somewhat improved in comparison to the previous quarters. The proportion of landlords that are not confident in the sector has decreased over the past six months, from 32% of landlords to now 25% of landlords. While the proportion of landlords that reported they were confident decreased between Q2 and Q3 2017, this has now started to increase gradually, and has increased by two percentage points between Q4 2017 and Q1 2018, with 37% of landlords reported they were confident about the state of the sector for the next 12 months. The findings show that there is a 12-percentage point difference between the proportion of landlords that are not confident and those that are confident.

3.2 Trends in Rents

While the proportion of landlords that had increased their rents had remained relatively flat over the first part of 2017, this has now started to decline. In comparison to the previous year, the proportion of landlords that had increased their rents is down five percentage points and now stands at 38% of landlords. At the same time, the proportion of landlords that have kept their rents the same has increased and has risen by four percentage points between Q1 2017 and Q1 2018. In this quarter, the proportion of landlords who have kept the rent the same is now 19 percentage points above those who raised the rents. The full findings and comparison to the previous quarterly surveys can be found in figure 3.5 below.

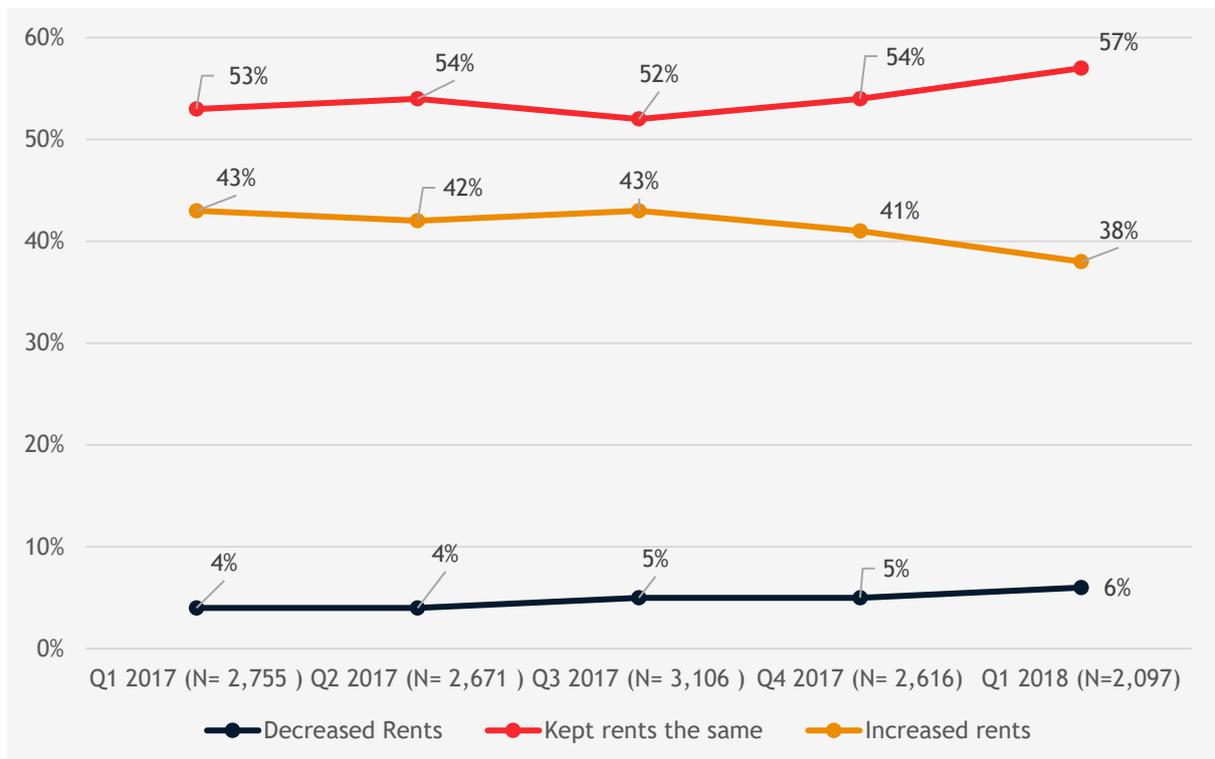


Figure 3.5. Quarterly changes in the proportion of landlords changing their rent levels in the past 12 months

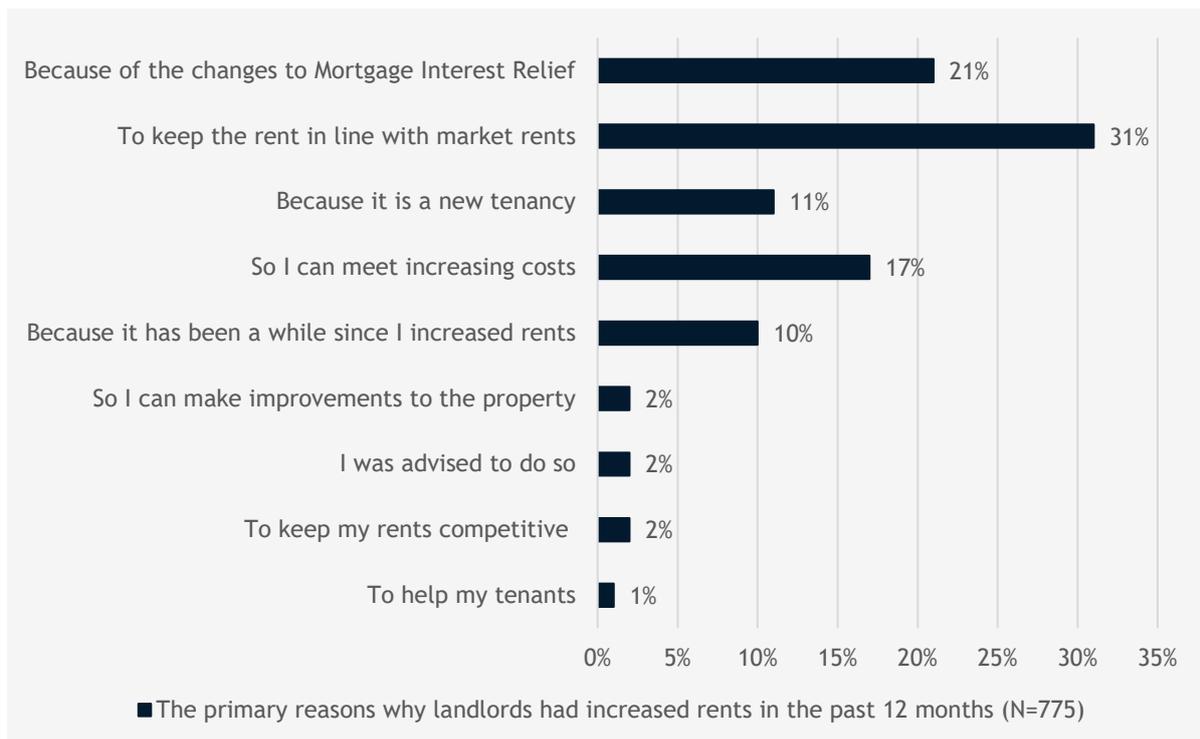


Figure 3.6. The primary reasons why landlords had increased rents in the past 12 months

When asked for the primary reasons why landlords had increased their rents in the past 12 months, the most selected reason was to keep the rent in line with market rents (31%) followed by because of the changes to Mortgage Interest Relief (21%). This was then followed by so the landlord could meet increasing costs (17%). The findings are showing that landlords have increased rents due to multiple factors, but importantly just over 1-in-5 landlords reported increasing the rents due to the changes to mortgage interest relief. This finding is surprising since our previous research identified that the majority of landlords would be negatively impacted by the changes to mortgage interest relief (Simcock, 2016, 2018b). However, it is important to note that these findings are during the four-year phasing in of the mortgage interest changes. Therefore, it is likely that landlords will be making changes over the four-year period in regards to the broader economic circumstances, the impact on their own letting business, and the current market they operate within. The full findings can be displayed in figure 3.6 above.

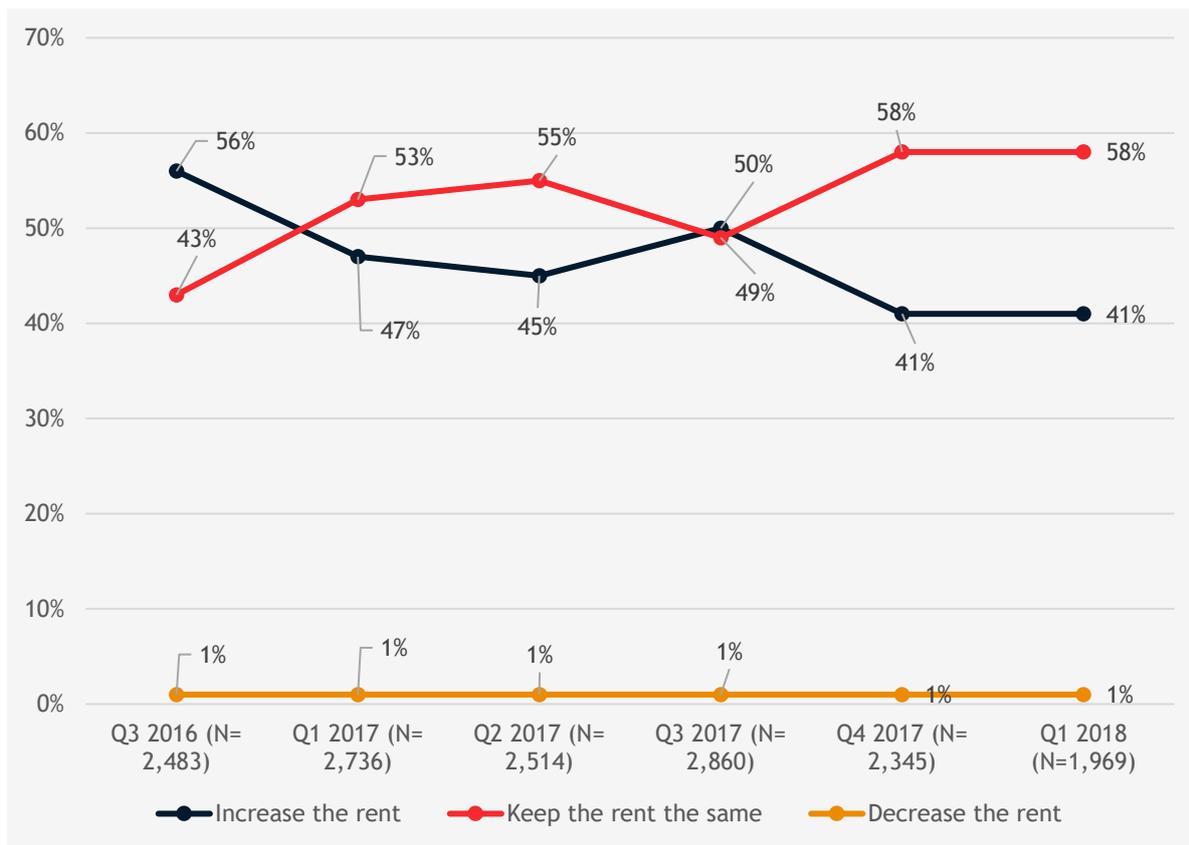


Figure 3.7. Quarterly changes in landlord plans for the rent over the next 12 months

The final part of this section investigates landlords plans for rent levels over the next 12 months. There have been considerable changes in landlord plans for the rents since we started this quarterly survey programme in Q3 2016. Over the course of 2017, the proportion of landlords that planned to increase the rents decreased from 56% in Q3 2016 to 45% in Q2 2017 (Simcock, 2017a). This then increased by four percentage points in the following quarter and the gap between those planning to increase the rents and those planning to keep the rents the same closed to a one-percentage-point gap (Simcock, 2018b). In the next quarter, this gap significantly accentuated with a 17-percentage point difference, with 41% of landlords planning to increase the rents, the lowest proportion since data was started to be collected (Simcock, 2018a). In this quarter, the proportion of landlords that plan to keep the rents the same, that plan to increase rents and the proportion that plan to decrease rents has remained flat in comparison to the previous quarter. The findings indicate that landlords are seeking to maintain stability across their portfolios, especially in the current period of economic and political uncertainty, and this is likely to help them avoid any void periods and unnecessary costs. The full findings can be seen in figure 3.7 above.

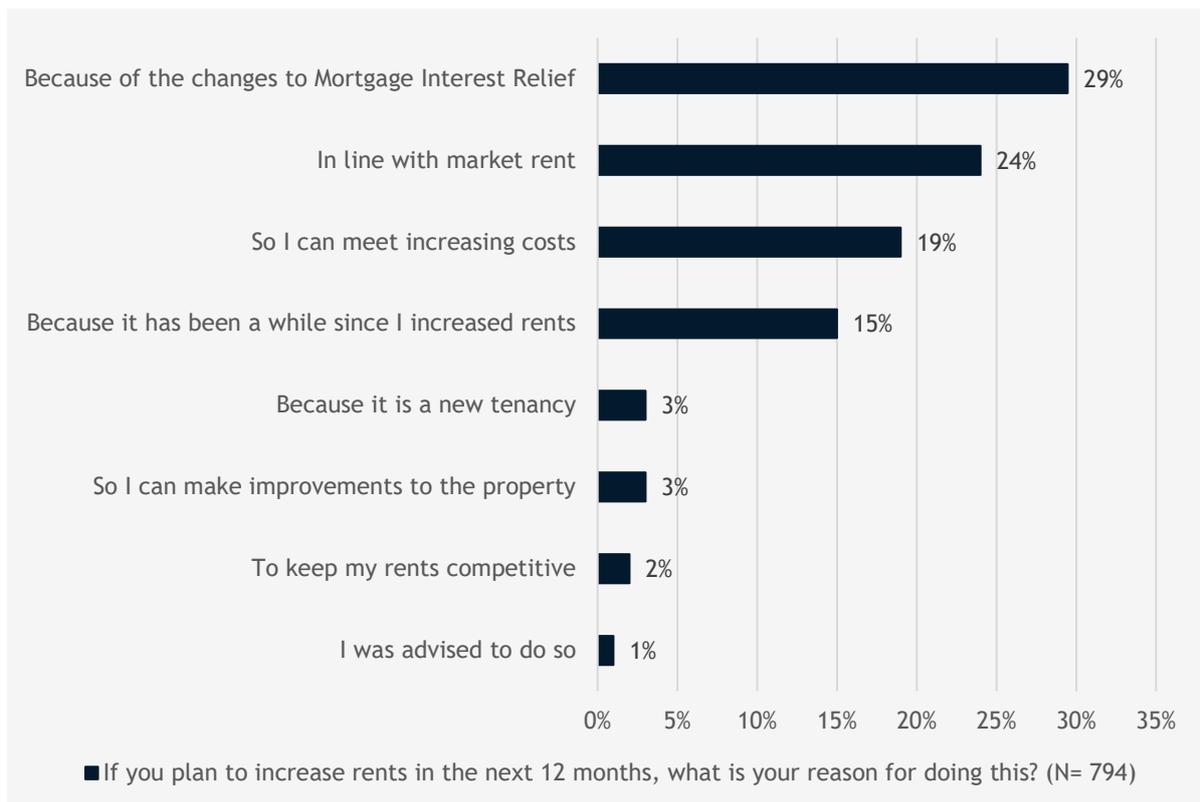


Figure 3.8. Primary reasons for landlords increasing rents in the next 12 months

The above figure (3.8) displays the primary reasons why landlords will be increasing rents in the next 12 months. The most common reason why landlords would be increasing the rents they charge was because of the government changes to mortgage interest relief. This is expected to continue being one of the most common reasons over the next few years until 2021 due to the phasing in of the tax changes, and specifically as our previous research found that 62% of landlords reported their profitability would be reduced by at least 20% due to the tax changes (Simcock, 2018b). The second most common reason was for the landlord to keep the rents in line with market rent (24%), and this was followed by so the landlord can meet increasing costs (19%).

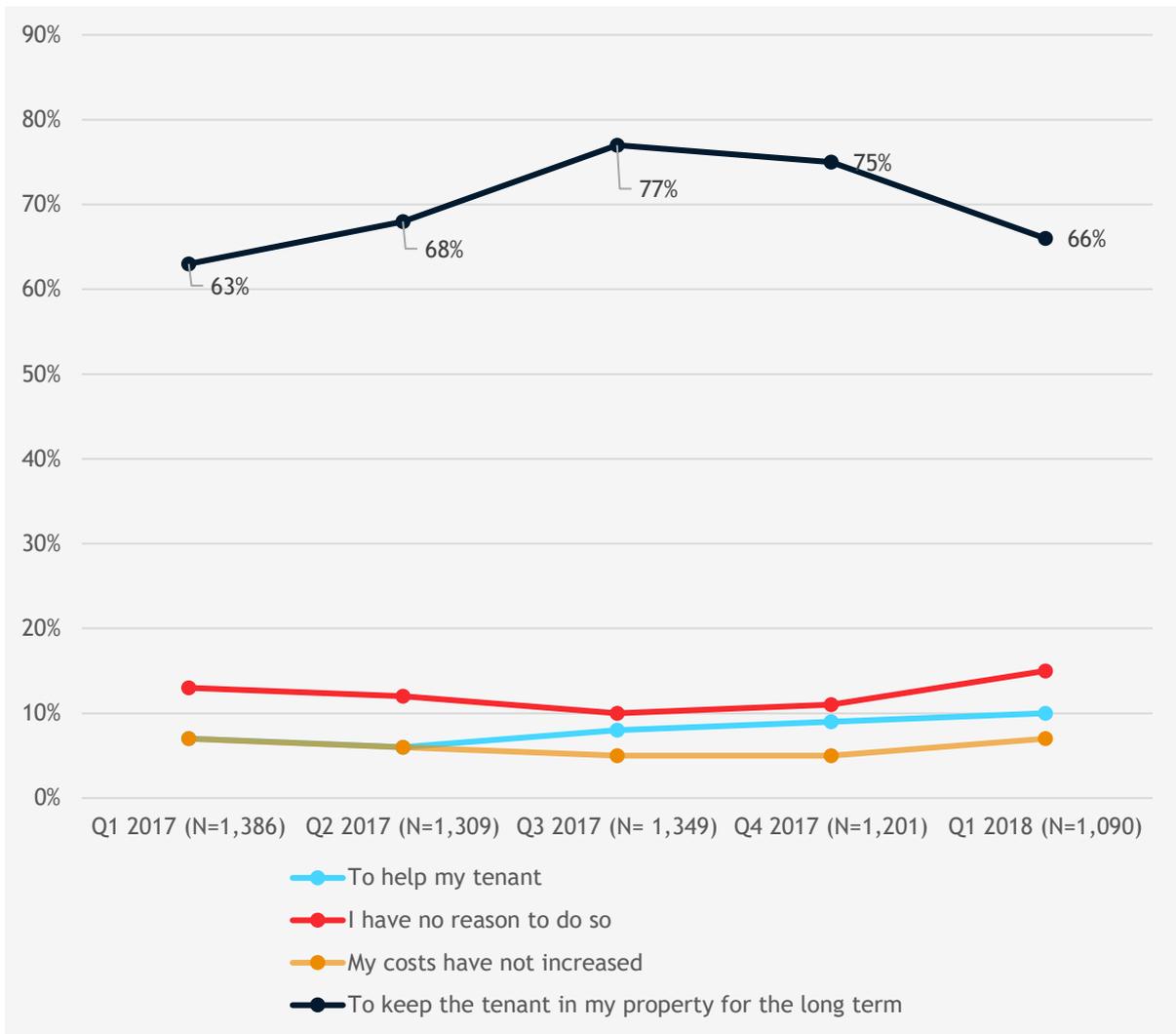


Figure 3.9. Primary reasons for landlords keeping rents the same in the next 12 months

In figure 3.7, it was identified that 58% of landlords were planning on keeping the rent the same for the next 12 months. The most common reason landlords provided was to keep their tenant in the property for the long-term (66%). This shows that the majority of landlords are looking for stability in their property business and keeping a tenant for the longer-term helps to minimise void periods and unnecessary costs. This suggests that voluntary longer-term tenancies (with appropriate tax relief to encourage take-up) could be beneficial for a proportion of landlords and support those tenants who are looking for a longer-term home in the private rented sector. The full findings can be identified in figure 3.9 above.

4. Welfare Reform and the Private Rented Sector

4. Welfare Reform and the Private Rented Sector

This section of the report explores how welfare reform has impacted the private rented sector. The first part of this section investigates landlord's experiences of Local Housing Allowance/Housing Benefit administered by local authorities. This provides a unique opportunity to compare the impact against the roll-out of universal credit. The second part of this section probes landlord attitudes towards welfare reform and the impact of recent policy changes on letting strategies.

Key findings:

- 36% of landlords reported they had let to or currently let to tenants on housing benefit/local housing allowance
- 56% of landlords experienced a tenant on housing benefit going into rent arrears in the past 12 months
- 30% of landlords reported they had evicted a tenant who was in receipt of housing benefit/local housing allowance in the past 12 months
- The primary reason for regaining possession of the property from these tenant groups was rent arrears (65% of landlords)
- 62% of landlords reported they were unwilling to let to tenants on universal credit
- 49% of landlords reported the tax changes meant they were now less likely to let to homeless people or those on benefits
- 22% of landlords reported that they had mortgage conditions that prevented them from letting to tenants claiming benefits or universal credit

4.1 Landlord Experiences of Local Housing Allowance & Housing Benefit

For this section of the survey, we presented filter questions to landlords to identify those landlords that have or do let to tenants on Housing Benefit. From the sample, 36% of landlords reported they had or do let to tenants on housing benefit/local housing allowance in the past 12 months. This acted as a filter question, and the following questions in this part of the report were only displayed to those landlords who reported yes.

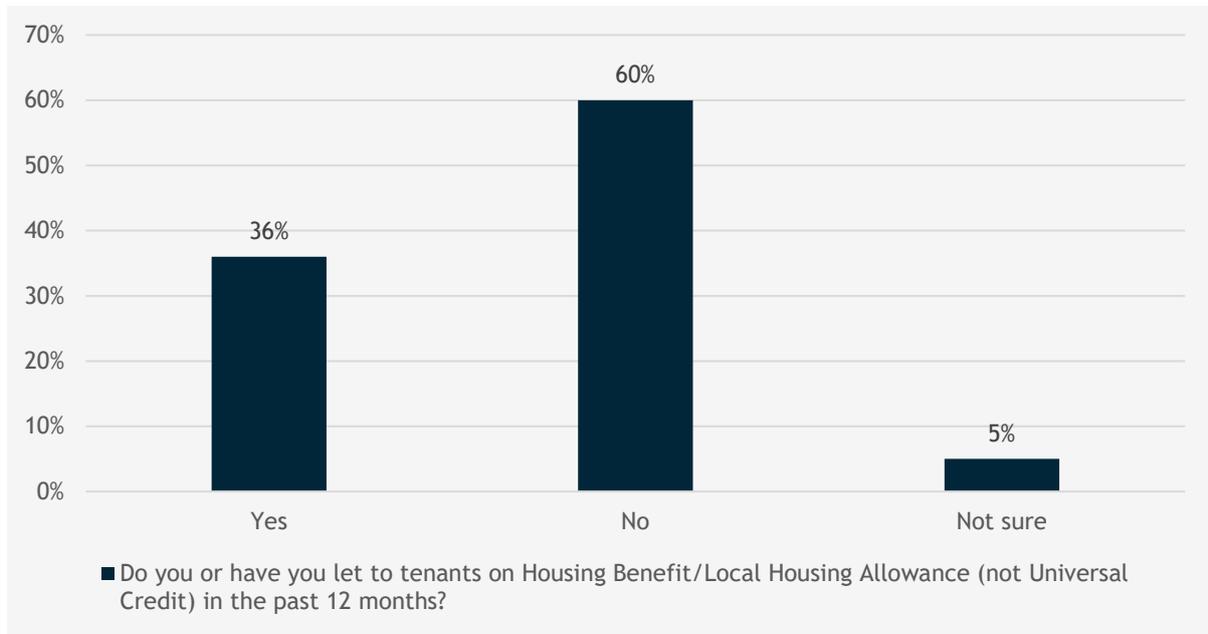


Figure 4.1. The proportion of landlords that let to tenants on Housing Benefit/Local Housing Allowance (not Universal Credit)

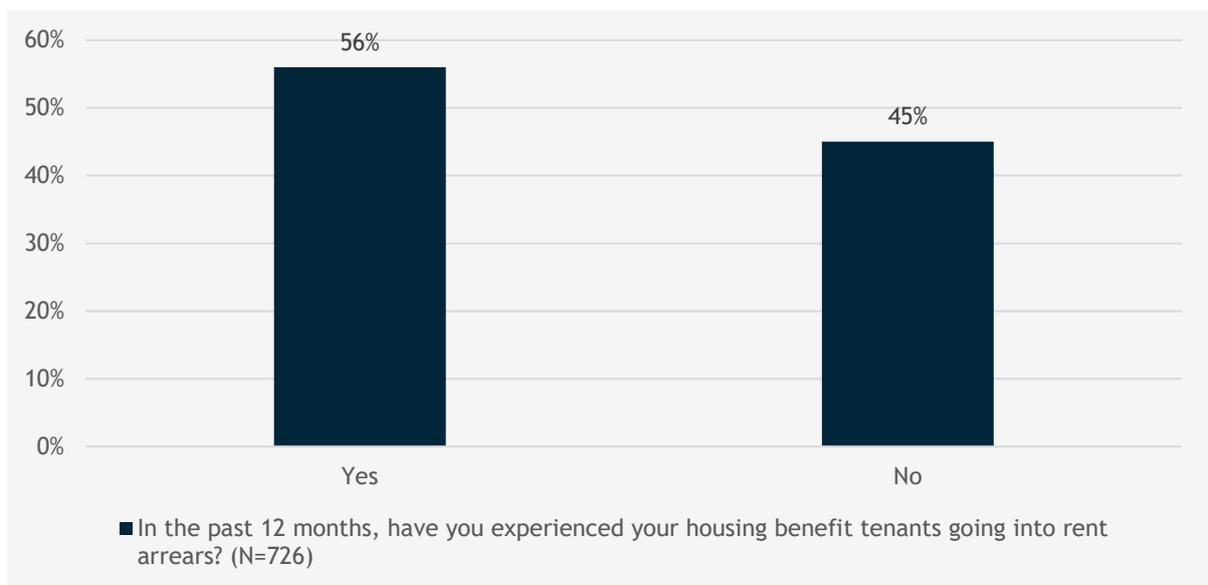


Figure 4.2. The proportion of landlords that have experienced their tenants on housing benefit going into rent arrears

56% of landlords reported that they had experienced their tenants on housing benefits going into rent arrears in the past 12 months. The full findings are available in figure 4.2 above. Landlords were then asked on average how much they were owed by these tenants in rent arrears. On average, landlords reported being owed £1,842 (Median = £1,000, N=410). This is 23% below the average amount owed to landlords with tenants on Universal Credit.

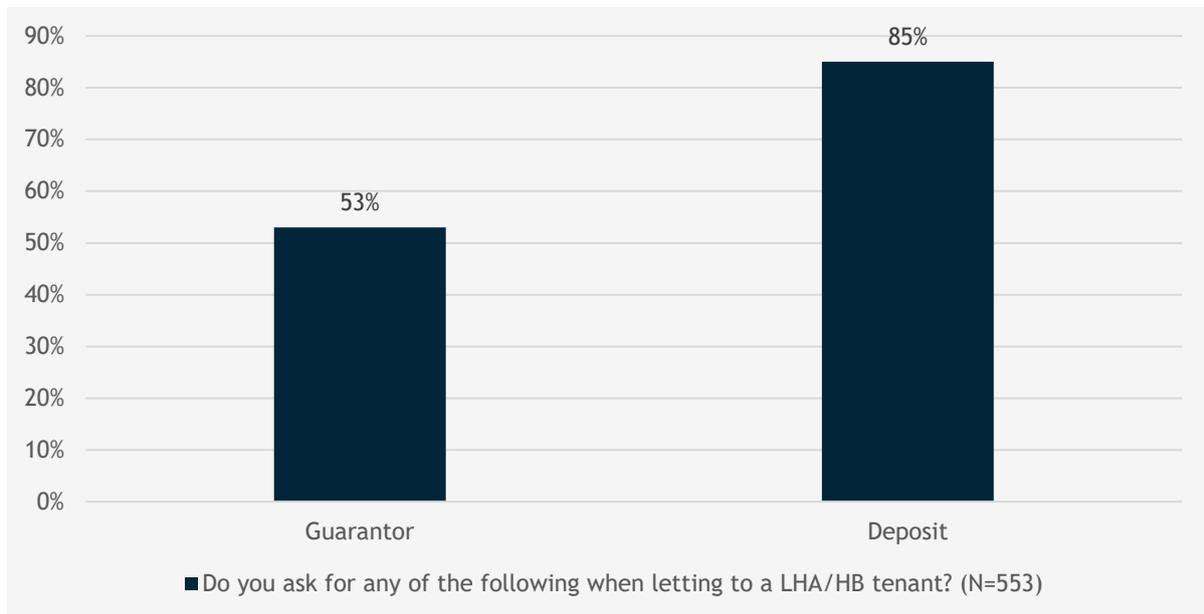


Figure 4.3. The proportion of landlords that ask for a guarantor or deposit when letting to a tenant on LHA/HB

Landlords were then asked if they asked for a guarantor or a deposit when they let to LHA/HB tenants. 53% reported they asked for guarantors, while 85% reported they asked for a deposit.

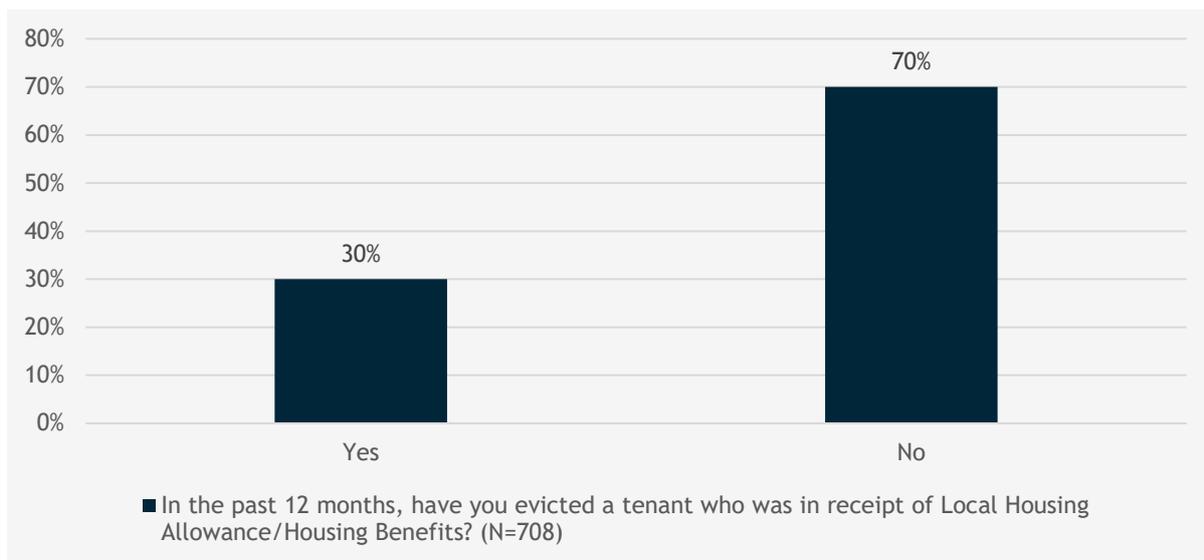


Figure 4.4. The proportion of landlords that have evicted a tenant who was in receipt of Local Housing Allowance/Housing Benefits in the past 12 months

A majority of landlords reported they had not evicted a tenant who was in receipt of LHA/HB in the past 12 months (70%). However, of those that had done so (30% of landlords), the main reason was identified as rent arrears (65% of landlords), followed by anti-social behaviour (12%) and then the landlord selling the property (9%). The full findings are available in figure 4.5 below.

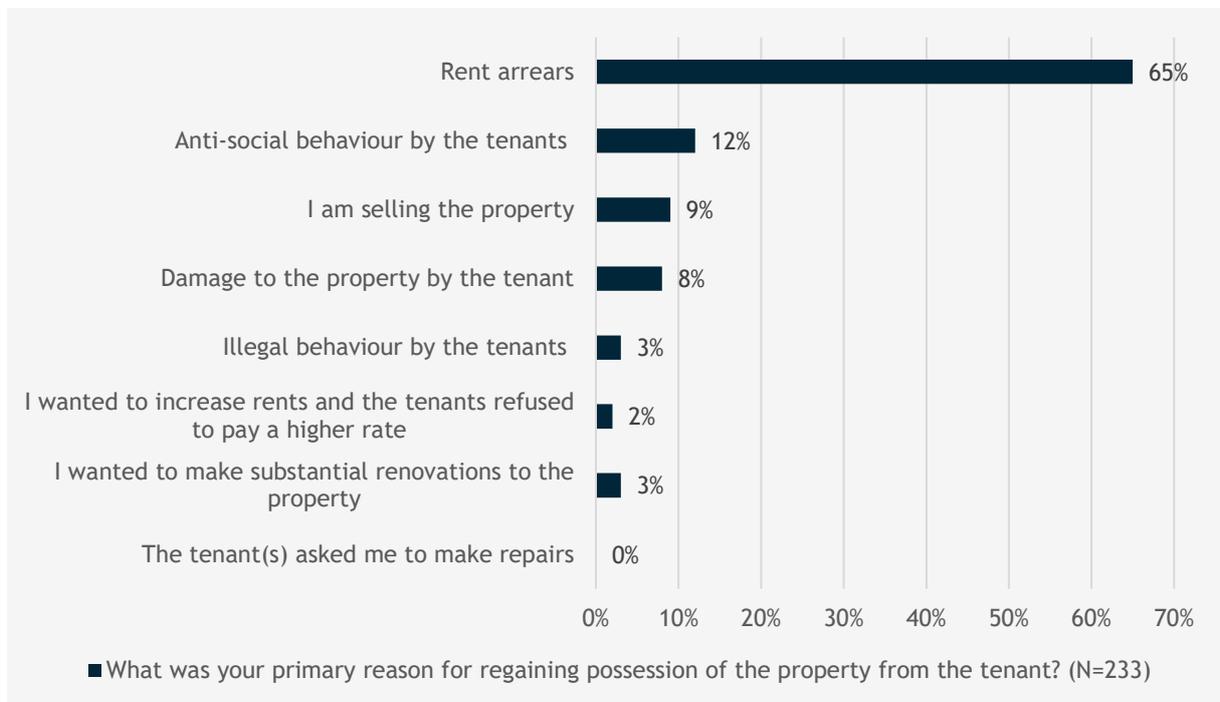


Figure 4.5. The primary reason for landlords to regain possession of properties from tenants that were in receipt of Housing benefits in the past 12 months

4.2 Policy changes and the impact on letting strategies

This section of the report investigates landlord attitudes and their letting strategies in response to recent policy changes. In figure 4.6 below, we explore how willing landlords are to let to tenants who have been homeless, are on housing benefit, or universal credit. The findings show that the majority of landlords are in general unwilling to let to these tenant types. 66% of landlords reported that they are currently unwilling to let to homeless people, while 62% of landlords reported that they are currently unwilling to let to people who are on universal credit. The full findings are available in figure 4.6 below.

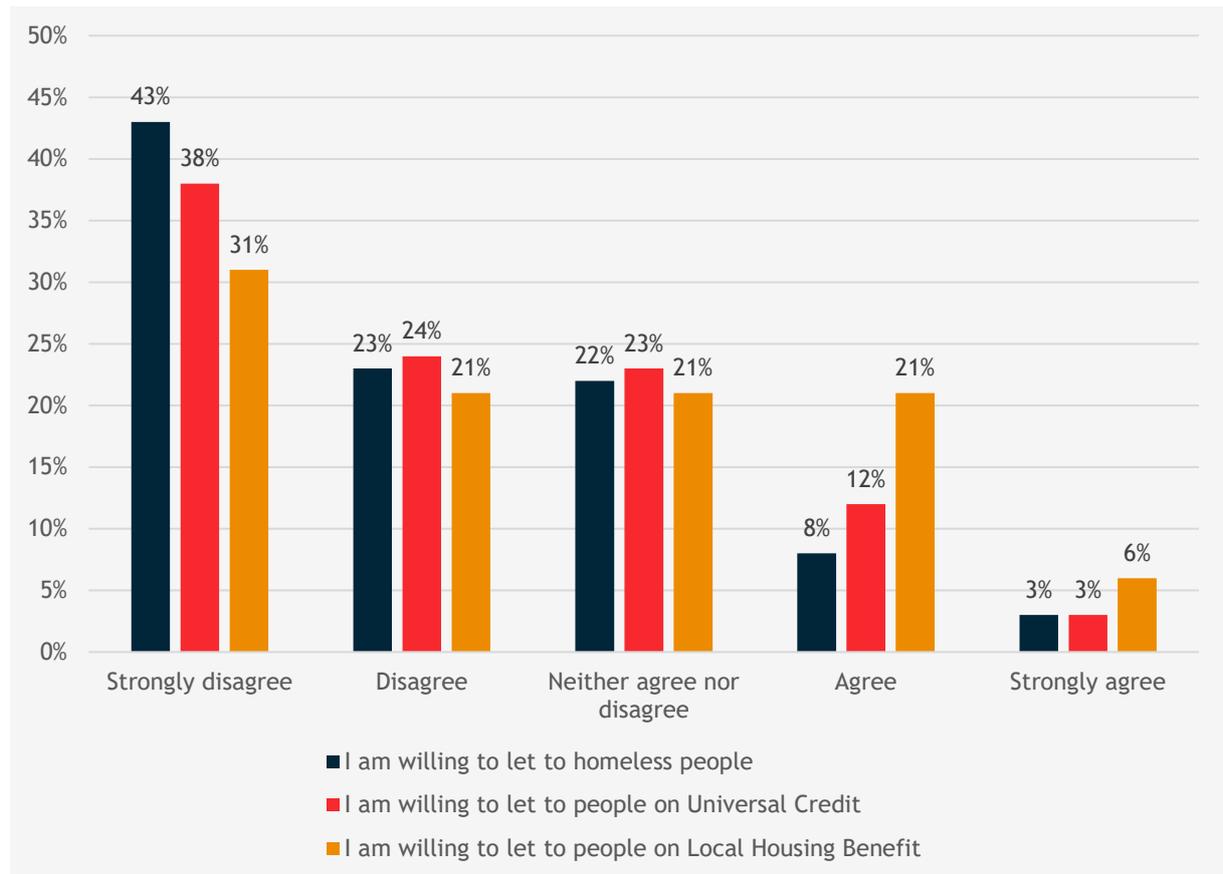


Figure 4.6. Landlord willingness to let to tenants on benefits, universal credit or those that are currently homeless

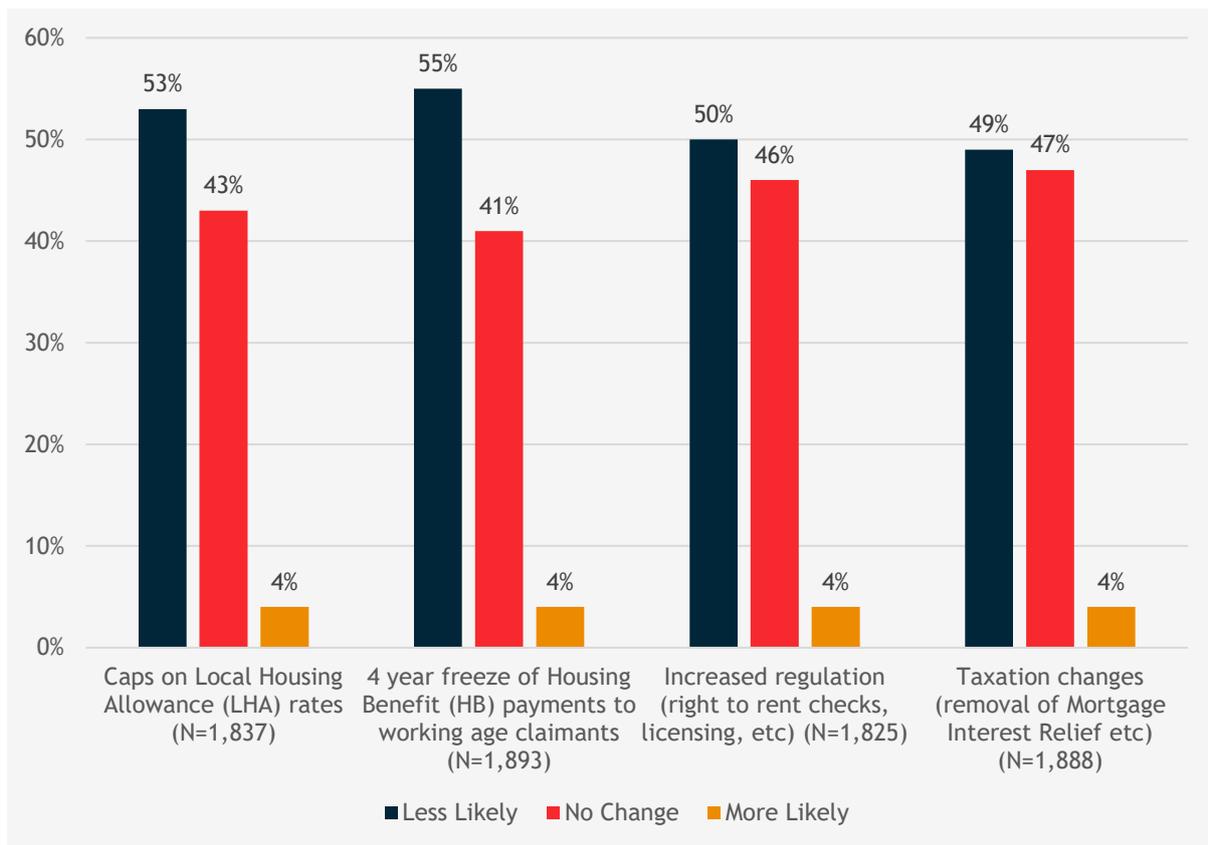


Figure 4.7. Policy changes and the impact on landlord willingness to let to homeless people and people in receipt of benefits

The above figure explores the direct impact of policy changes on landlord willingness to let to homeless people or people in receipt of benefits. Our findings show that each policy change has caused a significant proportion of landlords to be unwilling to let to these tenant groups. The policy change with the highest proportion was the 4-year freeze of Housing Benefit payments, with 55% of landlords, followed by the caps on Local Housing Allowance (LHA) rates, with 53% of landlords reporting they were less likely to let to these tenant groups because of this policy.

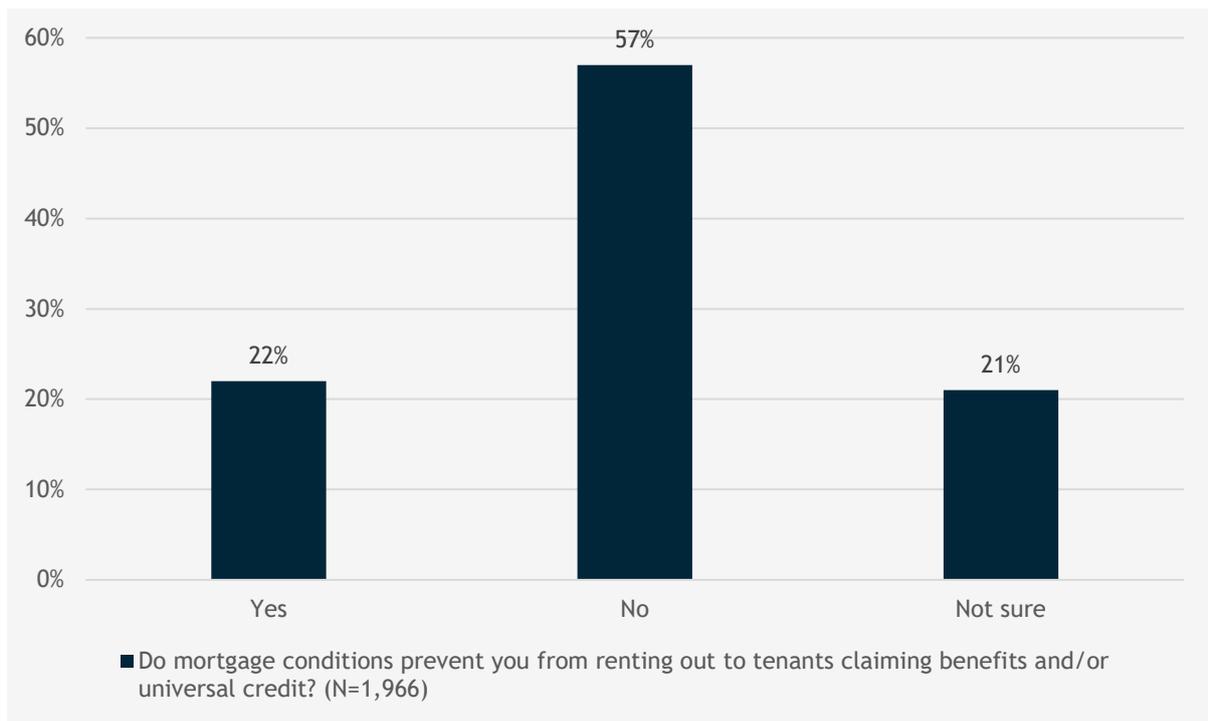


Figure 4.8. The proportion of landlords with mortgage conditions that prevent them from letting to tenants on benefits/universal credit

The final question of this section explores whether landlords have mortgage conditions that prevent them from letting to tenants who claim benefits or universal credit. The majority of landlords reported they did not have any conditions (57%), while only 22% of landlords reported they had conditions that prevented them. This is still a large proportion of landlords, and this means that some private rented homes are inaccessible for the most vulnerable due to these conditions imposed on the landlord.

5. Practice & Perceptions of Tenancy Lengths in the PRS

5. Practice & Perceptions of Tenancy Lengths in the PRS

This section of the report examines the current practices of landlords toward tenancy lengths and their attitudes towards the provision of longer-term tenancies. The issue around security of tenure and tenancy length is growing in the UK. Previous research has identified that the English tenancy model is at one end of the spectrum in comparison to international private rented sectors, and recommended that a voluntary longer-term tenancy system could be beneficial to both landlords and tenants (Whitehead & Williams, 2018). Subsequently, the UK Government has announced a consultation regarding the current barriers to longer-term tenancies in the private rented sector (MHCLG, 2018b), highlighting the current political focus on the security of tenure.

Key findings:

- The majority of landlords initially offer a 6-month tenancy (60%)
- A small minority of landlords reported they offered a shorter tenancy length due to a request by tenants (14%)
- While 36% of landlords reported they offered the shorter tenancy to protect themselves due to previous bad experiences. This indicates that landlords do not have faith in the current justice system in order to recover possession effectively if the tenant is in the property for the long-term and the situation turns negative
- 33% of landlords reported being asked for a longer tenancy, with on average being asked for a 2-year tenancy
- 61% of landlords reported they would currently be unlikely to offer a three year or more tenancy agreement to a tenant

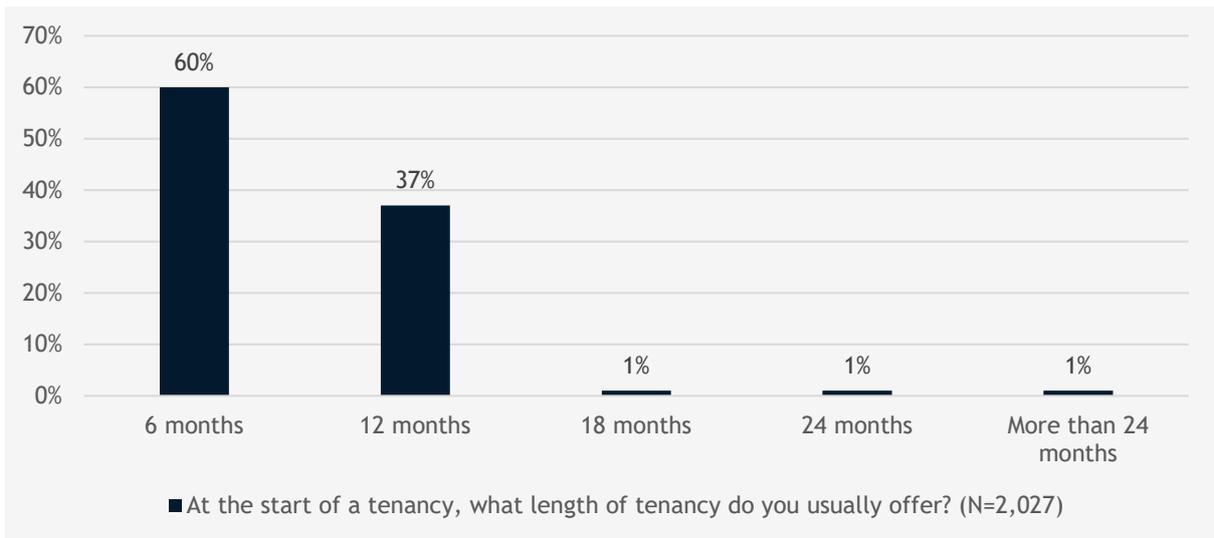


Figure 5.1. Initial tenancy lengths usually offered by a landlord

The majority of landlords (97%) reported that they usually offered a 6 or 12-month tenancy initially at the start of a tenancy. The full findings are available in figure 5.1 above. The respondents were then asked about the current barriers to providing a longer-term tenancy. A large proportion of landlords (49%) reported that it was standard practice and they had never thought of offering a tenancy longer than 12 months, while in contrast, 14% of landlords reported that the tenant had requested a shorter tenancy length. 36% of landlords reported that they do not typically offer a longer tenancy due to previous bad experiences, and so offer a shorter tenancy for their own security. This finding suggests that landlords lack confidence in their current ability to regain possession of their property effectively if the relationship between the tenant and landlord deteriorates (for example, through rent arrears or damage to the property by the tenant). Therefore, reform to the current section 8 process and a new housing court may act as an incentive to offering longer-term tenancies.

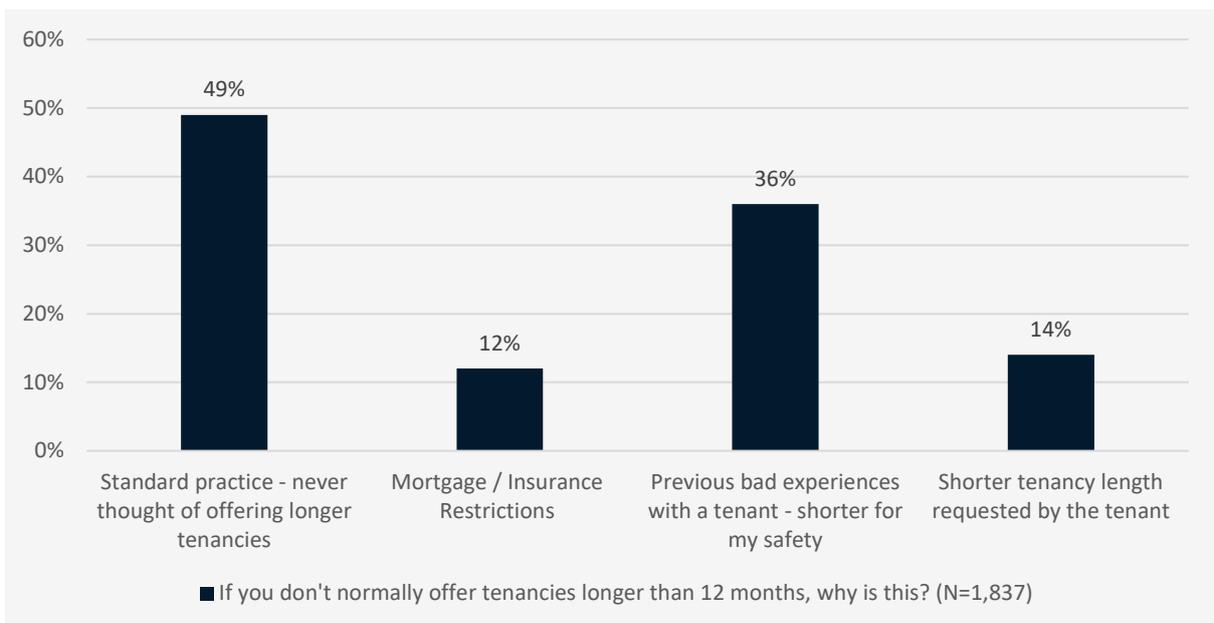


Figure 5.2. Current barriers to landlords offering longer-term tenancies

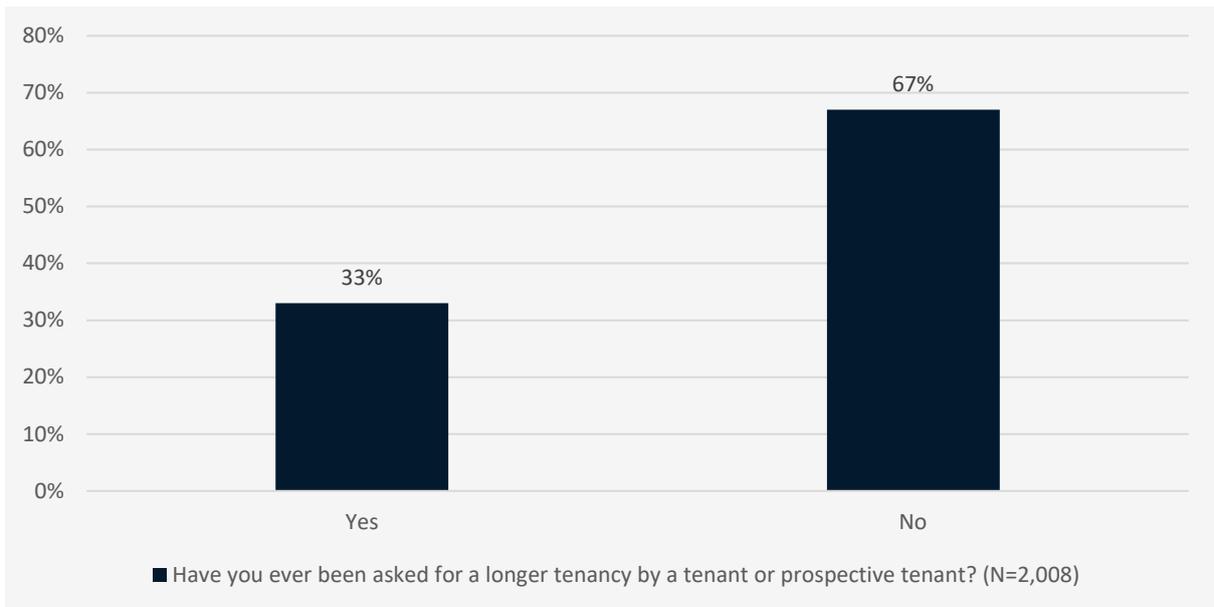


Figure 5.3. The proportion of landlords that have been asked for a longer tenancy by a tenant or prospective tenant

33% of landlords reported that they had been asked for a longer tenancy by a tenant or a prospective tenant. Landlords were then asked to provide the length of the tenancy agreement that was requested. On average, landlords were asked for a 2-year tenancy agreement, with the minimum length requested as nine months up to a maximum of an indefinite tenancy (N=747). Of which 58% of landlords accepted the proposed tenancy length, while 42% reported they did not (N=790). The majority of landlords (61%) reported they currently are unlikely to offer a tenancy of 3 years or more to tenants, suggesting further changes are needed to incentivise landlords to do so.

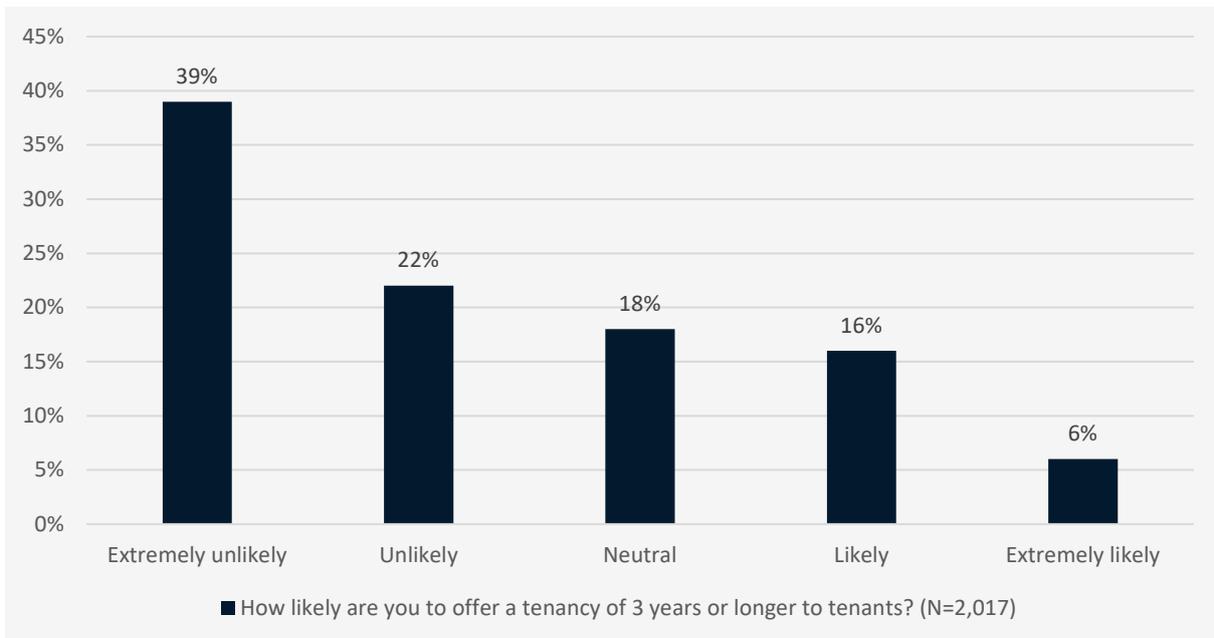


Figure 5.4. Likelihood of landlords to offer a tenancy of 3 years or longer to a tenant

6. Who are Landlords?

6. Who are Landlords?

In this section of this research report, we analyse the types of landlords present in the private rented sector. We examine the demographics of landlords, such as age, gender, but also, how the landlord first entered the PRS, how long they have been a landlord and the size of portfolios across the sector.

Our key findings are:

- Most landlords are between the ages of 55 to 64 (35%), followed by 45 to 54 (26%) and 65 to 74 (26%)
- 44% of landlords reported they owned their own home with a mortgage, while 52% reported they owned the property outright
- The most common employment status of landlords was retired (31%) followed by working full-time (24%)
- 16% of landlords classified themselves as full-time landlords
- The most common reason for becoming a landlord was their own choice through borrowing money, such as buy-to-let (35% of landlords)
- A large proportion of landlords described themselves as specialising in letting to families (50% of landlords)
- Most landlords had been providing homes for over ten years (65%)

The following figure shows the age profile of the landlords who responded to the survey. The largest age group are landlords between the ages of 55 to 64 (35% of the sample), while the smallest age group are landlords aged between 18 to 24 (0% of the sample).

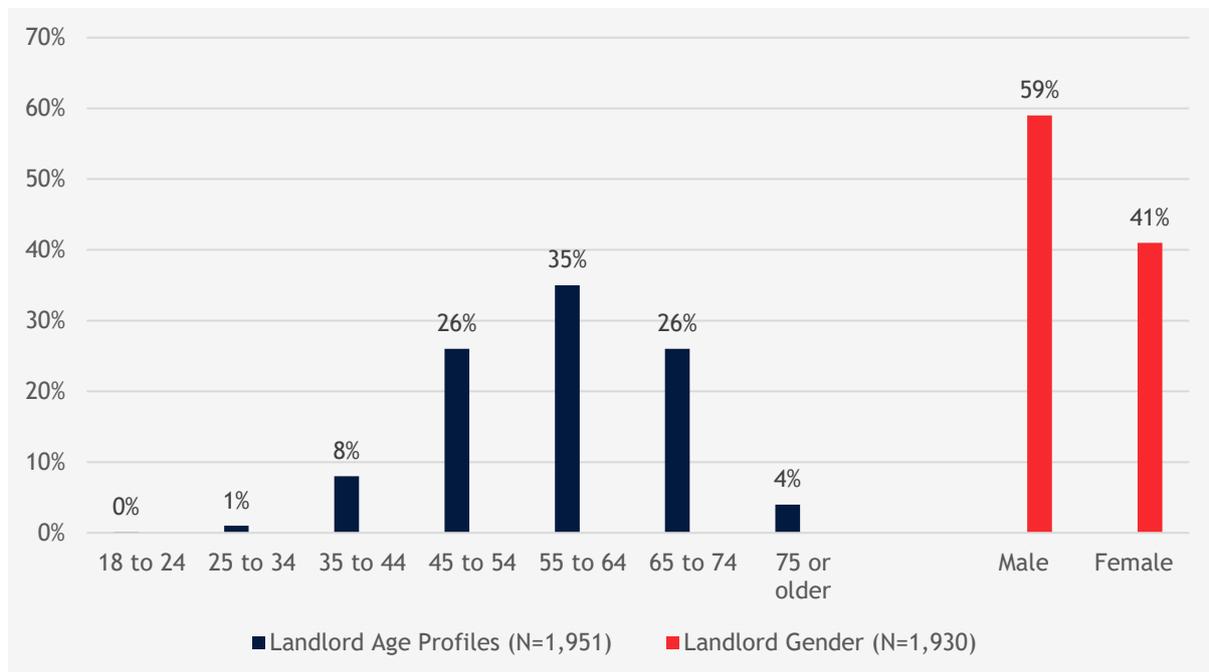


Figure 6.1. Private Landlord Age Profiles and Gender

From the sample, there is a gender gap in response rates, with 59% of respondents describing themselves as Male, and 41% as Female. The findings are shown in figure 6.1 above.

The most common area where respondents lived was in the South East (20%), followed by the North West (13%), London (12%) and the South West (12%). The findings are displayed in the figure below.

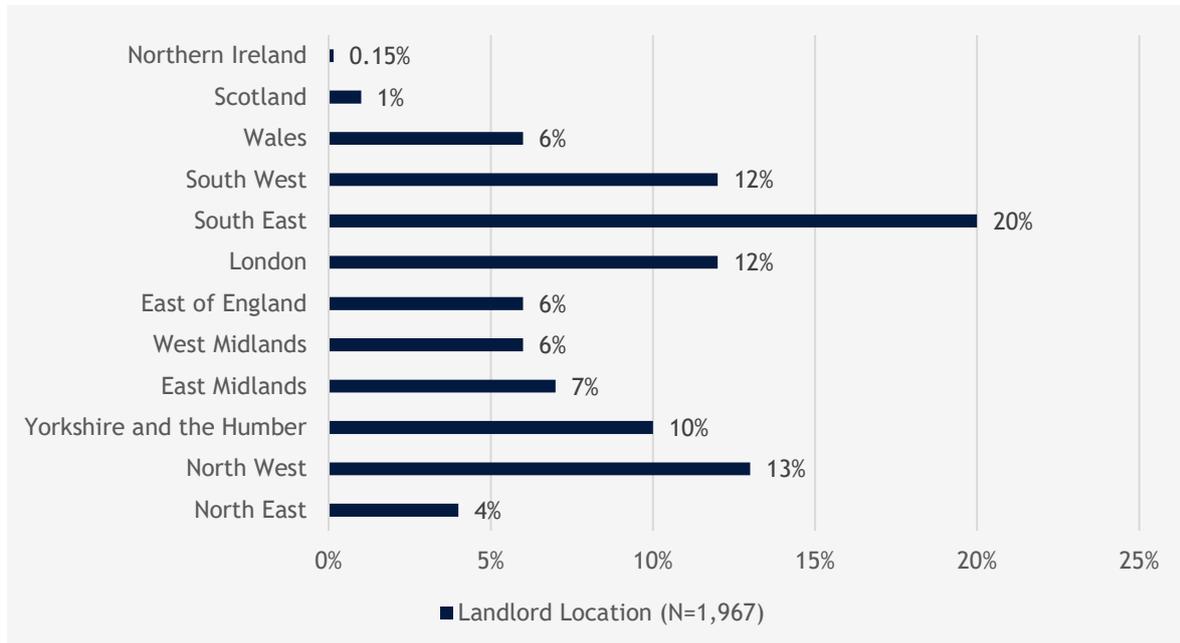


Figure 6.2. Location of landlord's primary residence

When asked about the tenure of their own main home, 44% of the sample reported they own their own home with a mortgage, and 52% reported they owned their property outright. The findings are shown in the figure below.

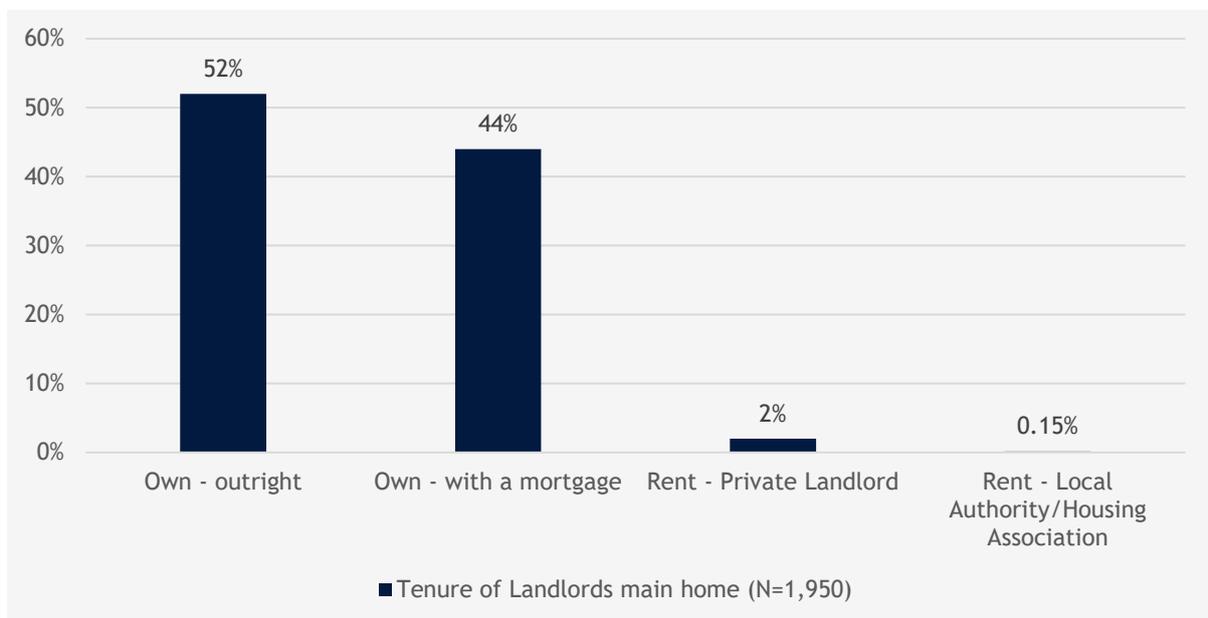


Figure 6.3. Tenure of Landlord's main home

The most common employment status was landlords describing themselves as retired (31% of the sample), followed by being working full-time (24% of the sample). The findings can be found in figure 6.4 below.

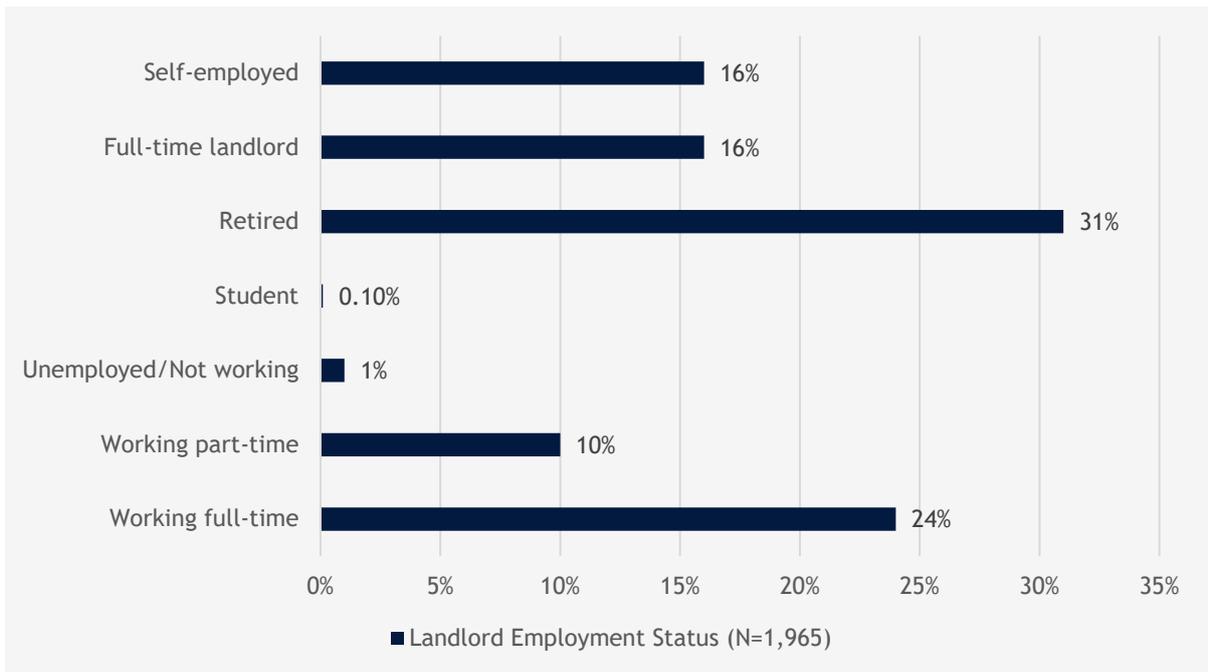


Figure 6.4. Landlord Employment Status

The following figure explores the reasons behind the respondent first becoming a landlord. The most common reason why landlords first entered the sector was through their own choice and by borrowing money such as through a buy-to-let mortgage (33% of the sample). The findings are displayed in figure 6.5 below.

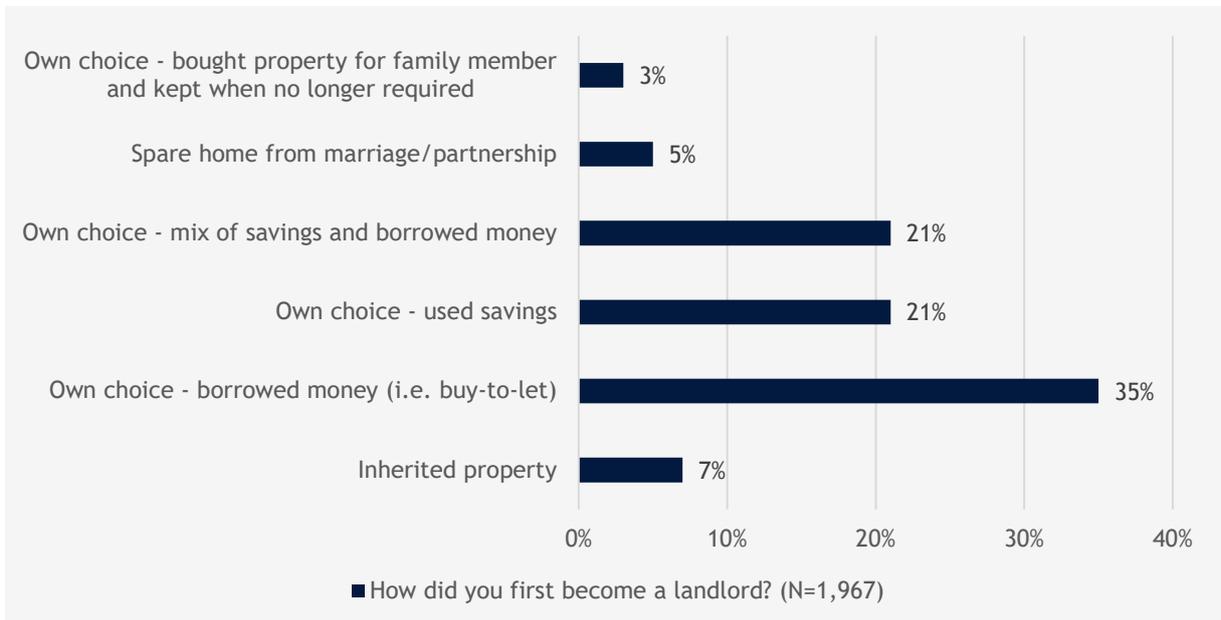


Figure 6.5. The primary reason for first becoming a landlord

A large proportion of landlords reported that they specialised in providing accommodation for families (50% of the sample), followed by specialising in young professionals (45% of the sample). The full findings are available in figure 6.6 below.

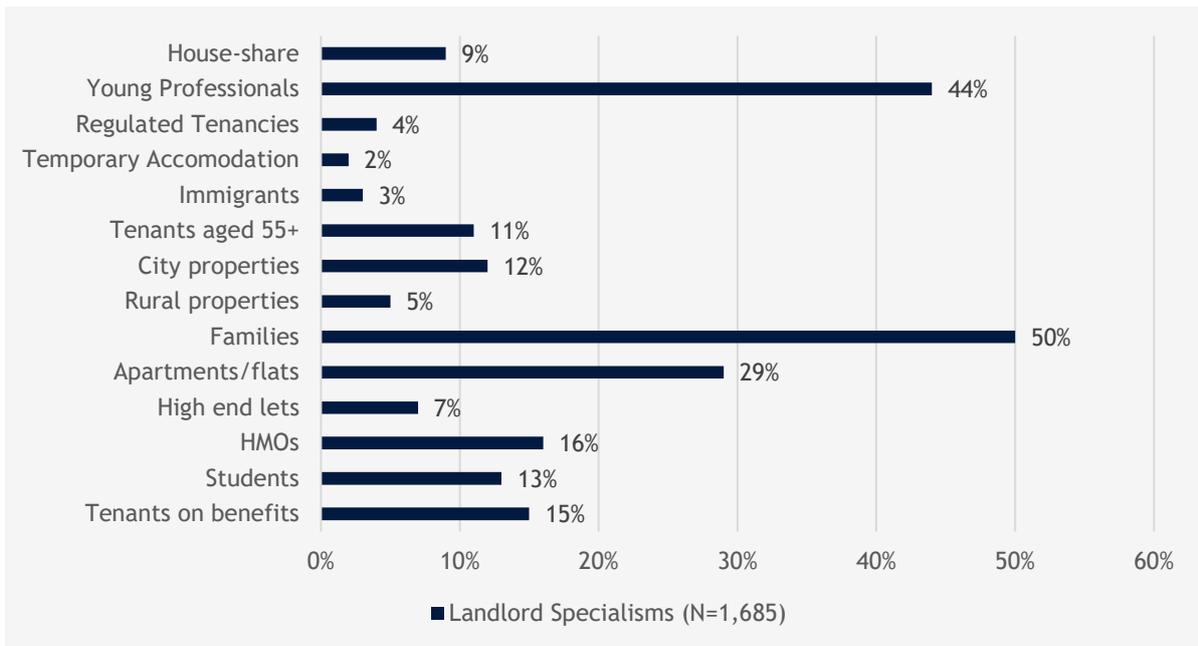


Figure 6.6. Landlord portfolio specialisms

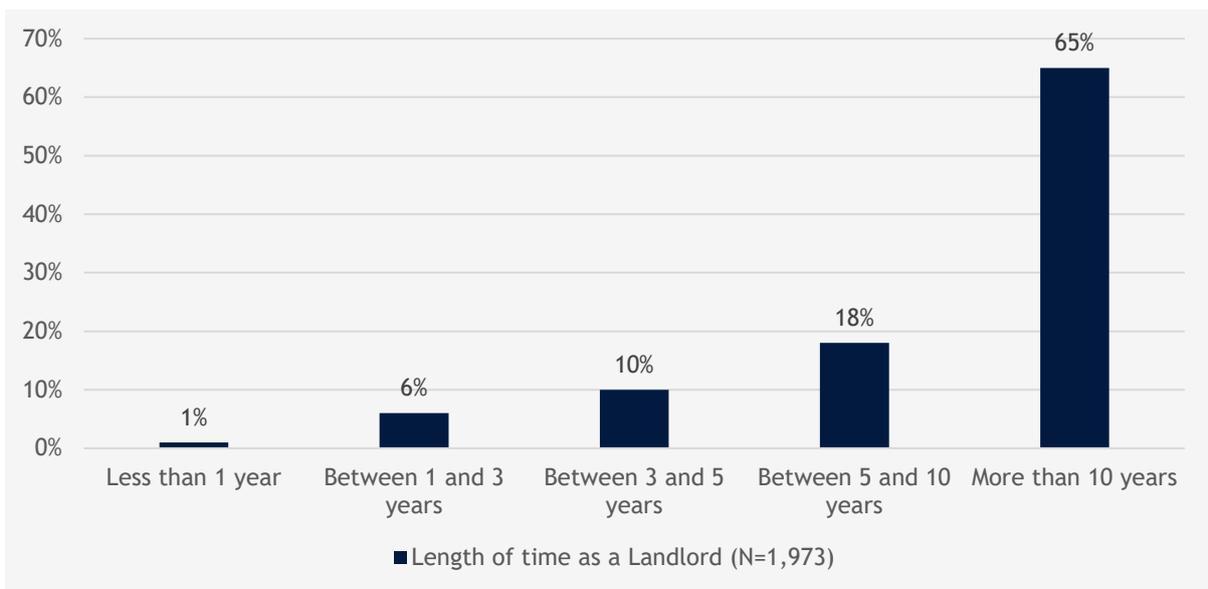


Figure 6.7. Length of time as a landlord

A majority of the respondents reported that they had been landlords for more than ten years (65%), while only 1% have been a landlord for less than one year, and 7% of the sample have been landlords three years and less. Due to the large proportion of landlords that have been in the sector for an extended period and when taken into account the large proportion of landlords that are over the age of 55, there needs to be a consideration of the incentives for younger generations to enter the private rented sector, but there also needs to be consideration of what landlords plans for longer-term portfolio management are. Will these properties be sold, or passed down to children? Moreover, how will standards be maintained if there is a large influx of relatively inexperienced landlords entering the sector?

7. Who are Tenants?

7. Who are Tenants?

In this section of this research report, we analyse the types of tenant landlords are renting their properties out to. We focus on the demographics of tenants, including age, employment status, and also the relationship between the landlord and tenant and any tenant issues landlords have.

Our key findings are:

- The majority of landlords reported letting to tenants aged between 25 and 34 (68%), followed by 35 to 44 (61%). While 23% of landlords reported letting to tenants over the age of 65
- A majority of landlords reported letting to tenants who were in full-time employment (87%), while just over 1-in-4 landlords reported to letting to tenants on benefits
- Over one-third of landlords (36%) have experienced tenants going into 2 or more months of rent arrears in the past 12 months
- Over 1 in 4 landlords (32%) have needed to attempt to regain possession of their property
- Out of those attempting to regain possession, 60% of landlords reported that this was because of rent arrears
- On average, per property, landlords are currently owed £1,584.93 in rent arrears

In figure 7.1 below, we can identify the most common tenant age profile for the sample as aged between 25 and 34 (68% of landlords). The second largest tenant age profile was 35 to 44-year olds, with 61% of landlords reporting they let to this group of tenants.

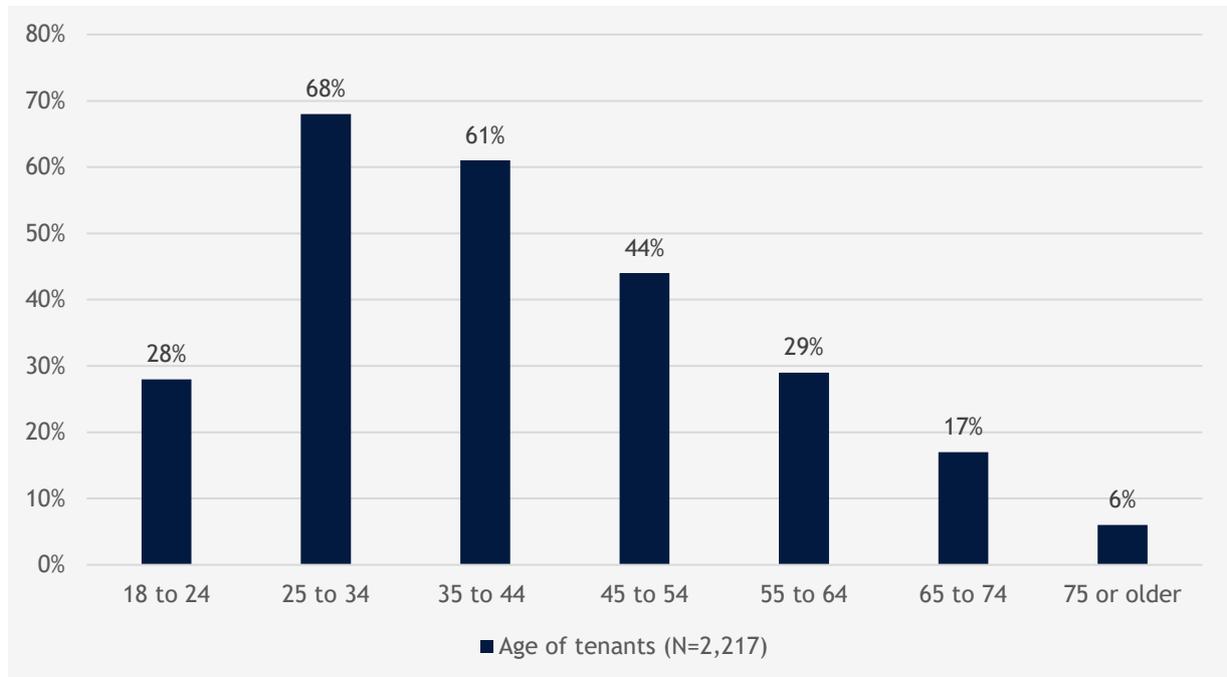


Figure 7.1. Age profiles of tenants

The most common tenant employment status was employed full-time (87% of landlords), followed by employed part-time (36%) and then not working claiming benefits (32%). The figure below shows the different employment statuses of tenants currently let to by the sample.

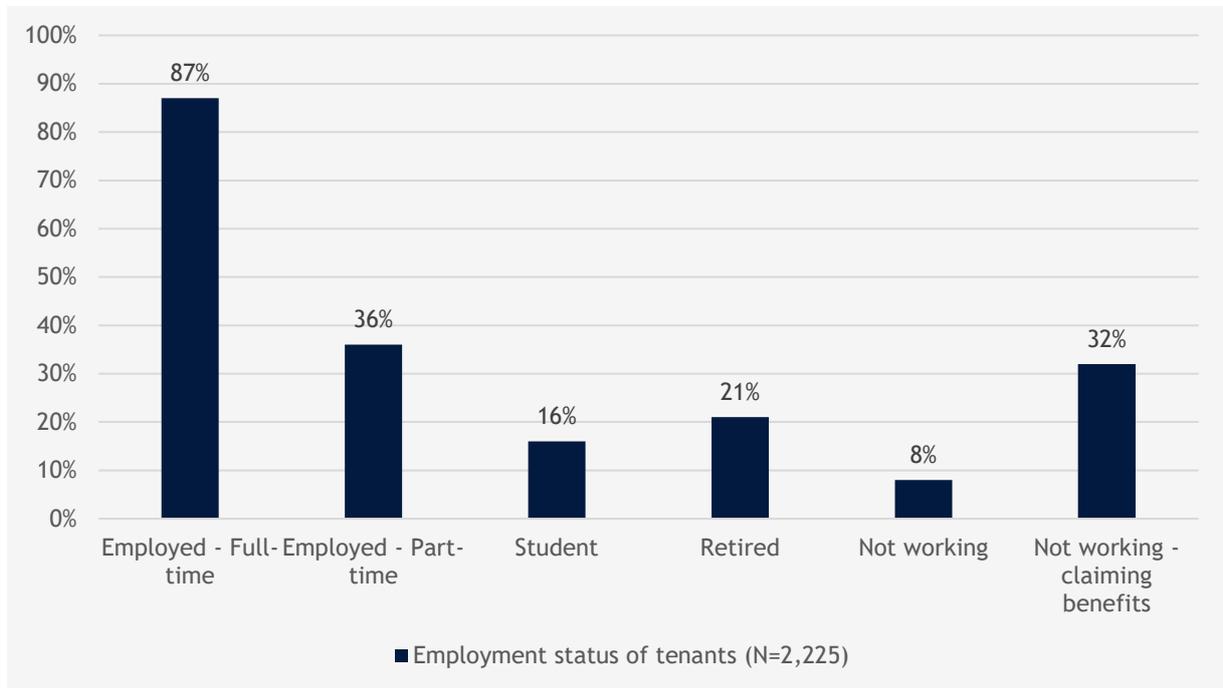


Figure 7.2. Employment status of tenants

In the following question, the respondents were asked if they had experienced any issues with their tenant in the past 12 months. The results indicate that 36% of landlords had experienced 2 or more months of rent arrears in the past 12 months, and 23% of landlords had experienced damage to their property. The figure below provides an overview of the issues experienced by landlords.



Figure 7.3. Landlords negative experiences of letting in the past 12 months

We then asked landlords if they had attempted to regain possession of their rental property in the past 12 months. 69% of landlords responded that they had not, while 12% of landlords said they had to attempt to remove tenants on 2 or more occasions. The full findings can be found in figure 7.4 below.

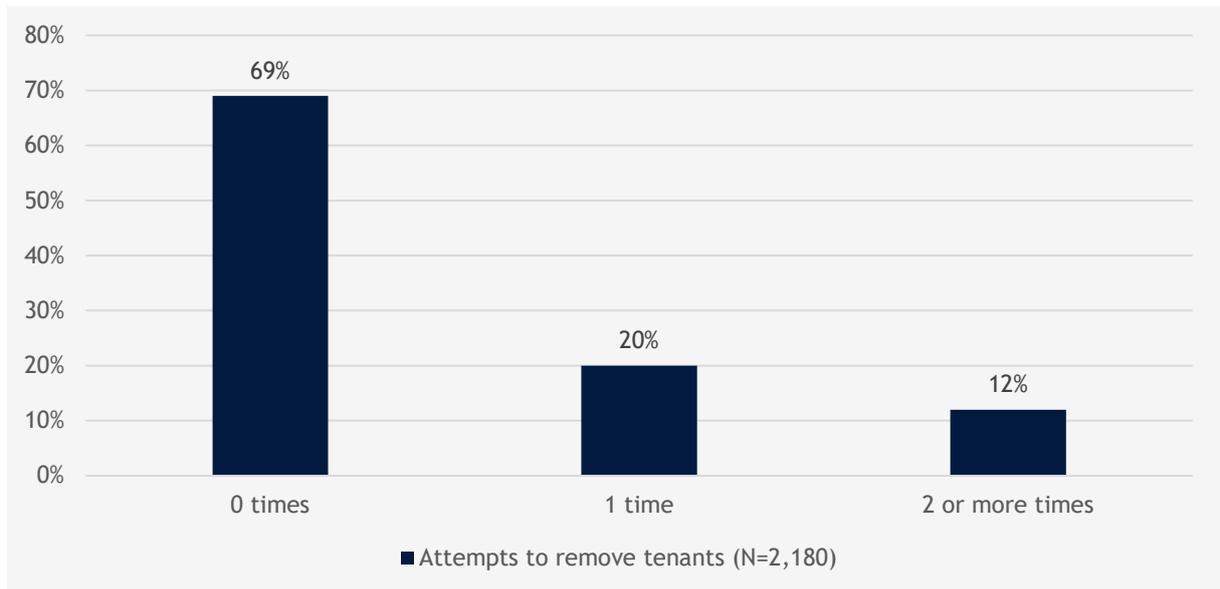


Figure 7.4. Number of times landlords have attempted to remove a tenant from their property in the past 12 months

We then explored the different routes landlords were taking to start the process of reclaiming their property back from the tenant. In the past 12 months, 57% of landlords reported starting this process by serving the Section 21 (no fault eviction), while 33% reported they served a written notice in the first instance. The complete findings are shown in the figure below.

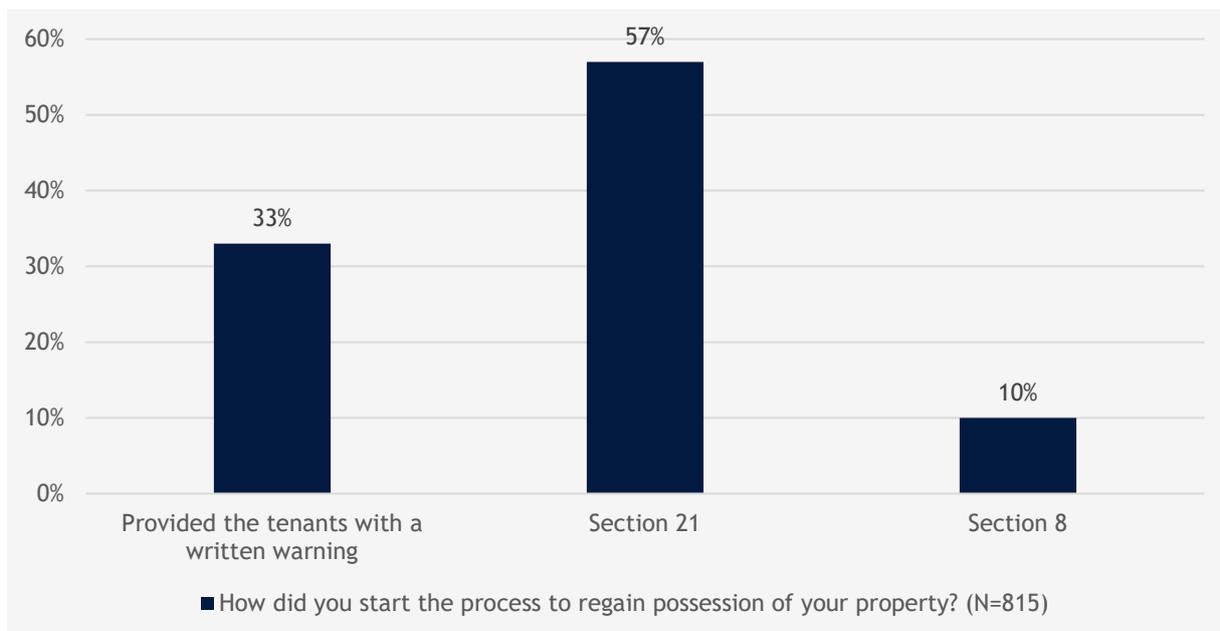


Figure 7.5. How landlords initiated the removal process

A further question asked landlords for the primary reason for attempting to remove the tenant from the property. The majority of landlords (60%) reported the primary reason as rent arrears, followed by anti-social behaviour by the tenants (15%). The full findings for each reason can be found in figure 7.7 below.

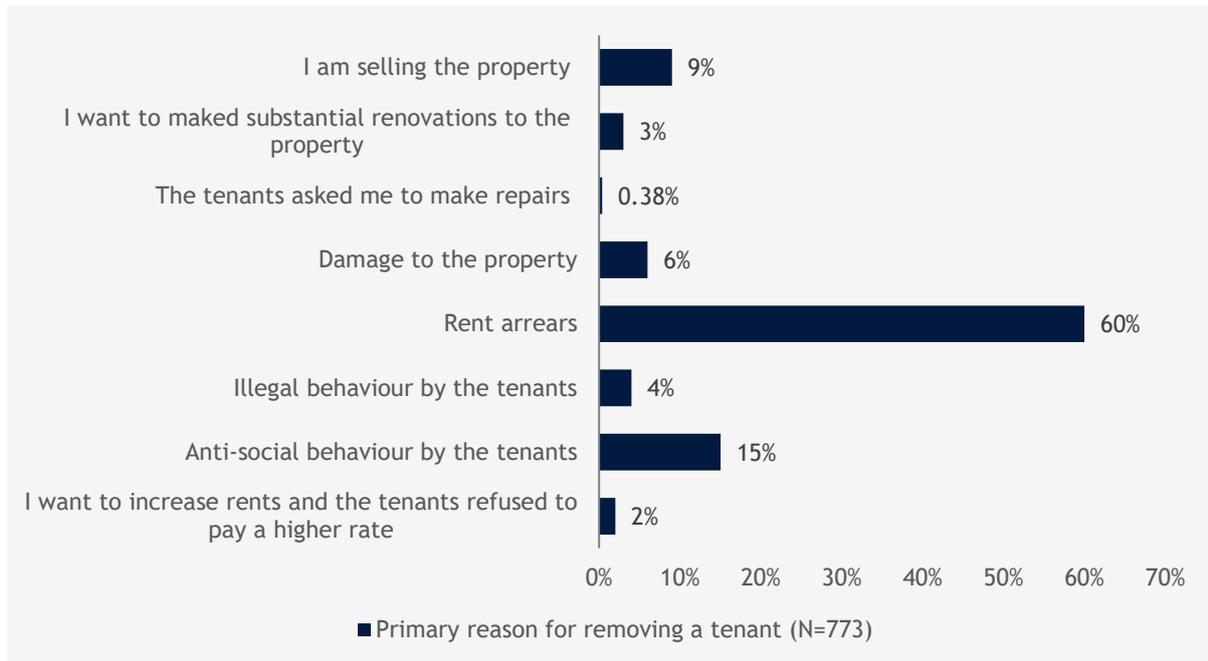


Figure 7.6. Reasons for attempting to remove a tenant in the past 12 months

Our research findings continue to show that rent arrears is a significant issue for the private rented sector and is potentially high risk for landlords with finance attached to their properties. If a landlord experiences rent arrears, then this could put their investment at risk and ultimately could lead to the landlord losing the property, reducing the supply of homes to rent. The findings above highlight that 36% of landlords have experienced rent arrears in the past 12 months, and 60% of evictions were due to rent arrears. On average, per property, landlords reported they were owed £1,584.93 in rent arrears (N=1840).

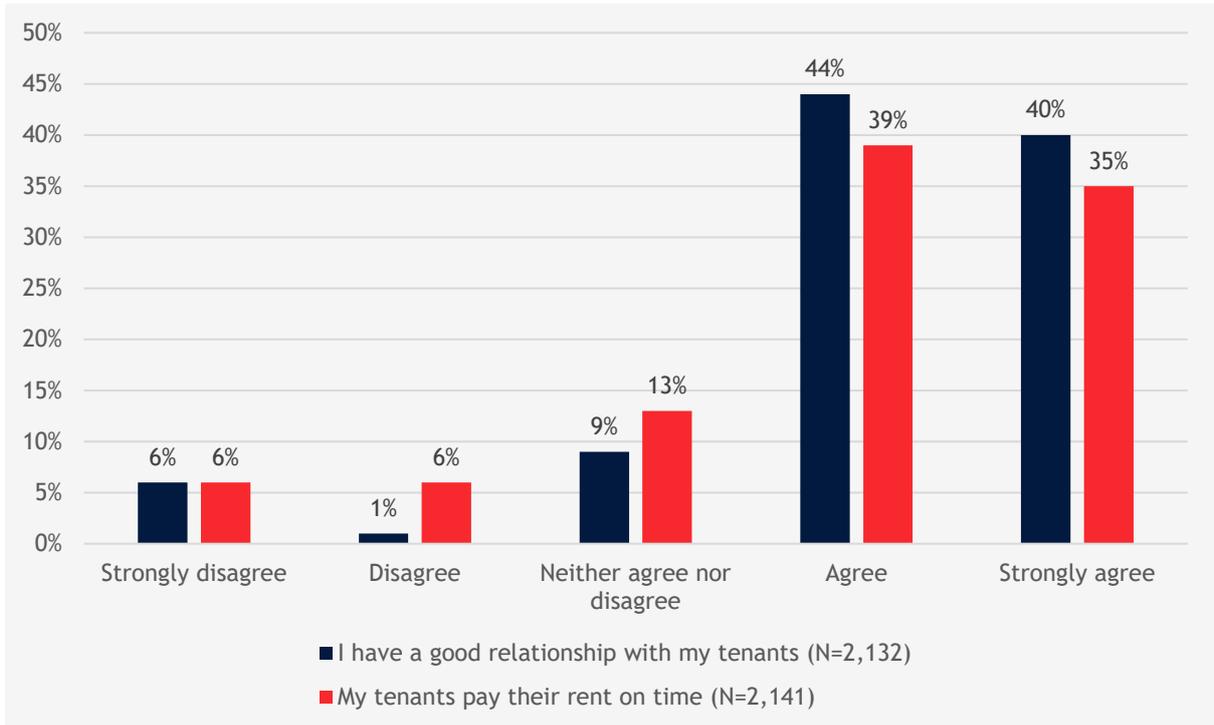


Figure 7.7. Landlord relationships with their tenants

The questions in the final part of this section examine the relationship between the landlord and the tenant. Overall, a majority of landlords reported they felt they had a good relationship with their tenants (84% of the sample), while 74% of landlords reported that their tenants pay their rent on time. The full findings can be found in figure 7.8 above.

8. Landlord Property Portfolios

8. Landlord Property Portfolios

In this penultimate section of the report, we examine and investigate the types of households' landlords typically let to, typical property locations, and whether the property is typically furnished or unfurnished.

Our key findings are:

- While portfolio size across landlords is widely spread from 1 property to more than 21 properties, 26% of landlords reported having 2-3 properties, followed by 6-10 properties (19%) and 4-5 properties (17%)
- The most popular property/household type for landlords is a 2-bedroom property to 1 family (62% of landlords)
- The South East is the most popular geographical region for landlords, with 22% letting property in this region
- The median average rent collected by landlords was £675
- The average tenancy length was calculated as three years

Landlords were asked for the average rent they charge across their property portfolios. The median average rent charged by landlords was £675 (M = £1,020.01, SD = 1445.15, N = 1813).

The next question asked landlords for the average tenancy length across their portfolios, from the analysis of their responses we can identify the average length as three years.

In the following figure, we explore the different portfolio sizes of landlords. The most prevalent portfolio size was 2 to 3 properties (26%), followed by those with 6-10 properties at 19% of landlords. The findings are displayed in figure 8.1 below.

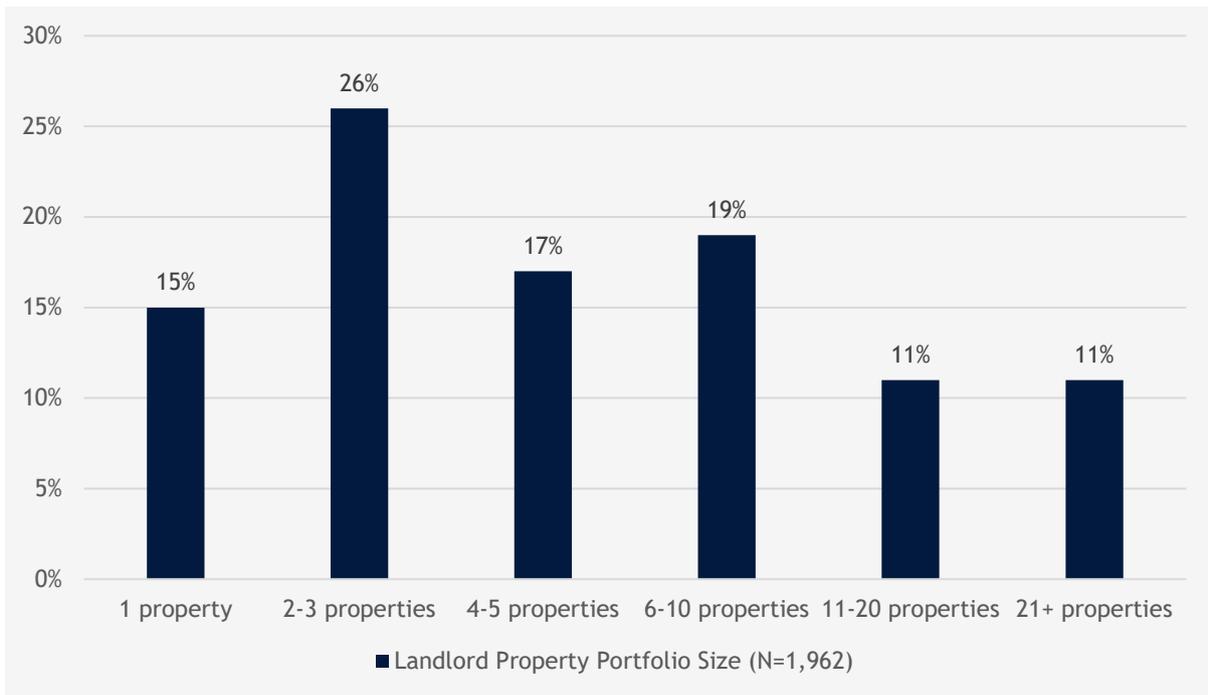


Figure 8.1. Landlord Property Portfolio Size

In the figure below, we investigate the types of properties landlords are currently letting out. Overall, the most common property types were 2-bedroom one family properties (62% of landlords) followed by 3-bedroom 1 family properties (50% of landlords).

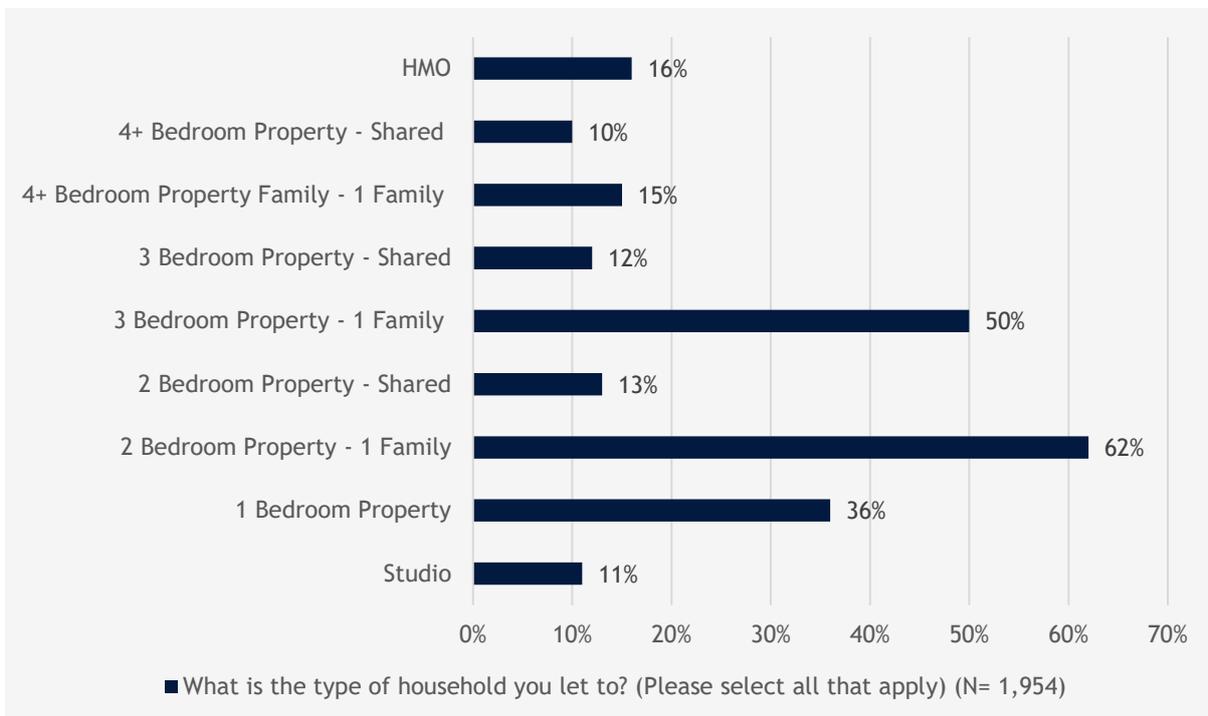


Figure 8.2. Types of properties across a Landlords portfolio

The most common geographical regions to let out the property was the South East (22% of landlords), followed by the North West (18%) and then by London (17%). The least common regions were Northern Ireland and Scotland. However, this is likely due to

sample bias as the membership of the RLA is mainly formed by landlords from across England and Wales.

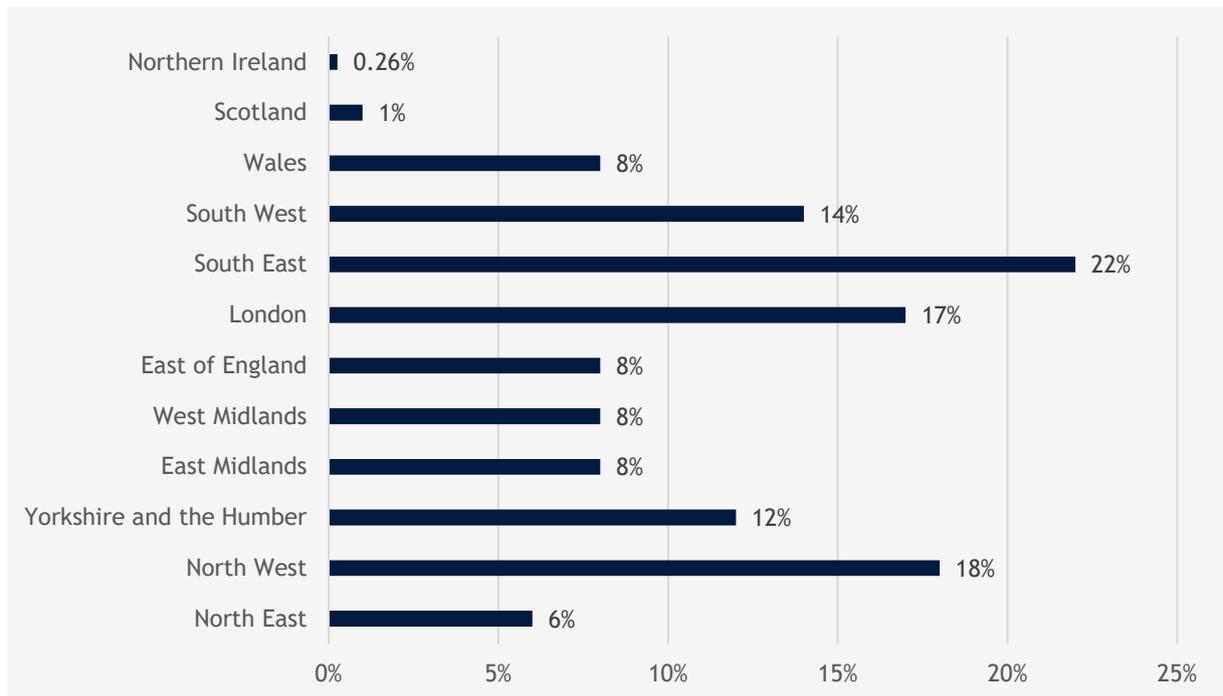


Figure 8.3. The geographical locations of the sample's property portfolio (N=1,943)

The majority of landlords reported that their typical property was let as unfurnished (72% of the sample). At the same time, 28% of landlords reported let their property as fully furnished. There is a cross-over between the responses, to accommodate landlords who offer a range of different furnishings across their portfolios.

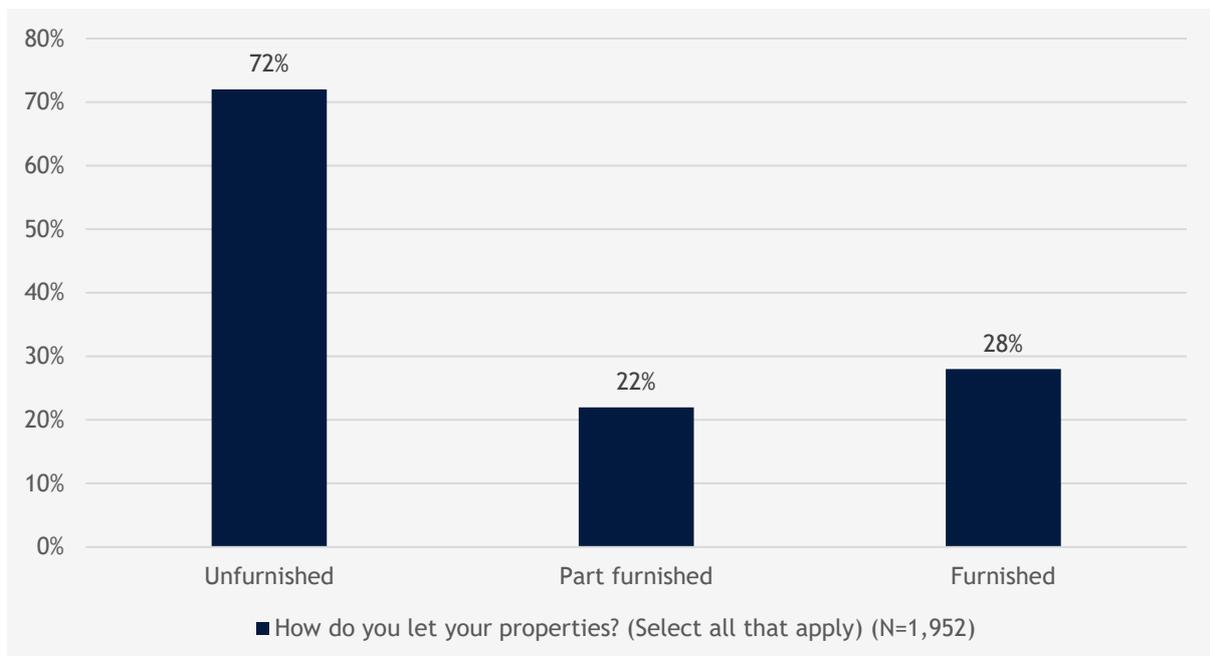


Figure 8.4. The different furnishing options across landlords' portfolios

9. Conclusions and Recommendations

9. Conclusions and Recommendations

This research report presents the findings of the first follow-on survey that focuses on Welfare Reform as part of RLA PEARL's longitudinal quarterly survey research project. The research findings are based on the responses of 2,234 private landlords from across the UK. The aim of the present study was to examine the impact of welfare reforms on private residential landlords and the broader sector and builds upon our previous research on universal credit and welfare reform (see: Simcock, 2017b). A further goal of this report is to continue the monitoring of key trends in the private rented sector.

Universal Credit (UC) as part of the previous Coalition Government's welfare reform has changed the provision of social security benefits right across the UK, with all benefits under UC amalgamated into one monthly payment. This has had a direct impact on the housing sector with further additional changes, where Housing Benefit could have been paid directly to the landlord by the Local Authority easily, under Universal Credit the rent is paid directly to the tenant in the first instance (Hickman, Kemp, Reeve, & Wilson, 2017; McKee, Muir, & Moore, 2017). Previous research has found that private landlords have been less willing to let to tenants under-35 who are on benefits and specifically universal credit due to fears over financial risk (Pattison & Reeve, 2017). Our own research identified significant concerns regarding the impact of universal credit on landlords, with 38% of landlords reporting they had had a UC tenant in rent arrears in the previous 12 months (Simcock, 2017b). The findings of this research amplify the concerns surrounding universal credit. In the present study, we found that 61% of landlords that let to tenants on UC had experienced their UC tenants in rent arrears in the past 12 months. This has over doubled from 27% of landlords in 2016 and is a significant increase from 38% of landlords in 2017. A further concern is the amount owed by UC tenants in rent arrears; this has increased from £1,600.88 in 2017 to £2,390.19 in 2018. This is a 49% increase on the previous year and is 254% higher than the current average monthly rent across England; this further indicates that UC tenants are on average over three months in arrears.

The significant increases in rent arrears for tenants that are on Universal Credit is a serious concern. This poses a considerable financial risk for a landlord, and it is not unsurprising that a majority of landlords are unwilling to let to tenants claiming benefits through UC. It is reassuring that the Government have taken steps to introduce new changes including;

- the removal of explicit consent when applying for Alternative Payment Arrangements when the tenant is in rent arrears of 2 or more months,
- enabling the landlord to apply for direct payment from day 1 if their tenant has Tier 1 or Tier 2 category vulnerabilities,
- 18-21-year old's will be able to claim housing benefit through UC,
- the removal of the 7-day eligibility waiting period, increasing advance payments, and,
- the introduction of the two-week Housing Benefit run-on.

Unfortunately, some of these changes have been introduced after data-collection, and it is likely we would be able to examine the impact of these changes in the next quarterly

survey in this area in 2019. Nevertheless, given the substantial increase in the proportion of landlords experiencing tenants that claim UC in rent arrears, further work to improve the roll-out of Universal Credit would be welcome. Including, ensuring that rent arrears follow the tenant when the tenant leaves the property, and to have the option for direct payment to the landlord provided to the tenant at the offset.

The significant increase in rent arrears for both UC tenants and 'legacy' Housing Benefit tenants also points to much wider issues than just the implementation of Universal Credit. While some of those who have reported HB tenants being in rent arrears could have had their tenant move over to UC without their knowledge, this is likely to be a minority. This finding suggests that the freeze to LHA rates that has been in place since 2016 and the fact that LHA rates had not risen in-line with market rents between 2010 and 2016 could be driving the increase in rent arrears. Research published last year by Shelter identified that freeze to LHA rates was putting significant pressures on lower-income households and called for a lifting of the rates to the 30th percentile of the market (Spurr, 2017). Not only is this freeze likely to be driving rent arrears and increasing the risk of homelessness, but it is also causing landlords to be unwilling to let to tenants claiming benefits. 55% of landlords reported that they were less likely to let to tenants on benefits due to the 4-year freeze of housing benefit payments. Rent arrears are also driving evictions; with 65% of landlords that have evicted a tenant on housing benefit due to arrears. Based on these findings, it is clear that the freeze on LHA rates need to be lifted for the private rented sector more urgently than planned. Not only does this have broad support across the industry, it will help to lift tenants out of poverty and decrease the risk of homelessness for families right across the UK.

As part of this quarterly survey, we asked landlords around their experiences of offering longer-term tenancies. The findings of these questions provide timely foundations for understanding some of the barriers for landlords to offer a longer-term tenancy. From all the findings, it is clear that offering a 6-month initial tenancy agreement was either because the tenant had requested it or because it was to protect the landlord from significant financial risk. 36% of landlords reported that they do not typically offer a longer tenancy due to previous bad experiences, and so offer a shorter tenancy for their own security. This finding suggests that landlords lack confidence in their current ability to regain possession of their property effectively if the relationship between the tenant and landlord deteriorates (for example, through rent arrears or damage to the property by the tenant). Other findings show that rent arrears, anti-social behaviour and damage to the property are the significant causes of eviction. Therefore, reform to the current section 8 process and a new housing court may act as an incentive to offering longer-term tenancies. No good landlord wants to evict a paying tenant, and as evidenced in this survey and previous surveys the main reason landlords do not increase rents is to keep good tenants for the long-term. The current government consultation (MHCLG, 2018b) and proposed three-year tenancy model is piece-meal policy-making, there is a significant risk that introducing one element of change such as mandatory three-year tenancies without court reform will cause havoc for the whole sector. Our previous research has found that landlords would be significantly incentivised to offer a longer-term tenancy if there were court reform and tax relief (Simcock, 2018b). Therefore, it would make more sense to introduce this through tax relief in the Autumn budget and look to bring forward court reform and improvement of the Section 8 eviction process. This would enable landlords to offer a longer-term tenancy to those that desire it and

enable others who wish for flexible tenancy lengths to still obtain them. This would ensure the PRS supports employment mobility, such as those moving for employment in different areas.

Our analysis of the trends that are occurring in the private rented sector continues to show the downturn in landlord attitudes and outlook. The proportion of landlords that have added to their portfolio in the past 12 months has continued to decline, while the proportion of landlords that have sold properties has continued to increase. With both now standing at 14%, if this trend continues, we will soon see more landlords selling than buying. This will have a negative impact on those renters who are unable to buy and rely on the sector for a home. In regards to the forecast for property portfolios, more landlords plan to sell over buying properties, further indicating a future under-supply of privately rented homes. While 84% of landlords reported stable or increased tenant demand for privately rented homes. However, there is good news for tenants, the proportion of landlords that have kept the rent the same over the past 12 months has increased by three percentage points, while those that plan to keep the rents the same has remained flat on the past quarter at 58% of landlords. Nevertheless, of those that are planning to increase the rents, the primary driver of this is the recent changes to Mortgage Interest Relief (29%). These findings indicate that the tax changes are driving some landlords to either exit the market or increase rents, which in the long-term will not support the broader sector or tenants who rely on the private rented sector.

Key Recommendations

The findings of this research provide a greater understanding of the issues facing the private rented sector and a deeper insight into the attitudes and behaviours of private landlords. From these findings, we have developed some key recommendations that we believe will improve the current private rented sector and work to secure a modern private rented sector of the future that works for all. These are as follows:

1. Universal Credit needs to be paused from further roll-out to monitor the impact of current changes and to develop the service further to ensure tenants and landlords are not put in a dangerous financial situation with increasing rent arrears.
2. Going forward the Alternative Payment Arrangement system needs to be significantly improved. There are efforts underway to improve this already by the DWP to move this to an online system. However, it is essential that this is working well before migration is started from next year.
3. We would recommend that to mitigate risk of rent arrears for claimants, that Work Coaches and Case Managers ask tenants during the application process if they need or desire direct payment to landlords from the start of the claim as a standard question. This could build on the housing confident scheme previously delivered by DWP.
4. Part of the underlying ethos of Universal Credit is to promote financial responsibility to claimants. However, a private landlord can only claim rent arrears back as a 3rd party deduction against the current property where the tenant resides. This does pose an issue, given the financial responsibility that the Government expects of claimants, that when a tenant abandons the property

with rent arrears, that these rent arrears are not deducted from the award. This does not provide the reassurance for landlords that they will be paid rent and could be a potential factor influencing landlord unwillingness to let to tenants claiming Universal Credit. Private landlords should not be expected to absorb losses (especially at a time of increasing costs and taxation reform), and it would not be expected that a different business such as a supermarket to absorb any losses for non-payment for a product. To improve landlord confidence in the system and to promote financial responsibility, Universal Credit should be reformed to ensure that any rent arrears accrued can be claimed and taken from the award, even if the tenant leaves the property where arrears have accrued. This would provide the much-needed confidence that a landlord will receive rent payments and not face significant losses when letting to tenants on Universal Credit.

5. Ahead of managed migration there needs to be a significant communications initiative with private residential landlords to inform, advise and educate on how to navigate Universal Credit and how to escalate concerns and complaints when there is risk of the tenancy breaking down.
6. The current positive partnership working between the DWP and the RLA should continue to ensure known and emerging issues with the roll-out of Universal Credit are identified, and concerns and experiences of private landlords are understood by Government.
7. The increasing rent arrears for housing benefit and universal credit tenants indicates broader issues in the private rented sector. We believe that the current LHA freeze needs to be reviewed and lifted urgently, especially with the lifting of the freeze for social landlords. Not only does this have broad support from charities, trade bodies and other organisations across the industry, but it will help to lift tenants out of poverty and decrease the risk of homelessness for families.
8. There are increasing regulative burdens being placed upon landlords in a piecemeal fashion. There needs to be a large-scale review of the changes introduced in the past two years to identify the impact on the development of the sector. More and more landlords are now planning to sell properties, without change there is going to be a contraction of the private rented sector. While it may be the intention of the current government to encourage home ownership, fewer properties to rent will not support those who cannot afford to buy or seek to rent due to their circumstances.

10. References

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