

CIH response to Property standards in the North's private rented sector



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About CIH

Chartered Institute of Housing (CIH) is the independent voice for housing and the home of professional standards. Our goal is simple - to provide housing professionals and their organisations with the advice, support and knowledge they need to be brilliant. CIH is a registered charity and not-for-profit organisation. This means that the money we make is put back into the organisation and funds the activities we carry out to support the housing sector. We have a diverse membership of people who work in both the public and private sectors, in 20 countries on five continents across the world.

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Introduction and summary of our main points

We welcome the opportunity to respond to this call for evidence.

As noted in the consultation document, the private rented sector (PRS) has grown substantially across all parts of the UK, including in the North of England.

As the sector has grown, its role within the wider housing market has also changed. Traditionally the PRS has often been seen as mainly providing a short-term home for groups such as students and young professionals, who might later move on to either owner occupation or social renting. These groups are still present in the sector but, as both social housing and owner occupation have become harder to access, the PRS now also houses a growing number of people for the long term.

Furthermore, as approaches to preventing and responding to homelessness change, the PRS is also now housing a growing number of households in the lowest income groups, including some with complex needs. These households might traditionally have been housed by social landlords, but increasingly many are now renting privately.

This inquiry is therefore timely, as the PRS has an increasingly important role to play in ensuring that all households can access a suitable, decent home.

In summary, the main points raised in our submission to this inquiry are:

- property standards in the region are not universally poor but are highly variable. Levels of non-decency are falling but remain slightly higher than the national average and substantially higher than in other sectors
- there are particular problems with poor standards at the very bottom end of the market, where a small minority of 'rogue' landlords operate, as well as in some specific communities where wider economic regeneration is needed
- in addition, many private renters in the region also face problems arising from difficulty accessing the sector in the first place, variable standards of property management, worsening affordability as a result of welfare cuts and low levels of security
- local authority enforcement of minimum property standards is inconsistent. There are examples of good practice, which could be replicated, but a lack of available resources and of intelligence about the PRS in their area often means that authorities do not enforce standards proactively

- current measures to improve levels of energy efficiency in the sector are insufficient, both to hit our national targets for reducing carbon emissions and to reduce levels of fuel poverty
- there are a number of policy options available to government to improve standards in the PRS, including:
 - introducing a national landlord registration scheme
 - providing some time-limited funding to support more councils to bring in additional resources for enforcement work and to make better use of new enforcement powers, like civil penalties
 - introducing a system of mandatory property MOTs
 - establishing a single set of nationally agreed standards (above the legal minimum) for landlord accreditation and providing financial incentives for landlords who commit to them
 - gradually raising minimum standards for energy efficiency and supporting landlords to achieve these via a new subsidy system, which would replace the current Energy Company Obligation.

Current PRS in the North

What do we know about the current quality and standard of PRS housing stock in the North?

Property standards in the sector are by no means universally poor but are highly variable.

As noted in the consultation document, 27 per cent of privately rented homes across the North do not meet the Decent Homes Standard (this is slightly higher than the national figure of 25 per cent). This figure has improved significantly in recent decades but remains higher than for other tenures.

While the focus of this inquiry is primarily on property standards, we would also point out that there are several other issues facing tenants and prospective tenants in the sector:

- access - a combination of welfare cuts (see below) and discriminatory lettings practices can make it difficult for some households to find a landlord who is prepared to let to them in the first place. For example, according to MHCLG's 2018 survey of private landlords, 52 per cent are unwilling to let to tenants in receipt of housing benefit, 47 per cent are unwilling to let to those receiving universal credit and 25 per cent are unwilling to let to non-UK passport holders

- quality of housing management services - these are also highly variable. The PRS is characterised by small scale, often accidental, landlords (the same survey of private landlords showed that nationally 45 per cent own just one property and a further 38 per cent own between two and four properties) who do not always fully understand all of their legal obligations. Letting agents can help to ensure professional services but this sector is relatively unregulated and examples of poor practice remain common
- affordability - although affordability concerns are not as acute as in higher cost regions, welfare cuts (particularly the ongoing freeze in local housing allowance rates) are undermining some households' ability to afford a suitable home. Our research shows that as a result across the UK in 90 per cent of areas fewer than 30 per cent of properties are now affordable to a household needing to rent at these rates. Therefore, even in many relatively low cost areas, low income families are increasingly facing a shortfall between their benefit entitlement and their rent
- security - some tenants value the flexibility offered by the current system of relatively short-term tenancies. However others have a clear need for greater levels of security, including the growing number of families with children and older people now living in the sector, for whom regular moves can cause real problems.

Where is poor quality stock most likely to be found and who is most likely to occupy it?

At the bottom end of the market there is a particular problem with a minority of unscrupulous landlords who deliberately exploit, often vulnerable, tenants who have few other housing options. This leaves some tenants living in very poor, and often highly overcrowded, conditions.

These landlords represent only a small minority of all those operating in the region. They present a separate, distinctly different challenge for policy makers, compared to the wider concerns about levels of non-decency across the sector as a whole.

Anecdotal feedback from CIH members also suggests that there are pockets of particularly poor quality stock concentrated in the most deprived communities in the region. In many cases this is linked to wider problems with the local economy, which have left some communities affected by low levels of demand, high numbers of empty properties and low property values. These make homes an unattractive prospect for landlords, with poor

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financial returns making it difficult for anyone to invest in bringing homes up to a good standard.

What challenges does the current situation present to the occupiers of these properties and to the wider neighbourhood?

Concentrations of poor quality homes, particularly when part of an area's wider economic decline, can lead to problems such as crime and anti-social behavior (ASB), which affect entire neighbourhoods.

Our previous research on the impact of landlord licensing (covered in more detail below) includes some positive examples of local authorities taking co-ordinated action to address this. For example:

- in Blackpool the council employs a specialist officer for each licensing area. The officer works with landlords to help them to address issues in their properties and to reinforce the view that dealing with complaints of ASB is a key part of being a landlord. The council can demonstrate reduced levels of ASB in all of their licensing areas, most notably in South Beach where it fell by as much as 52 per cent
- in Doncaster, 101 fixed penalty notices were issued for ASB during the first 18 months of a selective licensing scheme. One area where the scheme operates saw reductions of 35 per cent in noise complaints, 44 per cent in nuisance complaints and a 20 per cent fall in reports of unkempt properties.

What incentives or barriers, if any, do landlords face in raising property standards?

As noted above, in some specific parts of the region, low levels of demand generate poor financial returns for landlords. This can render any significant investment in raising property standards financially unviable. In these cases, a concerted, co-ordinated approach to regeneration may be needed, and CIH has previously published research and a series of good practice case studies focused on this issue.

Conversely in parts of the North where demand is highest, and particularly in major city centers, we are beginning to see growing numbers of purpose-built, high quality PRS homes through the expansion of 'build to rent'. These are typically owned by institutional investors and often managed by social landlords. They are concentrated in particular areas, make up only a small proportion of the total rental market and are often only affordable for middle and higher income households, but are never-the-less helping the raise standards for some renters.

What is the capacity of local and combined authorities to respond to issues of poor quality?

Local authorities have a vital role in enforcing minimum standards in their area. However, we are concerned that current practices are inconsistent and in that in many areas councils simply do not have the necessary resources to do this proactively.

Our previous research, published jointly with CIEH and focused on selective licensing, highlighted several examples of local authorities in the North who are effectively using property licensing to identify poor quality properties and to drive up standards in their area.

For example:

- in Rotherham, 1,897 full housing inspections had been carried out following the introduction of selective licensing. 36 per cent found a category 1 hazard, while only 9 per cent of properties were found to be free from category 1 or high scoring category 2 hazards
- in Blackburn with Darwen, across two schemes 70 and 84 per cent of properties inspected required works to be done between 2009 and 2014
- Liverpool City Council identified 2,800 category 1 and 2 hazards in licensed properties and a further 138 hazards in unlicensed properties, following the introduction of a city-wide licensing scheme.

However, this is not widespread and in many areas local authorities take a purely reactive approach to enforcing minimum standards, relying mainly on tenants to raise concerns. We are concerned that this is insufficient.

A lack of resources, following several years of reduced budgets, is a major barrier which prevents many authorities from taking a more proactive approach. While the introduction of civil penalties presents an opportunity for more proactive enforcement action to become self-financing (as the penalties paid by landlords who are not meeting standards are retained locally), upfront investment is still required.

In addition, many local authorities also lack reliable intelligence about the PRS in their area. This makes it difficult for them to make informed decisions about how to improve standards and means that much staff time has to be spent on trying to identify rented properties in the first place.

Options for change

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What are the barriers faced by local and/or combined authorities in expanding or replicating existing good practice? How can these be overcome?

As noted above, resources and a lack of accurate data about rented properties in their area are substantial barriers which prevent many local authorities from proactively enforcing minimum standards. Central government could support more of them to do this by providing some time-limited grant funding (which would help local authorities meet the upfront costs of bringing in additional resources) and by introducing a national landlord registration scheme.

However, much good practice in this area is directly linked to landlord licensing schemes, which are deliberately intended to be targeted at higher risk areas/property types. While there is clearly some scope to learn from existing good practice and to expand this in to other areas, we do not consider that landlord licensing would ever cover 100 per cent of the market.

For a more comprehensive approach government could consider introducing a system of mandatory property MOTs, as proposed in Julie Rugg and David Rhodes' recent review The evolving private sector: Its contribution and potential. The main advantages of such a system is that it would:

- make existing minimum standards much clearer to both tenants and landlords
- greatly increase the number of physical property inspections carried out (at present the vast majority of privately rented properties are never inspected)
- make it easier for conscientious landlords to demonstrate their compliance with minimum standards without the need for local authority action, thereby freeing councils up to focus on the minority who will not comply.

How could landlords be incentivised to raise the standard of their stock?

Our 2014 research, published jointly with the Resolution Foundation, explored options to make better use of incentives to improve standards in the PRS. It focused particularly on the potential for voluntary accreditation schemes to reward landlords who commit to higher standards, that go beyond the legal minimum.

Although several landlord accreditation schemes already exist, they cover only a small proportion of the market and are inconsistent both in the standards that they demand of landlords and how these are enforced.

Without meaningful incentives, they often struggle to secure reasonable levels of take-up from local landlords.

Our report therefore recommended:

- developing a single, nationally agreed set of standards for accreditation, which go above the legal minimum (accreditation could still be awarded and administered by a range of different bodies but a single set of standards would ensure greater consistency between them)
- making a series of financial incentives available for landlords who achieve accreditation. This could include:
 - giving accredited landlords a more generous tax allowance for 'allowable expenses' (where landlords deduct the cost of repairs from their profits for income tax purposes)
 - allowing landlords to treat any improvement that is necessary to bring a property up to accreditation standard as an allowable expense (instead of deducting it from the landlord's capital gains tax liability at the point that they sell the property)
 - allowing accredited landlords to benefit from capital gains tax rollover relief (meaning that if a rented property is sold and the proceeds are immediately reinvested in another, the landlord can defer the payment of capital gains tax on any profit they had made).

What options exist for PRS homes to be made fit for the future and energy efficient?

Before she left office, Theresa May committed the UK to achieving 'net zero' carbon emissions by 2050. However, the Committee on Climate Change (CCC) have made it clear that achieving the target is contingent on early and decisive action to strengthen current policy.

Focussing on housing, the committee stated that policies will fail to deliver the government's ambitions on energy efficiency, which are to improve all homes to at least 'EPC Band C' by 2035. Currently, the private rented sector is slightly ahead of the homeowner sector in having 27 per cent of its stock across England at Band C or higher (for owner-occupied properties it is 25 per cent). But this still means that 3.2 million homes fail to meet this standard nationally.

In the North, assuming the proportion below-standard is the same, this means that about 870,000 private rented homes need retrofitting to high standards in only 15 years, or almost 60,000 per year. This is a formidable task, given that the minimum requirement at present is only that privately

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rented homes achieve Band E (nationally around 6 per cent of homes fail this standard).

As well as jeopardising our ability to hit national targets for reduced carbon emissions, low levels of energy also impact on rates of fuel poverty. The proportion of households currently experiencing this is 11 per cent across England, in part because only one in ten of such households live in EPC Band C homes.

We are concerned that the government's main funding scheme for this work, the Energy Company Obligation (ECO), is dwindling while the scale of the task is growing. The rate of installation of energy-efficiencies measures via schemes such as ECO is falling, and even when higher was barely half the rate required.

We therefore consider that a completely new range of 'carrots and sticks' should be introduced to retrofit existing homes in the PRS. This could be achieved via a subsidy system that replaces ECO, combined with both tax incentives for landlords who comply and both penalties and stronger enforcement measures for those who do not. For example, the Band E minimum requirement should be progressively raised, with the targets spelled out in advance, so that landlords know what they are expected to achieve and when.